

SCHMITT INDUSTRIES INC
Form 10-Q
January 11, 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: November 30, 2018

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
(State or other jurisdiction of
incorporation or organization)
2765 NW Nicolai Street, Portland, Oregon 97210-1818
(Address of principal executive offices) (Zip Code)

93-1151989
(IRS Employer
Identification Number)
(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 December 31, 2018

Common stock, no par value

3,994,545

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SCHMITT INDUSTRIES, INC.

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

| | November 30, 2018 | May 31, 2018 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,299,886 | \$ 2,053,181 |
| Restricted cash | 56,583 | 58,352 |
| Accounts receivable, net | 2,184,906 | 2,047,032 |
| Inventories | 6,077,054 | 5,710,888 |
| Prepaid expenses | 136,004 | 148,924 |
| Income taxes receivable | 4,435 | 0 |
| Total current assets | 9,758,868 | 10,018,377 |
| Property and equipment, net | 734,687 | 770,915 |
| Other assets | | |
| Intangible assets, net | 444,476 | 496,768 |
| TOTAL ASSETS | \$ 10,938,031 | \$ 11,286,060 |
| LIABILITIES & STOCKHOLDERS EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 1,159,569 | \$ 1,024,256 |
| Accrued commissions | 191,281 | 194,797 |
| Accrued payroll liabilities | 186,488 | 188,568 |
| Other accrued liabilities | 269,402 | 358,790 |
| Income taxes payable | 0 | 3,993 |
| Total current liabilities | 1,806,740 | 1,770,404 |
| Stockholders equity | | |
| Common stock, no par value, 20,000,000 shares authorized, 3,994,545 shares issued and outstanding at November 30, 2018 and May 31, 2018 | 13,094,639 | 13,085,652 |
| Accumulated other comprehensive loss | (462,570) | (536,307) |
| Accumulated deficit | (3,500,778) | (3,033,689) |

| | | | |
|--|-----------|-------------------|----------------------|
| Total stockholders equity | | 9,131,291 | 9,515,656 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ | 10,938,031 | \$ 11,286,060 |

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

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SCHMITT INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2018 AND 2017

(UNAUDITED)

| | Three Months Ended November 30 | | Six Months Ended November 30 | |
|---|--------------------------------|--------------|------------------------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net sales | \$ 3,503,478 | \$ 3,770,880 | \$ 6,943,931 | \$ 6,854,528 |
| Cost of sales | 2,140,371 | 2,044,898 | 4,241,026 | 3,729,027 |
| Gross profit | 1,363,107 | 1,725,982 | 2,702,905 | 3,125,501 |
| Operating expenses: | | | | |
| General, administration and sales | 1,539,495 | 1,524,443 | 2,944,858 | 2,992,787 |
| Research and development | 47,924 | 100,760 | 96,161 | 177,217 |
| Total operating expenses | 1,587,419 | 1,625,203 | 3,041,019 | 3,170,004 |
| Operating income (loss) | (224,312) | 100,779 | (338,114) | (44,503) |
| Other income (expense), net | (24,596) | 9,078 | (116,247) | 26,621 |
| Income (loss) before income taxes | (248,908) | 109,857 | (454,361) | (17,882) |
| Provision for income taxes | 6,362 | 6,609 | 12,728 | 12,968 |
| Net income (loss) | \$ (255,270) | \$ 103,248 | \$ (467,089) | \$ (30,850) |
| Net income (loss) per common share: | | | | |
| Basic | \$ (0.06) | \$ 0.03 | \$ (0.12) | \$ (0.01) |
| Weighted average number of common shares, basic | 3,994,545 | 2,995,910 | 3,994,545 | 2,995,910 |
| Diluted | \$ (0.06) | \$ 0.03 | \$ (0.12) | \$ (0.01) |
| Weighted average number of common shares, diluted | 3,994,545 | 3,024,099 | 3,994,545 | 2,995,910 |
| Comprehensive income (loss) | | | | |
| Net income (loss) | \$ (255,270) | \$ 103,248 | \$ (467,089) | \$ (30,850) |
| Foreign currency translation adjustment | (5,907) | 15,164 | 73,737 | 440 |
| Total comprehensive income (loss) | \$ (261,177) | \$ 118,412 | \$ (393,352) | \$ (30,410) |

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

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SCHMITT INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED NOVEMBER 30, 2018 AND 2017
(UNAUDITED)

| | Six Months Ended November 30, | |
|---|-------------------------------|-------------|
| | 2018 | 2017 |
| Cash flows relating to operating activities | | |
| Net loss | \$ (467,089) | \$ (30,850) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 93,933 | 104,645 |
| (Gain) loss on disposal of property and equipment | 0 | 619 |
| Stock based compensation | 8,987 | 40,839 |
| (Increase) decrease in: | | |
| Accounts receivable | (156,969) | 218,163 |
| Inventories | (384,280) | (569,393) |
| Prepaid expenses | 12,081 | 11,286 |
| Income taxes receivable | (4,435) | 6,596 |
| Increase (decrease) in: | | |
| Accounts payable | 138,428 | 97,824 |
| Accrued liabilities and customer deposits | (89,889) | (114,766) |
| Income taxes payable | (3,993) | 0 |
| Net cash used in operating activities | (853,226) | (235,037) |
| Cash flows relating to investing activities | | |
| Purchases of property and equipment | (5,517) | (8,467) |
| Proceeds from the sale of property and equipment | 0 | 1,500 |
| Net cash used in investing activities | (5,517) | (6,967) |
| Effect of foreign exchange translation on cash | 103,679 | (38,617) |
| Decrease in cash, cash equivalents and restricted cash | (755,064) | (280,621) |
| Cash, cash equivalents and restricted cash, beginning of period | 2,111,533 | 867,607 |
| Cash, cash equivalents and restricted cash, end of period | \$ 1,356,469 | \$ 586,986 |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the period for income taxes | \$ 21,155 | \$ 6,322 |
| Cash paid during the period for interest | \$ 462 | \$ 785 |

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

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SCHMITT INDUSTRIES, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE SIX MONTHS ENDED NOVEMBER 30, 2018

(UNAUDITED)

| | Shares | Amount | Accumulated other comprehensive loss | Accumulated deficit | Total |
|-----------------------------------|-----------|---------------|---|------------------------|--------------|
| Balance, May 31, 2018 | 3,994,545 | \$ 13,085,652 | \$ (536,307) | \$ (3,033,689) | \$ 9,515,656 |
| Stock-based compensation | 0 | 8,987 | 0 | 0 | 8,987 |
| Net loss | 0 | 0 | 0 | (467,089) | (467,089) |
| Other comprehensive loss | 0 | 0 | 73,737 | 0 | 73,737 |
| Balance, November 30, 2018 | 3,994,545 | \$ 13,094,639 | \$ (462,570) | \$ (3,500,778) | \$ 9,131,291 |

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

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SCHMITT INDUSTRIES, INC.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 1:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial information included herein has been prepared by Schmitt Industries, Inc. (the Company or Schmitt) and its wholly owned subsidiaries. In the opinion of management, the accompanying unaudited Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly its financial position as of November 30, 2018 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.

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The following table provides a reconciliation of cash and cash equivalents and restricted cash as reported within the Consolidated Balance Sheets as of November 30, 2018 and May 31, 2018 to the sum of the same such amounts as shown in the Consolidated Statement of Cash Flows for the six months ended November 30, 2018:

| | November 30, 2018 | May 31, 2018 |
|--|---------------------|---------------------|
| Cash and cash equivalents | \$ 1,299,886 | \$ 2,053,181 |
| Restricted cash | 56,583 | 58,352 |
| Total cash, cash equivalents, and restricted cash shown in the Consolidated Statement of Cash Flows | \$ 1,356,469 | \$ 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 \$101,304 and \$95,207 as of November 30, 2018 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 November 30, 2018 and May 31, 2018, inventories consisted of:

| | November 30, 2018 | May 31, 2018 |
|-----------------|---------------------|---------------------|
| Raw materials | \$ 2,822,375 | \$ 2,796,691 |
| Work-in-process | 1,045,126 | 1,009,424 |
| Finished goods | 2,209,553 | 1,904,773 |
| | \$ 6,077,054 | \$ 5,710,888 |

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 November 30, 2018 and May 31, 2018, property and equipment consisted of:

| | November 30, 2018 | May 31, 2018 |
|-----------------------------------|-------------------|--------------|
| Land | \$ 299,000 | \$ 299,000 |
| Buildings and improvements | 1,814,524 | 1,814,524 |
| Furniture, fixtures and equipment | 1,257,784 | 1,252,598 |
| Vehicles | 44,704 | 44,704 |
| | 3,416,012 | 3,410,826 |
| Less accumulated depreciation | (2,681,325) | (2,639,911) |
| | \$ 734,687 | \$ 770,915 |

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.

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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:

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 six months ended November 30, 2018, 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:

Six Months Ended

November 30, 2018

| | |
|-------------------------|-----------|
| Risk-free interest rate | 3.1% |
| Expected life | 6.0 years |
| Expected volatility | 46.3% |

At November 30, 2018, the Company had a total of 334,999 outstanding stock options (289,164 vested and exercisable and 45,835 non-vested) with a weighted average exercise price of \$2.38. The Company estimates that \$17,386 will be recorded as additional stock-based compensation expense over a weighted-average period of 1.4 years for all options that were outstanding as of November 30, 2018, but which were not yet vested.

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| Number of Shares | Outstanding Options | | | Exercisable Options | |
|------------------|---------------------------------|---|--|---------------------|---------------------------------|
| | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (yrs) | | Number of Shares | Weighted Average Exercise Price |
| 162,499 | \$ 1.70 | 7.7 | | 131,664 | \$ 1.70 |
| 30,000 | 2.49 | 7.2 | | 15,000 | 2.53 |
| 87,500 | 2.82 | 5.4 | | 87,500 | 2.82 |
| 55,000 | 3.65 | 2.1 | | 55,000 | 3.65 |
| 334,999 | 2.38 | 6.1 | | 289,164 | 2.45 |

Options granted, exercised, and forfeited or canceled under the Company's stock option plan during the six months ended November 30, 2018 are summarized as follows:

| | Six Months Ended November 30, 2018 | |
|---|---------------------------------------|---------------------------------|
| | Number of Shares | Weighted Average Exercise Price |
| Options outstanding - beginning of period | 318,332 | \$ 2.36 |
| Options granted | 25,000 | 2.53 |
| Options exercised | 0 | 0 |
| Options forfeited/canceled | (8,333) | 1.70 |
| Options outstanding - end of period | 334,999 | 2.38 |

NOTE 3:**EPS RECONCILIATION**

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|-----------------------------------|------------------------------------|-----------|----------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Weighted average shares (basic) | 3,994,545 | 2,995,910 | 3,994,545 | 2,995,910 |
| Effect of dilutive stock options | 0 | 28,189 | 0 | 0 |
| Weighted average shares (diluted) | 3,994,545 | 3,024,099 | 3,994,545 | 2,995,910 |

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed using the weighted average number of common shares outstanding, adjusted for dilutive incremental shares attributed to outstanding options to purchase common stock. Common stock equivalents for stock options are computed using the treasury stock method. In periods in which a net loss is incurred,

no common stock equivalents are included since they are antidilutive and as such all stock options outstanding are excluded from the computation of diluted net loss in those periods.

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NOTE 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 both November 30, 2018 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 November 30, 2018 and May 31, 2018.

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 2.8% for the six months ended November 30, 2018. 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 9.8% due to the items noted above.

NOTE 5:

SEGMENTS OF BUSINESS

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

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| | Three Months Ended November 30, | | | |
|-------------------------|---------------------------------|--------------|--------------|--------------|
| | 2018 | | 2017 | |
| | Balancer | Measurement | Balancer | Measurement |
| Net sales | \$ 2,345,480 | \$ 1,157,998 | \$ 2,230,846 | \$ 1,540,034 |
| Operating income (loss) | \$ (343,717) | \$ 119,405 | \$ (88,986) | \$ 189,765 |
| Depreciation expense | \$ 11,571 | \$ 8,999 | \$ 16,388 | \$ 9,361 |
| Amortization expense | \$ 0 | \$ 26,146 | \$ 0 | \$ 26,146 |
| Capital expenditures | \$ 267 | \$ 0 | \$ 889 | \$ 0 |

| | Six Months Ended November 30, | | | |
|-------------------------|-------------------------------|--------------|--------------|--------------|
| | 2018 | | 2017 | |
| | Balancer | Measurement | Balancer | Measurement |
| Net sales | \$ 4,539,812 | \$ 2,404,119 | \$ 4,301,243 | \$ 2,553,285 |
| Operating income (loss) | \$ (606,218) | \$ 268,104 | \$ (300,766) | \$ 256,263 |
| Depreciation expense | \$ 23,643 | \$ 17,998 | \$ 33,370 | \$ 18,983 |
| Amortization expense | \$ 0 | \$ 52,292 | \$ 0 | \$ 52,292 |
| Capital expenditures | \$ 5,517 | \$ 0 | \$ 8,467 | \$ 0 |

Geographic Information Net Sales by Geographic Area

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|-----------------|---------------------------------|--------------|-------------------------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| North America | \$ 1,965,706 | \$ 2,484,977 | \$ 4,165,907 | \$ 4,276,078 |
| Europe | 505,788 | 457,036 | 879,251 | 974,899 |
| Asia | 977,175 | 795,483 | 1,801,951 | 1,544,905 |
| Other markets | 54,809 | 33,384 | 96,822 | 58,646 |
| Total net sales | \$ 3,503,478 | \$ 3,770,880 | \$ 6,943,931 | \$ 6,854,528 |

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| | Three Months Ended November 30, 2018 | | 2017 | |
|-------------------------|---|------------|-------------------|------------|
| | United States (2) | Europe (1) | United States (2) | Europe (1) |
| Operating income (loss) | \$ (262,909) | \$ 38,597 | \$ 31,655 | \$ 69,124 |
| Depreciation expense | \$ 20,570 | \$ 0 | \$ 25,749 | \$ 0 |
| Amortization expense | \$ 26,146 | \$ 0 | \$ 26,146 | \$ 0 |
| Capital expenditures | \$ 267 | \$ 0 | \$ 889 | \$ 0 |

| | Six Months Ended November 30, 2018 | | 2017 | |
|-------------------------|---------------------------------------|------------|-------------------|------------|
| | United States (2) | Europe (1) | United States (2) | Europe (1) |
| Operating income (loss) | \$ (394,099) | 55,985 | \$ (183,810) | 139,307 |
| Depreciation expense | \$ 41,641 | \$ 0 | \$ 52,353 | \$ 0 |
| Amortization expense | \$ 52,292 | \$ 0 | \$ 52,292 | \$ 0 |
| Capital expenditures | \$ 5,517 | \$ 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

| | November 30, 2018 | May 31, 2018 |
|--|----------------------|----------------------|
| Segment assets to total assets | | |
| Balancer | \$ 6,505,775 | \$ 6,461,974 |
| Measurement | 3,071,352 | 2,712,553 |
| Corporate assets | 1,360,904 | 2,111,533 |
| Total assets | \$ 10,938,031 | \$ 11,286,060 |
| Geographic assets to long-lived assets | | |
| United States (2) | \$ 734,687 | \$ 770,915 |
| Europe (1) | 0 | 0 |
| Total long-lived assets | \$ 734,687 | \$ 770,915 |
| Geographic assets to total assets | | |
| United States (2) | \$ 9,748,277 | \$ 10,110,683 |

| | | |
|--------------|---------------|---------------|
| Europe (1) | 1,189,754 | 1,175,377 |
| Total assets | \$ 10,938,031 | \$ 11,286,060 |

- (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.

Table of Contents**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. (the Company), an Oregon corporation, designs, manufactures and sells high precision test and measurement products for two main business segments: the Balancer segment and the Measurement segment. For the Balancer segment, the Company designs, manufactures and sells computer-controlled vibration detection, balancing and process control systems for the worldwide machine tool industry, particularly for grinding machines. The 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. For the Measurement segment, the Company designs, manufactures and sells products in two core product lines: the Acuity® product line, which includes laser and white light sensor distance, measurement and dimensional sizing products; and the Xact® product line, which includes remote tank monitoring products that 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.

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

Highlights of the Three and Six Months Ended November 30, 2018

Balancer segment sales increased \$114,634, or 5.1%, to \$2,345,480 for the three months ended November 30, 2018 as compared to \$2,230,846 for the three months ended November 30, 2017. Balancer

segment sales increased \$238,569, or 5.5%, to \$4,539,812 for the six months ended November 30, 2018 as compared to \$4,301,243 for the six months ended November 30, 2017.

Measurement segment sales decreased \$382,036, or 24.8%, to \$1,157,998 for the three months ended November 30, 2018 as compared to \$1,540,034 for the three months ended November 30, 2017.

Measurement segment sales decreased \$149,166, or 5.8%, to \$2,404,119 for the six months ended November 30, 2018 from \$2,553,285 for the six months ended November 30, 2017.

Within the Measurement segment, Xact monitoring revenues continued to grow, increasing 19.0% for the three months ended November 30, 2018 compared to the three months ended November 30, 2017. Xact monitoring revenues increased 17.0% for the six months ended November 30, 2018 as compared to the same period in the prior year.

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Operating expenses decreased \$37,784, or 2.3%, to \$1,587,419 for the three months November 30, 2018 from \$1,625,203 for the three months ended November 30, 2017, and decreased \$128,985, or 4.1%, to \$3,041,019 for the six months ended November 30, 2018 compared to \$3,170,004 for the six months ended November 30, 2017. These results include non-recurring 2018 proxy and reorganization expenses of \$125,280 and \$257,330 incurred during the three-month and six-month periods ended November 30, 2018, respectively, that were not incurred during the same periods in the prior year.

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 | | | |
|-----------------------------------|---------------------|---------------|-------------------|---------------|
| | November 30, 2018 | | November 30, 2017 | |
| Balancer sales | \$ 2,345,480 | 66.9% | \$ 2,230,846 | 59.2% |
| Measurement sales | 1,157,998 | 33.1% | 1,540,034 | 40.8% |
| Total net sales | 3,503,478 | 100.0% | 3,770,880 | 100.0% |
| Cost of sales | 2,140,371 | 61.1% | 2,044,898 | 54.2% |
| Gross profit | 1,363,107 | 38.9% | 1,725,982 | 45.8% |
| Operating expenses: | | | | |
| General, administration and sales | 1,539,495 | 43.9% | 1,524,443 | 40.4% |
| Research and development | 47,924 | 1.4% | 100,760 | 2.7% |
| Total operating expenses | 1,587,419 | 45.3% | 1,625,203 | 43.1% |
| Operating income (loss) | (224,312) | (6.4%) | 100,779 | 2.7% |
| Other income (expense), net | (24,596) | (0.7%) | 9,078 | 0.2% |
| Income (loss) before income taxes | (248,908) | (7.1%) | 109,857 | 2.9% |
| Provision for income taxes | 6,362 | 0.2% | 6,609 | 0.2% |
| Net income (loss) | \$ (255,270) | (7.3%) | \$ 103,248 | 2.7% |

| | Six Months Ended | | | |
|------------------------|-------------------|---------------|-------------------|---------------|
| | November 30, 2018 | | November 30, 2017 | |
| Balancer sales | \$ 4,539,812 | 65.4% | \$ 4,301,243 | 62.8% |
| Measurement sales | 2,404,119 | 34.6% | 2,553,285 | 37.2% |
| Total net sales | 6,943,931 | 100.0% | 6,854,528 | 100.0% |

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| | | | | |
|-----------------------------------|--------------|--------|-------------|--------|
| Cost of sales | 4,241,026 | 61.1% | 3,729,027 | 54.4% |
| Gross profit | 2,702,905 | 38.9% | 3,125,501 | 45.6% |
| Operating expenses: | | | | |
| General, administration and sales | 2,944,858 | 42.4% | 2,992,787 | 43.7% |
| Research and development | 96,161 | 1.4% | 177,217 | 2.6% |
| Total operating expenses | 3,041,019 | 43.8% | 3,170,004 | 46.2% |
| Operating loss | (338,114) | (4.9%) | (44,503) | (0.6%) |
| Other income (expense), net | (116,247) | (1.7%) | 26,621 | 0.4% |
| Loss before income taxes | (454,361) | (6.5%) | (17,882) | (0.3%) |
| Provision for income taxes | 12,728 | 0.2% | 12,968 | 0.2% |
| Net loss | \$ (467,089) | (6.7%) | \$ (30,850) | (0.5%) |

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Net Sales Total net sales for the Company decreased \$267,402, or 7.1%, to \$3,503,478 for the three months ended November 30, 2018 from \$3,770,880 for the three months ended November 30, 2017. Total net sales for the Company increased \$89,403, or 1.3%, to \$6,943,931 for the six months ended November 30, 2018 from \$6,854,528 for the six months ended November 30, 2017.

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 increased \$114,634, or 5.1%, to \$2,345,480 for the three months ended November 30, 2018 as compared to \$2,230,846 for the three months ended November 30, 2017. Balancer segment sales increased \$238,569, or 5.5%, to \$4,539,812 for the six months ended November 30, 2018 as compared to \$4,301,243 for the six months ended November 30, 2017. The increase in the three-month results was primarily attributed to stronger sales in Asia, offset by decreased sales in North America. The increase in the six-month results was primarily driven by stronger sales in Asia, offset by decreased sales in both the North American and European markets.

Sales by geographic markets for the Balancer segment for the three and six months ended November 30, 2018 and 2017 were as follows:

| | Three Months Ended November 30, | | | |
|-------------------------------------|---------------------------------|---------------------|-------------------|-------------|
| | 2018 | 2017 | Variance | |
| North America | \$ 881,715 | \$ 1,062,738 | \$ (181,023) | (17.0%) |
| Asia | 929,507 | 630,672 | 298,835 | 47.4% |
| Europe | 498,700 | 520,162 | (21,462) | (4.1%) |
| Other | 35,558 | 17,274 | 18,284 | 105.8% |
| Total Balancer segment sales | \$ 2,345,480 | \$ 2,230,846 | \$ 114,634 | 5.1% |

| | Six Months Ended November 30, | | | |
|-------------------------------------|-------------------------------|---------------------|-------------------|-------------|
| | 2018 | 2017 | Variance | |
| North America | \$ 1,872,596 | \$ 1,912,880 | \$ (40,284) | (2.1%) |
| Asia | 1,719,093 | 1,377,469 | 341,624 | 24.8% |
| Europe | 870,552 | 968,358 | (97,806) | (10.1%) |
| Other | 77,571 | 42,536 | 35,035 | 82.4% |
| Total Balancer segment sales | \$ 4,539,812 | \$ 4,301,243 | \$ 238,569 | 5.5% |

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. Measurement segment sales decreased \$382,036, or 24.8%, to \$1,157,998 for the three months ended November 30, 2018 as compared to \$1,540,034 for the three months ended November 30, 2017. This decrease is primarily driven by a one-time significant contract in Acuity that was realized in the second quarter of Fiscal 2018. In addition, Xact product sales

decreased in the second quarter of Fiscal 2019 as compared to the same period in the prior year as a result of the shift in timing of deliveries associated with one of Xact's major customer's planned deployment schedule. These decreases were offset by the increase in Xact monitoring revenues, which increased 19.0% as product previously sold was deployed and measurements began.

Measurement segment sales decreased \$149,166, or 5.8%, to \$2,404,119 for the six months ended November 30, 2018 from \$2,553,285 for the six months ended November 30, 2017. 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 very strong results experienced in the first quarter of Fiscal 2019. Xact monitoring revenues increased 17.0% in the six months ended November 30, 2018 as compared to the same period in the prior year as product previously sold was deployed and measurements began.

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Sales by product line for the Measurement segment for the three and six months ended November 30, 2018 and 2017 were as follows:

| | Three Months Ended November 30, | | | |
|---------------------------------|---------------------------------|--------------|--------------|----------|
| | 2018 | 2017 | Variance | |
| Acuity | \$ 541,978 | \$ 837,575 | \$ (295,597) | (35.3%) |
| Xact - product sales | 267,698 | 351,666 | (83,968) | (23.9%) |
| Xact - monitoring revenues | 337,125 | 283,226 | 53,899 | 19.0% |
| Lasercheck | 0 | 46,950 | (46,950) | (100.0%) |
| SMS | 11,197 | 20,617 | (9,420) | |
| Total Measurement segment sales | \$ 1,157,998 | \$ 1,540,034 | \$ (382,036) | (24.8%) |

| | Six Months Ended November 30, | | | |
|---------------------------------|-------------------------------|--------------|--------------|----------|
| | 2018 | 2017 | Variance | |
| Acuity | \$ 962,350 | \$ 1,420,210 | \$ (457,860) | (32.2%) |
| Xact - product sales | 776,524 | 499,686 | 276,838 | 55.4% |
| Xact - monitoring revenues | 653,298 | 558,182 | 95,116 | 17.0% |
| Lasercheck | 0 | 54,590 | (54,590) | (100.0%) |
| SMS | 11,947 | 20,617 | (8,670) | |
| Total Measurement segment sales | \$ 2,404,119 | \$ 2,553,285 | \$ (149,166) | (5.8%) |

Gross Margin Gross margin for the three months ended November 30, 2018 decreased to 38.9% as compared to 45.8% for the three months ended November 30, 2017. Gross margin for the six months ended November 30, 2018 decreased to 38.9% as compared to 45.6% for the six months ended November 30, 2017. The variances in gross margin between the periods presented were influenced by sales mix across the Company's three product lines, increases in overall product costs incurred due to prior purchasing practices, and the shift in SBS product sales from the European and North American markets into the Asian markets which we expect to moderate in the second half of Fiscal 2019.

Operating Expenses Operating expenses decreased \$37,784, or 2.3%, to \$1,587,419 for the three months November 30, 2018 from \$1,625,203 for the three months ended November 30, 2017. The decrease in operating expenses was driven, in part, by the following:

Decrease in administrative wages and related payroll expenses in the amount of \$77,479, or 20.4%, related to the realigning of the management team which occurred in the second half of Fiscal 2018. The results include \$42,500 in non-recurring 2018 proxy and reorganization expenses that were incurred during the three months ended November 30, 2018 that were not incurred during the same period in the prior year;

Decrease in research and development expense in the amount of \$52,836, or 52.4%, as a result of the shift of engineering resources towards support of existing product initiatives rather than research and development;

and

Decrease in commission expense in the amount of \$109,227, or 38.9%, as a result of the restructuring of the Company's sales commissions programs that occurred during Fiscal 2018.

These decreases were offset by:

Increase in legal and other professional expenses in the amount of \$133,545, or 41.3%, which includes \$82,780 in non-recurring 2018 proxy and reorganization expenses that were incurred during the three months ended November 30, 2018 that were not incurred during the same period in the prior year; and

Increase in trade show expenses in the amount of \$45,425, or 70.2%, related to the 2018 IMTS trade show, which only occurs every other year.

Operating expenses decreased \$128,985, or 4.1%, to \$3,041,019 for the six months November 30, 2018 from \$3,170,004 for the six months ended November 30, 2017. The decrease in operating expenses was driven, in part, by the following:

Decrease in administrative wages and related payroll expenses in the amount of \$189,910, or 24.5%, related to the realigning of the management team which occurred in the second half of Fiscal 2018. The results include \$42,500 in non-recurring 2018 proxy and reorganization expenses that were incurred during the six months ended November 30, 2018 that were not incurred during the same period in the prior year;

Decrease in research and development expense in the amount of \$81,056, or 45.7%, as a result of the shift of engineering resources towards support of existing product initiatives rather than research and development; and

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Decrease in commission expense in the amount of \$141,317, or 26.7%, as a result of the restructuring of the Company's sales commissions programs that occurred during Fiscal 2018.

These decreases were offset by:

Increase in legal and other professional expenses in the amount of \$295,700, or 52.9%, which includes \$214,830 in non-recurring 2018 proxy and reorganization expenses that were incurred during the six months ended November 30, 2018 that were not incurred during the same period in the prior year; and

Increase in trade show expenses in the amount of \$39,970, or 37.4%, related to the 2018 IMTS trade show, which only occurs every other year.

Other Income (Expense) Other income (expense) consists of foreign currency exchange gain (loss), interest income (expense) and other income (expense). Foreign currency exchange gains (losses) were \$(31,250) and \$9,747 for the three months ended November 30, 2018 and 2017, 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 \$6,640 and \$(65) for the three months ended November 30, 2018 and 2017, respectively. Other income (expense) was \$14 for the first quarter of Fiscal 2019 as compared to \$(605) for the same period in the prior year.

Foreign currency exchange gains (losses) were \$(130,122) and \$27,188 for the six months ended November 30, 2018 and 2017, 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 \$13,847 and \$33 for the six months ended November 30, 2018 and 2017, respectively. Other income (expense) was \$28 for the first half of Fiscal 2019 as compared to \$(600) for the same period in the prior year.

Income Taxes The Company's effective tax rate on consolidated net loss was 2.8% for the six months ended November 30, 2018. 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 9.8% due to the items noted above.

Net Income (Loss) Net loss was \$255,270, or \$(0.06) per fully diluted share, for the three months ended November 30, 2018 as compared to net income of \$103,248, or \$0.03 per fully diluted share, for the three months ended November 30, 2017. Net loss was \$467,089, or \$(0.12) per fully diluted share, for the six months ended November 30, 2018 as compared to net loss of \$30,850, or \$(0.01) per fully diluted share, for the six months ended November 30, 2017.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital decreased \$295,845 to \$7,952,128 as of November 30, 2018 as compared to \$8,247,973 as of May 31, 2018.

Cash, cash equivalents and restricted cash decreased \$755,064 to \$1,356,469 as of November 30, 2018 from \$2,111,533 as of May 31, 2018. Cash used in operating activities totaled \$853,226 for the six months ended November 30, 2018 as compared to cash used in operating activities of \$235,037 for the six months ended November 30, 2017. The net loss of \$467,089, along with increases in inventories and accounts receivable, primarily

impacted the total cash used in operating activities for the six months ended November 30, 2018. The changes in accounts receivable and inventories had the largest impact on the cash used in operating activities for the six-month period ended November 30, 2017.

At November 30, 2018, the Company had accounts receivable of \$2,184,906 as compared to \$2,047,032 at May 31, 2018. The increase in accounts receivable of \$137,874 was due to timing of receipts. Inventories increased \$366,166 to \$6,077,054 as of November 30, 2018 as compared to \$5,710,888 at May 31, 2018, which is due primarily to the targeted increases in inventory levels within our SBS and Xact product lines. At November 30, 2018, total current liabilities increased \$36,336 to \$1,806,740, 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, sales representatives and Company personnel.

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.

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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 November 30, 2018, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the Exchange Act). Based on the evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Report, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the Company's Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives, and management necessarily is required to use its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended November 30, 2018 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 January 8, 2019, Schmitt Industries, Inc. (the Company) was served with a complaint filed by North American Satellite Corp., Insite Platform Partners, and Rick Humphreys (collectively, the Plaintiffs) in the Circuit Court of the State of Oregon against the Company. The complaint makes various allegations specific to patent infringement, tortious interference, unfair competition, conspiracy, conspiracy to induce breach of contract, and conversion, with the total amount of \$10,000,000 being sought by the Plaintiffs. The Company believes the complaint is without merit and intends to defend the claim vigorously.

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 Exhibits <u>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: January 11, 2019

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

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