

SCHMITT INDUSTRIES INC
Form DEFC14A
September 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of The Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule
14a-12

SCHMITT INDUSTRIES, INC.
(Name of Registrant as Specified in Its Charter)

SENTENTIA CAPITAL MANAGEMENT, LLC

SENTENTIA GROUP, LP

MICHAEL R. ZAPATA

ANDREW P. HINES
(Name of Persons(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials:

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

SENTENTIA GROUP, LP

September 13, 2018

Dear Fellow Schmitt Shareholder:

Sententia Group, LP and the other participants in this solicitation (collectively, “SENTENTIA” or “we”) are the beneficial owners of an aggregate of 323,937 shares of common stock, no par value per share (the “Common Stock”), of Schmitt Industries, Inc., an Oregon corporation (“Schmitt” or the “Company”), representing approximately 8.1% of the outstanding shares of Common Stock.

We believe that Schmitt has good businesses, strong brands, an attractive long-term profile and the ability to generate strong free cash flow, but is significantly undervalued due to poor leadership and a lack of strategic accountability and insight from the Company’s Board of Directors (the “Board”). We have engaged in discussions with the Board regarding changes at the Company we believe are necessary to grow, protect and enhance shareholder and stakeholder value at Schmitt. However, we believe the Board has been unwilling to embrace the meaningful change to the composition of the Board and other appropriate steps to enhance accountability and transparency for the Board and its committees that we have proposed.

The Company has a classified Board, which currently consists of five directors divided into three classes, with directors elected for three-year terms. The terms of two directors serving on the Board expire at the Company’s 2018 annual meeting of shareholders. We are nominating two independent and highly-qualified nominees to fill those seats on the Board, effectively to replace the Company’s two incumbent directors with our nominees. We believe that any attempt to decrease the size of the current Board or the number of directors up for election at the annual meeting would constitute an improper manipulation of the Company’s corporate governance. If elected, our nominees, subject to their fiduciary duties as directors, will seek to work with the other members of the Board to position Schmitt to maximize shareholder value. However, our nominees will constitute a minority on the Board and there can be no guarantee that our nominees will be able to implement the actions that they believe are necessary to do so.

We urge you to carefully consider the information contained in the attached Proxy Statement and then support our efforts by signing, dating and returning the enclosed **BLUE** proxy card today. The attached Proxy Statement and the enclosed **BLUE** proxy card are first being mailed to shareholders on or about September 13, 2018.

If you have already voted for the incumbent management slate, you have every right to change your vote by signing, dating and returning a later dated **BLUE** proxy card or by voting in person at the annual meeting.

If you have any questions or require any assistance with your vote, please contact InvestorCom, which is assisting us, at its address and toll-free numbers listed below.

Thank you for your support,

Michael R. Zapata
Sententia Group, LP

*If you have any questions, require assistance in voting your **BLUE** proxy card,
or need additional copies of SENTENTIA's proxy materials,
please contact InvestorCom at the phone numbers listed below.*

65 Locust Avenue, Suite 302

New Canaan, CT 06840

Shareholders call toll free at (877) 972-0090

Banks and Brokers may call collect at (203) 972-9300

2018 ANNUAL MEETING OF SHAREHOLDERS
OF
SCHMITT INDUSTRIES, INC.

PROXY STATEMENT
OF
SENTENTIA GROUP, LP

PLEASE SIGN, DATE AND MAIL THE ENCLOSED BLUE PROXY CARD TODAY

Sententia Capital Management, LLC (“Sententia Capital”) and Sententia Group, LP (“Sententia LP”), together with the other participants in this solicitation named herein (collectively, “SENTENTIA” or “we”), beneficially own approximately 8.1% of the outstanding shares of common stock, no par value per share (“Common Stock”), of Schmitt Industries, Inc., an Oregon corporation (“Schmitt” or the “Company”), and are furnishing this proxy statement (this “Proxy Statement”) and accompanying **BLUE** proxy card to holders of Common Stock in connection with the solicitation of proxies in connection with the Company’s 2018 annual meeting of shareholders (including any and all adjournments, postponements, continuations or reschedulings thereof, or any other meeting of shareholders held in lieu thereof, the “Annual Meeting”). The Annual Meeting is scheduled to be held at on Friday, October 12, 2018, at 3:00 p.m. local time, at the Company’s headquarters at 2765 N.W. Nicolai St., Portland, Oregon 97210.

We are seeking to elect two highly qualified candidates to the Company’s Board of Directors (the “Board”) at the Annual Meeting because we believe that meaningful change to the composition of the Board is necessary to grow, protect and enhance shareholder and stakeholder value at Schmitt. These individuals have unquestionable leadership skills, experience and integrity, and would work constructively with the other members of the Board to create value for the benefit of all Schmitt shareholders and stakeholders. We are seeking your support at the Annual Meeting for the following:

1. to elect SENTENTIA’s two director nominees, Andrew. P. Hines and Michael R. Zapata (collectively, the “Nominees”), to the Board as directors to serve until the Company’s 2021 annual meeting of shareholders and until their respective successors are duly elected and qualified;
2. to vote, on an advisory basis, on the compensation paid to the Company’s named executive officers;
3. to ratify the appointment of Moss Adams LLP as the Company’s independent registered public accounting firm for the year ending May 31, 2019; and
4. to transact such other business as may properly come before the Annual Meeting or any postponement or adjournment thereof.

As of the date hereof, the participants in this solicitation collectively own 323,937 shares of Common Stock (the “Sententia Group Shares”). We intend to vote such shares **FOR** the election of the Nominees, **AGAINST** the approval of the advisory vote on the compensation of the Company’s named executive officers, as described herein, and **FOR** the ratification of the appointment of Moss Adams LLP as the Company’s independent registered public accounting firm for the year ending May 31, 2019.

The Company has set the close of business on August 24, 2018 as the record date for determining the shareholders entitled to notice of and to vote at the Annual Meeting (the "Record Date"). The mailing address of the principal executive offices of the Company is 2765 N.W. Nicolai Street, Portland, Oregon 97210. Shareholders of record at the close of business on the Record Date will be entitled to vote at the Annual Meeting. According to the Company, as of the Record Date, there were 3,994,545 shares of Common Stock outstanding.

THIS SOLICITATION IS BEING MADE BY SENTENTIA AND NOT ON BEHALF OF THE BOARD OR MANAGEMENT OF THE COMPANY. WE ARE NOT AWARE OF ANY OTHER MATTERS TO BE BROUGHT BEFORE THE ANNUAL MEETING OTHER THAN AS SET FORTH IN THIS PROXY STATEMENT. SHOULD OTHER MATTERS, WHICH SENTENTIA IS NOT AWARE OF A REASONABLE TIME BEFORE THIS SOLICITATION, BE BROUGHT BEFORE THE ANNUAL MEETING, THE PERSONS NAMED AS PROXIES IN THE ENCLOSED **BLUE** PROXY CARD WILL VOTE ON SUCH MATTERS IN THEIR DISCRETION.

SENTENTIA URGES YOU TO SIGN, DATE AND RETURN THE **BLUE** PROXY CARD IN FAVOR OF THE ELECTION OF THE NOMINEES.

IF YOU HAVE ALREADY SENT A PROXY CARD FURNISHED BY COMPANY MANAGEMENT OR THE BOARD, YOU MAY REVOKE THAT PROXY AND VOTE ON EACH OF THE PROPOSALS DESCRIBED IN THIS PROXY STATEMENT BY SIGNING, DATING AND RETURNING THE ENCLOSED **BLUE** PROXY CARD. THE LATEST DATED PROXY IS THE ONLY ONE THAT COUNTS. ANY PROXY MAY BE REVOKED AT ANY TIME PRIOR TO THE ANNUAL MEETING BY DELIVERING A WRITTEN NOTICE OF REVOCATION OR A LATER DATED PROXY FOR THE ANNUAL MEETING OR BY VOTING IN PERSON AT THE ANNUAL MEETING.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting —
This Proxy Statement and our BLUE proxy card are available at
www.icommaterials.com/SMIT.

IMPORTANT

Your vote is important, no matter how few shares of Common Stock you own. SENTENTIA urges you to sign, date, and return the enclosed BLUE proxy card today to vote FOR the election of the Nominees.

If your shares of Common Stock are registered in your own name, please sign and date the enclosed **BLUE** proxy card and return it to SENTENTIA, c/o InvestorCom, in the enclosed postage-paid envelope today.

If your shares of Common Stock are held in a brokerage account or bank, you are considered the beneficial owner of the shares of Common Stock, and these proxy materials, together with a **BLUE** voting form, are being forwarded to you by your broker or bank. As a beneficial owner, if you wish to vote, you must instruct your broker, trustee or other representative how to vote. Your broker cannot vote your shares of Common Stock on your behalf without your instructions.

Depending upon your broker or custodian, you may be able to vote either by toll-free telephone or by the Internet. Please refer to the enclosed voting form for instructions on how to vote electronically. You may also vote by signing, dating and returning the enclosed voting form.

Since only your latest dated proxy card will count, we urge you not to return any proxy card you receive from the Company. Even if you return the management proxy card marked "withhold" as a protest against the incumbent directors, it will revoke any proxy card you may have previously sent to us. Remember, you can vote for our two Nominees only on our **BLUE** proxy card. So please make certain that the latest dated proxy card you return is the **BLUE** proxy card.

*If you have any questions, require assistance in voting your **BLUE** proxy card,*

or need additional copies of SENTENTIA's proxy materials,

please contact InvestorCom at the phone numbers listed below.

65 Locust Avenue, Suite 302

New Canaan, CT 06840

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Background to the Solicitation

The following is a chronology of material events leading up to this proxy solicitation:

On October 23, 2017, Michael Zapata had a telephone conversation with David Hudson, then the Chief Executive Officer of the Company. During the conversation, Mr. Zapata inquired about the disposition of the Company's real estate and streamlining of the businesses, in addition to funding uses with the real estate proceeds.

On January 8, 2018, the Company announced the resignation of Mr. Hudson and the appointment of David W. Case, son of the Company's founder Wayne A. Case, as Chief Executive Officer.

On March 9, 2018, Mr. Zapata had a telephone conversation with Ann Ferguson, the Company's Chief Financial Officer. During the conversation, Mr. Zapata inquired about the disposition of the Company's real estate and synergies of the three Schmitt businesses.

On April 13, 2018, the Company filed its Third Quarter 10-Q and noted its recent termination of its active listing of one of its parcels of property located at 2765 N.W. Nicolai Street in Portland, Oregon, "given market conditions and other factors".

On April 16, 2018, Mr. Zapata had a telephone conversation with Ms. Ferguson. During the conversation, Mr. Zapata inquired about the decision to pull the real estate off the market as well as corporate costs for Schmitt to remain a public company. Mr. Zapata expressed his concerns with respect to recent strategic decisions by management.

On May 11, 2018, Mr. Zapata had a telephone conversation with Michael Ellsworth, the Company's Chairman of the Board. During the conversation, Mr. Zapata inquired about the business in general including plans for the Company's real estate and potential value for its business segments.

On May 14, 2018, Mr. Zapata sent a private letter to the Board. In the letter, Mr. Zapata expressed concerns about the unprofitable growth of Schmitt over the previous 14 years, the appointment of Mr. Case as Chief Executive Officer given his experience as the Company's Vice President of Operations during that time period, and the apparent unwillingness of the Board to consider third party inquiries into acquiring its businesses.

On June 11, 2018, Sententia Capital filed a Schedule 13D disclosing a 6.6% ownership position in Schmitt. In the Schedule 13D, Sententia Capital noted its intention to make proposals to the Board regarding Board representation and a special committee to pursue strategic alternatives, to maximize shareholder value.

On June 14, 2018, Mr. Zapata met with members of the Board and Company counsel in person in Portland, Oregon. At the meeting, Mr. Zapata asked about the decision to pull the real estate off the market, the unprofitability of the Company, the costs of remaining a public company, and the lack of insider ownership and stock purchases.

On June 18, 2018, Mr. Zapata sent an e-mail to Mr. Ellsworth regarding a proposed settlement framework providing for, among other things, adding two new independent directors to the Board, with one existing director resigning immediately or upon the expiration of his term at the Annual Meeting.

On July 15, 2018, Mr. Ellsworth delivered a letter to Mr. Zapata responding to SENTENTIA's proposal.

Over the course of the next month, the Board and SENTENTIA, and their respective representatives, engaged in discussions regarding potential settlement terms.

On August 16, 2018, Sententia LP delivered a letter (the "Nomination letter") to the Company nominating Andrew P. Hines and Michael R. Zapata for election to the Board at the Annual Meeting. Following delivery of the Nomination Letter, the Board and SENTENTIA, and their respective representatives, continued to engage in discussions regarding potential settlement terms.

On August 22, 2018, SENTENTIA issued a public letter to the Board regarding its nomination of two candidates for election to the Board at the Annual Meeting. In the letter, SENTENTIA stated that it believes adding new directors aligned with the Company's shareholders and stakeholders is critical to establishing accountability and credibility at Schmitt. SENTENTIA also expressed its intention to continue its efforts to work cooperatively with the Board to enhance shareholder value and to avoid an election contest. The Board and SENTENTIA, and their respective representatives, continued to engage in discussions regarding potential settlement terms.

On the evening of August 29, 2018, as part of the parties' continued discussions regarding potential settlement terms, Schmitt's counsel informed SENTENTIA's counsel of a new settlement offer consisting of (i) the appointment of either Mr. Hines or Mr. Zapata as one of five Board members, (ii) adding the one new director to the Board's Strategic Advisory Committee and (iii) \$10 thousand of expense reimbursement for SENTENTIA. Schmitt stated that a response to such offer was needed that same evening. SENTENTIA determined not to accept such offer based on its belief that, by continuing to pursue an election contest and thereby demonstrate to the Board the support among stockholders for change at Schmitt, SENTENTIA ultimately would be able to effect more meaningful change to the Board and the Company.

On August 30, 2018, Schmitt's counsel informed SENTENTIA's counsel that Schmitt had withdrawn its offer to settle.

REASONS FOR THE SOLICITATION

WE BELIEVE THAT MEANINGFUL IMPROVEMENT TO SCHMITT’S BOARD IS NEEDED NOW

We believe that Schmitt has good businesses, strong brands, an attractive long-term profile and the ability to generate strong free cash flow, but is significantly undervalued due to poor leadership and a lack of strategic accountability and insight from the Board. We have engaged in discussions with the Board regarding changes at the Company we believe are necessary to grow, protect and enhance shareholder and stakeholder value at Schmitt. However, we believe the Board has been unwilling to embrace the meaningful change to the composition of the Board and other appropriate steps necessary to enhance accountability and transparency for the Board and its committees that we have proposed.

We are convinced that significant change in the boardroom is a necessary precondition to meaningful improvement at Schmitt. Therefore, we are soliciting your support at the Annual Meeting to elect our two highly qualified Nominees, who we believe would bring to the Board significant and relevant experience, and a commitment to maximizing value for all shareholders and stakeholders.

We are Concerned by Schmitt’s Many Years of Underperformance

The current directors of Schmitt have presided over prolonged underperformance and we believe they must be held accountable for the massive destruction of value that has occurred under their watch. The Company’s total shareholder returns have been underperforming the broader equity market and peer groups over the past three, five and ten-year periods.

Cumulative Returns

As of

June 10, 3 year 5 year 10 year

2018

RBC

Micro

Cap 31% 78% 136%

Value I

(RMVIX)

Vanguard

Industrial 42% 90% 147%

ETF

(VIS)

Small-cap

Industrials 15% 27% 23%

and

Electronics

Average 29% 65% 102%

SMIT (5%) (15%) (56%)

Over / (35%) (79%) (159%)

(Under)performance

Notes:

June 10 was the day before Sentientia Capital filed its initial Schedule 13D with the Securities and Exchange Commission

- 1) Small-cap Industrials and Electronics consists of the median annual return for all US-headquartered publicly-traded companies with market caps less than \$500 million that participate in the following industries: machinery; industrial machinery; electronic equipment and instruments; and electronic equipment, instruments, and components
- 2) Returns are calculated based on change in price and therefore exclude dividends
- 3) Data sourced from Sentieo and Yahoo Finance

The two incumbent directors we are seeking to replace at the Annual Meeting, Maynard E. Brown and David W. Case, have been on the Board or in senior leadership roles at the Company for over 20 years and need to be held accountable for the destruction of shareholder value over that period. Since Mr. Case's appointment to Vice President of Operations in 1996, at which time Mr. Brown was also a director (since 1992), the Company's share price has declined ~90%.

More recently, over the past five years, Schmitt's share price is down 15% versus an average of 65% gain for the below benchmarks.

Cumulative Returns

For the period ending June 10, **2013 2014 2015 2016 2017 2018**

Benchmark Performance

RBC Micro Cap Value I (RMVIX)	100%	123%	136%	128%	156%	178%
Vanguard Industrial ETF (VIS)	100%	129%	133%	136%	166%	190%
Small-cap Industrials and Electronics	100%	120%	110%	98%	127%	127%

SMIT 100% 91% 90% 71% 61% 85%

Over/(Underperformance)

RBC Micro Cap Value I (RMVIX)	(32%)	(46%)	(58%)	(95%)	(93%)
Vanguard Industrial ETF (VIS)	(38%)	(43%)	(65%)	(105%)	(104%)
Small-cap Industrials and Electronics	(29%)	(20%)	(28%)	(66%)	(41%)
Average	(33%)	(36%)	(50%)	(88%)	(79%)

Notes:

- 1) June 10 was the day before Sentientia Capital filed its initial Schedule 13D with the Securities and Exchange Commission
- 2) Small-cap Industrials and Electronics consists of the median annual return for all US-headquartered publicly-traded companies with market caps less than \$500 million that participate in the following industries: machinery; industrial machinery; electronic equipment and instruments; and electronic equipment, instruments, and components
- 3) Returns are calculated based on change in price and therefore exclude dividends
- 4) Data sourced from Sentio and Yahoo Finance

We are Concerned with Schmitt's lack of Accountability

Despite Schmitt's poor performance, three of the Company's four non-executive directors have served on the Board for 12 years or more, and Mr. Case, who had been responsible for overseeing the Company's operational performance as Vice President of Operations since 1996, was appointed Chief Executive Officer in January 2018. Where is the accountability to shareholders for the destruction of shareholder value?

It is evident to us that meaningful change to the composition of the Board is needed at Schmitt. Our Nominees collectively bring significant experience and complimentary skill-sets in the areas of capital allocation, strategy and execution and return on invested capital, which we believe can help restore value for shareholders.

We are Concerned by Operational Issues and Apparent Strategic Shortcomings Plaguing the Company

Profitless Revenue Growth

Schmitt has grown from \$7.9 million in revenue to \$13.9 million in revenue from 2004 to 2018. However, that revenue growth has not helped improve net income, which has been negative for eight of the past 10 years.

Schmitt has been a long-term money loser for shareholders. Schmitt had a net loss for each of the five years from 2013 till 2017, and had minor net income for 2018 only due to a turnaround in the last quarter. Cumulative net income from fiscal years 2009 to 2018 totals negative \$7.5 million and the shares declined from \$6.25 on May 30, 2008 (last day of trading prior to fiscal year 2008 end) to \$2.29 on May 31, 2018 (last day of trading prior to fiscal year 2018 end).

In our view, the management team has focused on sales growth at the expense of improving returns on incremental capital. Given the Company's history, we are concerned that this will continue to be the case unless meaningful changes are made to the Board and its transparency to investors. Our Nominees have significant experience in capital allocation and, if elected to the Board, intend to seek to increase the Company's return on capital.

Troubling Operating Performance at Schmitt

Schmitt's EBITDA has declined from \$2 million in 2007 to \$0.36 million in 2018. We believe that management should be held responsible for this decline.

<i>Fiscal Year</i>	2004	2005	2006	2007	2008	2009	2010	2011
Operating profit	437,266	1,216,460	1,733,596	1,768,450	859,960	(1,912,937)	(1,726,690)	(195,682)
<u>Depreciation and Amortization</u>	<u>188,314</u>	<u>214,933</u>	<u>210,606</u>	<u>205,911</u>	<u>238,984</u>	<u>410,653</u>	<u>362,027</u>	<u>340,689</u>
EBITDA	625,580	1,431,393	1,944,202	1,974,361	1,098,944	(1,502,284)	(1,364,663)	145,007

<i>Fiscal Year</i>	2012	2013	2014	2015	2016	2017	2018
Operating profit	57,284	(562,272)	(512,405)	(64,459)	(1,436,474)	(988,684)	155,372
<u>Depreciation and Amortization</u>	<u>344,553</u>	<u>347,715</u>	<u>328,293</u>	<u>266,572</u>	<u>245,824</u>	<u>219,082</u>	<u>205,239</u>
EBITDA	401,837	(214,557)	(184,112)	202,113	(1,190,650)	(769,602)	360,611

Source: Company SEC filings

General and Administrative Expenses Have Not Provided Operating Leverage

We believe Schmitt has failed to utilize sufficient operating leverage despite its growing sales base. As shown above, the Company's revenue grew by nearly 100% from 2004 to 2018. However, net income and EBITDA significantly declined over that period. We believe that Schmitt's diminishing profitability despite revenues increases over that period exhibits poor use of operating leverage. If elected, our Nominees intend to focus on culling unnecessary general & administrative expenses.

We Are Concerned about the Company's Poor Corporate Governance

We also are concerned with the Company's poor corporate governance, which severely limits the ability of shareholders to seek effective change at Schmitt and entrenches the Board and management. The Board is classified into three separate classes, meaning its directors are only subject to re-election by shareholders once every three years. In our view, the ability of shareholders to select directors each year is an important check on the performance of the Board. It is critical in allowing shareholder input on the direction and state of the Company and ensures the best individuals are on the Board to oversee their investment. To the contrary, the Board's current classified structure, in our view, impedes shareholders' ability to regularly and effectively evaluate the performance of their directors and insulates and entrenches the incumbents. Moreover, four of the Company's five directors have been on the Board or in senior leadership positions with the Company for 12 or more years.

In addition to having a staggered board, the Company has other shareholder-unfriendly corporate governance provisions that insulate the Board from accountability to shareholders. The Company uses a plurality vote standard for the election of directors in uncontested elections (with no resignation policy for failure to obtain majority support), as a result of which every nominee is elected upon receiving just one "For" vote, which is viewed as poor corporate governance by proxy advisory firms. Additionally, shareholders cannot act by written consent (other than unanimously by all shareholders), can only call a special meeting by action of 25% of the shares outstanding and cannot remove directors other than for cause by a vote of two-thirds of the shares outstanding. Further, the Company's organizational documents have supermajority approval requirements for amendments, including for any amendments to the Company's Second Restated Bylaws (the "Bylaws").

We are Concerned that the Board is Not Aligned with Shareholders

We believe the Board's apparent ineffectiveness in tackling the persistent destruction of shareholder value at Schmitt may be due to a troubling misalignment of interests between the Board and Schmitt's shareholders. The five members of the Board, one of whom is the son of the Company's founder and three of whom have served on the Board for 12 or more years, collectively own outright only 3% of the Company's common stock outstanding, approximately 2/3 of which are owned by Mr. Case.^[1] We believe that the lack of investment by the incumbent Board represents a misalignment between their interests and the interests of the Company's current shareholders. On the other hand, although neither Mr. Hines nor Mr. Zapata owns Common Stock directly, Mr. Zapata as the Managing Member of Sententia Capital beneficially owns approximately 8.1% of the outstanding shares of Common Stock and therefore he has significant financial interests directly aligned with the Company's shareholders. Mr. Hines has expressed his intention to invest in the Common Stock following his election to the Board.

Source: Company SEC filings

Note: David Hudson was not considered independent beginning in 2016 due to his position as President and Chief Executive Officer from January 2016 to January 2018

Our Nominees Have the Experience, Qualifications and Commitment Necessary to Fully Explore Available Opportunities to Maximize Value for the Company's Shareholders and Stakeholders

For the reasons set forth above, we believe that immediate change in leadership is needed for Schmitt to reliably and sustainably create shareholder value. We have identified and are nominating two highly qualified directors who would bring substantial expertise and deep experience to the Board, and would seek to work with the other members of the Board to position the Company to maximize value for all Schmitt shareholders and stakeholders. Andrew P. Hines would bring to the Board significant industry and public company board experience. Michael R. Zapata would bring to the Board financial, strategic planning and execution expertise.

¹ Source: Company SEC filings

THERE IS A BETTER WAY FORWARD FOR SCHMITT

We strongly believe that despite management's and the Board's apparent failures, Schmitt has tremendous potential for growth and value enhancement over the long-term. If elected, our Nominees will aim to work with the rest of the Board to conduct a rigorous analysis of management's and the Board's current strategy to effectively manage the operations, as well as review all available alternatives to enhance shareholder value. Our Nominees are committed to maximizing value for all shareholders over the long term. We are confident that there are actions directly within the control of the Board and management team that represent a tremendous opportunity to produce higher returns for shareholders.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

The Company has a classified Board, which currently consists of five directors divided into three classes, with directors elected for three-year terms. The terms of two directors serving on the Board expire at the Annual Meeting. We are nominating two independent and highly-qualified Nominees, Andrew P. Hines and Michael R. Zapata, to fill those seats on the Board, effectively to replace the Company's two incumbent directors with our Nominees. If elected, our Nominees, subject to their fiduciary duties as directors, will seek to work with the other members of the Board to position Schmitt to maximize shareholder value. However, our Nominees will constitute a minority on the Board and there can be no guarantee that our Nominees will be able to implement the actions that they believe are necessary to do so.

THE NOMINEES

Set forth below are the names, ages and business experience for the past five years and certain other information for our Nominees. The nominations were made in a timely manner and in compliance with the applicable provisions of the Company's governing instruments. The specific experience, qualifications, attributes and skills that led us to conclude that the Nominees should serve as directors of the Company are set forth above in the section entitled "Reasons for the Solicitation" and below. This information has been furnished to us by the Nominees.

Andrew P. Hines, age 78, has been the Principal of Hines & Associates, LLC, a consulting firm, since 2000. Previously he served as Executive Vice President and Chief Financial Officer of Natural Markets Foods Group, a chain of organic food markets, from October 2015 to November 2016, as Executive Vice President and Chief Financial Officer of Sonar Entertainment, a developer, producer and distributor of original made-for-television movies and mini-series, from June 2011 to June 2014, and as Executive Vice President and Chief Financial Officer of World Color Press Inc. (f/k/a Quebecor World), a provider of high-value and comprehensive print, digital, and related services to businesses worldwide, from September 2009 to June 2010. Additionally, Mr. Hines served as Vice President and Chief Financial Officer of GenTek, Inc., a manufacturer of industrial components and performance chemicals, from October 2005 to September 2006, as Executive Vice President & Chief Financial Officer of Onboard Marine Corporation, a marine engine and boat manufacturer, from 1997 to 2000, and as Senior Vice President & Chief Financial Officer of F.W. Woolworth Company, a retail company and one of the original pioneers of the five-and-dime store, from 1994 to 1997. Mr. Hines also served as the Senior Vice President & Chief Financial Officer of Adidas, USA, the North American division of Adidas AG (ETR: ADS), a multinational corporation that designs and manufactures shoes, clothing and accessories, from 1989 to 2002, and in various senior financial positions with RJR Nabisco, Inc., formerly a conglomerate that sold tobacco and food products, from 1976 to 1989. Mr. Hines has served as a director for Tronox Limited (NYSE: TROX), a worldwide chemical company, since 2012, Intermap Technologies (TSE: IMP), a geospatial industry leader that provides location-based solutions with its powerful suite of software applications, since July 2016. Mr. Hines was previously a director with C&D Technologies, Inc., a storage battery manufacturing company and a director of Superior Essex, Inc., one of the largest wire and cable manufacturers, from November 2003 to 2007. He is a member of the American Institute and New York Society of Certified Public Accountants. Mr. Hines has a B.B.A. from St. John's University and attended Harvard University Management Consulting.

SENTENTIA believes that Mr. Hines' significant industry experience and his public company board experience will make him a valuable addition to the Board.

Michael R. Zapata, age 40, has been the Founder and Managing Member of Sententia Capital, a value investing focused investment management firm, since 2012. His experience prior to Sententia Capital featured extensive leadership roles during his nearly 10 years of service in the U.S. Navy. During his service from 2001 to 2010, he held various leadership roles during the Global War on Terror, including Troop Commander for the nation's premiere SEAL assault force. Deploying to locations including Iraq, Afghanistan, Africa, the Middle East and the Arabian Peninsula, he brings valuable insight and expertise in intelligence fusion, operational execution, strategic planning and risk mitigation. Mr. Zapata has served as a director on Intermap Technologies (TSE: IMP), a geospatial industry leader that provides location-based solutions with its powerful suite of software applications, since 2016. He also serves as a director of Tip of the Spear Foundation, a non-profit dedicated to supporting Elite Operators and their families during times of need. Mr. Zapata received his B.S. from Texas A&M University, where he was recognized an Dougherty Award Recipient. He received his M.B.A. from Columbia University as a student in the Heilbrunn Center for Value Investing.

SENTENTIA believes Mr. Zapata's financial, strategic planning and execution expertise will make him a valuable addition to the Board.

Mr. Hines' principal business address is 28 Stoneleigh Park, Westfield, NJ 07090. Mr. Zapata's principal business address is c/o Sententia Capital Management, LLC, van Biema Value Partners, 745 5th Avenue, 14th Floor, New York, New York 10151.

As of the date hereof, Mr. Hines does not directly or beneficially own any securities of the Company and has not entered into any transactions in securities of the Company during the past two years. As of the date hereof, Mr. Zapata does not directly own any securities of the Company and has not made any direct purchases or sales of any securities of the Company during the past two years. Mr. Zapata, as the Managing Member of Sententia Capital, the General Partner of Sententia LP, may be deemed the beneficial owner of the 323,937 shares of Common Stock beneficially owned by Sententia LP.

For information regarding purchases and sales during the past two years by the Nominees and by the members of the Group (as defined below) of securities of the Company, see Schedule I.

On August 16, 2018, Sententia LP, Sententia Capital, Mr. Zapata and Mr. Hines (collectively, the "Group") entered into a Joint Filing and Solicitation Agreement pursuant to which, among other things, (i) the Group agreed to the joint filing on behalf of each of them of statements on Schedule 13D with respect to the securities of the Company and (ii) the Group agreed to solicit proxies or written consents for the election of the Nominees at the Annual Meeting.

Other than as stated herein, and except for compensation received by Mr. Zapata as an employee of Sententia Capital, there are no arrangements or understandings between the members of the Group or any other person or persons pursuant to which the nomination of the Nominees described herein is to be made, other than the consent by each Nominee to be named in this Proxy Statement and to serve as a director of the Company if elected as such at the Annual Meeting. None of the Nominees is a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries in any material pending legal proceeding.

Based on the information furnished by the Nominees, SENTENTIA believes each Nominee presently is, and if elected as a director of the Company would be, an "independent director" within the meaning of (i) applicable NASDAQ listing standards applicable to board composition, including Rule 5605(a)(2), and (ii) Section 301 of the Sarbanes-Oxley Act of 2002.

We do not expect that the Nominees will be unable to stand for election, but, in the event any Nominee is unable to serve, or for good cause will not serve, the shares of Common Stock represented by the enclosed **BLUE** proxy card will be voted for substitute nominee(s), to the extent this is not prohibited under the Company's organizational documents and applicable law. In addition, we reserve the right to nominate substitute person(s) if the Company makes or announces any changes to its Bylaws or takes or announces any other action that has, or if consummated would have, the effect of disqualifying any Nominee, to the extent this is not prohibited under the Company's organizational documents and applicable law. In any such case, shares of Common Stock represented by the enclosed **BLUE** proxy card will be voted for such substitute nominee(s). We reserve the right to nominate additional person(s), to the extent this is not prohibited under the Company's organizational documents and applicable law, if the Company increases the size of the Board above its existing size or increases the number of directors whose terms expire at the Annual Meeting. Additional nominations made pursuant to the preceding sentence are without prejudice to our position that any attempt to increase the size of the current Board or to reconstitute or reconfigure the classes on which the current directors serve constitutes an unlawful manipulation of the Company's corporate governance.

While we currently intend to vote all of the Sententia Group Shares in favor of the election of the Nominees, we reserve the right to vote some or all of the Sententia Group Shares for some or all of the Company's director nominees, as we see fit, in order to achieve a Board composition that we believe is in the best interest of all shareholders. We would only intend to vote some or all of the Sententia Group Shares for some or all of the Company's director nominees in the event it were to become apparent to us, based on the projected voting results at such time, that less than all of the Nominees would be elected at the Annual Meeting and that by voting the Sententia Group Shares we could help elect the Company nominees that we believe are the most qualified to serve as directors and thus help achieve a Board composition that we believe is in the best interest of all shareholders. Shareholders should understand, however, that all shares of Common Stock represented by the enclosed **BLUE** proxy card will be voted at the Annual Meeting as marked.

WE URGE YOU TO VOTE "FOR" THE ELECTION OF THE NOMINEES ON THE ENCLOSED BLUE PROXY CARD.

PROPOSAL NO. 2

ADVISORY VOTE ON THE APPROVAL OF EXECUTIVE COMPENSATION

As discussed in further detail in the Company's proxy statement, the Company is asking shareholders to indicate their support for the Company's named executive officer compensation as disclosed in the Company's proxy statement. This proposal, commonly known as a "say-on-pay" proposal, gives the Company's shareholders the opportunity to express their views on the Company's executive compensation. As disclosed in the Company's proxy statement, this vote is not intended to address any specific item of compensation, but rather the overall compensation of the Company's named executive officers and the philosophy, policies and practices described in the Company's proxy statement.

Accordingly, the Company is asking its shareholders to vote "FOR" the following resolution at the Annual Meeting:

"RESOLVED, that the compensation paid to the Company's Named Executive Officers, as disclosed in the Company's Proxy Statement for the 2018 Annual Meeting of Shareholders pursuant to Item 402 of Regulation S-K, including the compensation tables and narrative discussion, is hereby APPROVED."

As disclosed in the Company's proxy statement, the say-on-pay vote is advisory, and therefore not binding on the Company. As disclosed in the Company's proxy statement, to the extent there is any significant vote against the named executive officer compensation as disclosed in the Company's proxy statement, the Company will consider the concerns of the shareholders and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

WE MAKE NO RECOMMENDATION WITH RESPECT TO THIS PROPOSAL AND INTEND TO VOTE OUR SHARES "AGAINST" THIS PROPOSAL.

PROPOSAL NO. 3

RATIFICATION OF APPOINTMENT OF INDEPEN