

SCHMITT INDUSTRIES INC
Form 10-Q
April 13, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: February 28, 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)
(503) 227-7908

93-1151989
(IRS Employer
Identification Number)

Indicate by check mark whether the registrant has (1) filed all reports required to be filed by Section 13 or 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 electronically and posted on its Corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

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

	February 28, 2018	May 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,985,928	\$ 867,607
Restricted cash	61,042	0
Accounts receivable, net	2,086,706	2,344,373
Inventories	5,449,808	4,204,723
Prepaid expenses	149,334	115,756
Income taxes receivable	0	7,310
	9,732,818	7,539,769
Property and equipment, net	793,683	865,224
Other assets		
Intangible assets, net	522,913	601,351
TOTAL ASSETS	\$ 11,049,414	\$ 9,006,344
LIABILITIES & STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 842,976	\$ 1,101,066
Accrued commissions	197,707	300,234
Accrued payroll liabilities	282,664	360,239
Other accrued liabilities	383,859	267,418
Income taxes payable	3,465	0
Total current liabilities	1,710,671	2,028,957
Stockholders equity		
Common stock, no par value, 20,000,000 shares authorized, 3,994,545 shares issued and outstanding at February 28, 2018 and 2,995,910 issued and outstanding at May 31, 2017	13,077,483	10,649,287
Accumulated other comprehensive loss	(479,115)	(427,572)

Accumulated deficit	(3,259,625)	(3,244,328)
Total stockholders' equity	9,338,743	6,977,387
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 11,049,414	\$ 9,006,344

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

Table of Contents**SCHMITT INDUSTRIES, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)****FOR THE THREE AND NINE MONTHS ENDED FEBRUARY 28, 2018 AND 2017****(UNAUDITED)**

	Three Months Ended February 28, 2018		Nine Months Ended February 28, 2017	
	2018	2017	2018	2017
Net sales	\$ 3,238,858	\$ 3,199,122	\$ 10,093,386	\$ 8,747,215
Cost of sales	1,916,345	1,984,580	5,645,372	5,124,514
Gross profit	1,322,513	1,214,542	4,448,014	3,622,701
Operating expenses:				
General, administration and sales	1,286,718	1,263,529	4,279,505	4,000,873
Research and development	75,790	49,711	253,007	188,835
Total operating expenses	1,362,508	1,313,240	4,532,512	4,189,708
Operating loss	(39,995)	(98,698)	(84,498)	(567,007)
Other income (expense), net	61,815	(25,642)	88,436	(51,053)
Income (loss) before income taxes	21,820	(124,340)	3,938	(618,060)
Provision for income taxes	6,267	6,993	19,235	21,372
Net income (loss)	\$ 15,553	\$ (131,333)	\$ (15,297)	\$ (639,432)
Net income (loss) per common share:				
Basic	\$ 0.00	\$ (0.04)	\$ (0.00)	\$ (0.21)
Weighted average number of common shares, basic	3,706,050	2,995,910	3,230,022	2,995,910
Diluted	\$ 0.00	\$ (0.04)	\$ (0.00)	\$ (0.21)
Weighted average number of common shares, diluted	3,769,814	2,995,910	3,230,022	2,995,910
Comprehensive loss				
Net income (loss)	\$ 15,553	\$ (131,333)	\$ (15,297)	\$ (639,432)
Foreign currency translation adjustment	(51,983)	(20,600)	(51,543)	(84,302)
Total comprehensive loss	\$ (36,430)	\$ (151,933)	\$ (66,840)	\$ (723,734)

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

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SCHMITT INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED FEBRUARY 28, 2018 AND 2017

(UNAUDITED)

	Nine Months Ended February 28,	
	2018	2017
Cash flows relating to operating activities		
Net loss	\$ (15,297)	\$ (639,432)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	156,326	165,071
(Gain) loss on disposal of property and equipment	619	(7,223)
Stock based compensation	42,167	18,646
(Increase) decrease in:		
Accounts receivable	291,273	(216,535)
Inventories	(1,218,520)	329,250
Prepaid expenses	(32,086)	(46,331)
Income taxes receivable	7,310	3,491
Increase (decrease) in:		
Accounts payable	(261,532)	(52,392)
Accrued liabilities and customer deposits	(69,917)	(63,574)
Income taxes payable	3,465	0
Net cash used in operating activities	(1,096,192)	(509,029)
Cash flows relating to investing activities		
Purchases of property and equipment	(8,467)	(48,510)
Proceeds from the sale of property and equipment	1,500	52,535
Net cash provided by (used in) investing activities	(6,967)	4,025
Cash flows relating to financing activities		
Proceeds from the rights offering, net of expenses	2,386,029	0
Net cash provided by financing activities	2,386,029	0
Effect of foreign exchange translation on cash	(103,507)	(1,851)
Decrease in cash, cash equivalents and restricted cash	1,179,363	(506,855)
Cash, cash equivalents and restricted cash, beginning of period	867,607	988,686
Cash, cash equivalents and restricted cash, end of period	\$ 2,046,970	\$ 481,831

Supplemental disclosure of cash flow information

Cash paid during the period for income taxes	\$	8,460	\$	17,881
Cash paid during the period for interest	\$	1,114	\$	2,427

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

Table of Contents**SCHMITT INDUSTRIES, INC.****CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****FOR THE NINE MONTHS ENDED FEBRUARY 28, 2018****(UNAUDITED)**

	Shares	Amount	Accumulated other comprehensive loss	Accumulated deficit	Total
Balance, May 31, 2017	2,995,910	\$ 10,649,287	\$ (427,572)	\$ (3,244,328)	\$ 6,977,387
Stock-based compensation	0	42,167	0	0	42,167
Common stock issued in connection with rights offering, net of expenses	998,635	2,386,029	0	0	2,386,029
Net loss	0	0	0	(15,297)	(15,297)
Other comprehensive loss	0	0	(51,543)	0	(51,543)
Balance, February 28, 2018	3,994,545	\$ 13,077,483	\$ (479,115)	\$ (3,259,625)	\$ 9,338,743

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

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SCHMITT INDUSTRIES, INC.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 1:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial information included herein has been prepared by Schmitt Industries, Inc. (the Company or Schmitt) and its wholly owned subsidiaries. In the opinion of management, the accompanying unaudited Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly its financial position as of February 28, 2018 and its results of operations and its cash flows for the periods presented. The consolidated balance sheet at May 31, 2017 has been derived from the Annual Report on Form 10-K for the fiscal year ended May 31, 2017. 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, 2017. 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, 2018.

Revenue Recognition

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

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 services being provided under this contract are expected to be completed by December 2018, at which time the restrictions on this payment will lapse.

The following table provides a reconciliation of cash and cash equivalents and restricted cash as reported within the Consolidated Balance Sheet as of February 28, 2018 to the sum of the same such amounts as shown in the

Consolidated Statement of Cash Flows for the nine months ended February 28, 2018:

Cash and cash equivalents	\$ 1,985,928
Restricted cash	61,042
Total cash, cash equivalents, and restricted cash shown in the Consolidated Statement of Cash Flows	\$ 2,046,970

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 \$86,582 and \$32,572 as of February 28, 2018 and May 31, 2017, respectively.

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Inventories are valued at the lower of cost or net realizable value with cost determined on the average cost basis. Costs included in inventories consist of materials, labor and manufacturing overhead, which are related to the purchase or production of inventories. Write-downs, when required, are made to reduce excess inventories to their net realizable values. Such estimates are based on assumptions regarding future demand and market conditions. If actual conditions become less favorable than the assumptions used, an additional inventory write-down may be required. As of February 28, 2018 and May 31, 2017, inventories consisted of:

	February 28, 2018	May 31, 2017
Raw materials	\$ 2,514,357	\$ 1,773,368
Work-in-process	1,184,740	937,878
Finished goods	1,750,711	1,493,477
	\$ 5,449,808	\$ 4,204,723

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over estimated useful lives of three to seven years for furniture, fixtures and equipment; three years for vehicles; and twenty-five years for buildings and improvements. As of February 28, 2018 and May 31, 2017, property and equipment consisted of:

	February 28, 2018	May 31, 2017
Land	\$ 299,000	\$ 299,000
Buildings and improvements	1,814,524	1,814,524
Furniture, fixtures and equipment	1,253,193	1,246,346
Vehicles	44,704	44,704
	3,411,421	3,404,574
Less accumulated depreciation	(2,617,738)	(2,539,350)
	\$ 793,683	\$ 865,224

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 by one year. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2017.

Early adoption is permitted as of the date of the original effective date, for interim and annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the provisions of ASU 2014-09 and the potential impact on its consolidated financial statements. To date, the Company has examined its current revenue streams and does not believe that the adoption of this guidance will have a material impact on revenue recognition patterns as compared to revenue recognition under existing guidance, as the Company expects that revenues generated will continue to be recognized upon the shipment of products to customers. The Company will continue to evaluate the impacts of the provisions of ASU 2014-09 through the date of adoption to ensure that preliminary conclusions continue to remain accurate. Additionally, the Company is assessing ASU 2014-09's impact on its consolidated financial statement disclosures and currently expects to adopt ASU 2014-09 on June 1, 2018 using the modified retrospective method.

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

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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 nine months ended February 28, 2018 and 2017, the Company has computed the value of all stock options granted using the Black-Scholes option pricing model. No options were issued during the nine months ended February 28, 2018 and 2017.

At February 28, 2018, the Company had a total of 318,332 outstanding stock options (218,330 vested and exercisable and 100,002 non-vested) with a weighted average exercise price of \$2.36. The Company estimates that \$18,671 will be recorded as additional stock-based compensation expense over a weighted-average period of 0.8 years for all options that were outstanding as of February 28, 2018, but which were not yet vested.

Number of Shares	Outstanding Options		Weighted Average Remaining Contractual Life	Exercisable Options	
	Weighted Average Exercise Price			Number of Shares	Weighted Average Exercise Price

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		(yrs)			
170,832	\$ 1.70	8.8	70,830	\$ 1.70	
15,000	2.53	5.6	15,000	2.53	
77,500	2.85	6.1	77,500	2.85	
55,000	3.65	3.3	55,000	3.65	
318,332	2.36	7.0	218,330	2.66	

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Options granted, exercised, and forfeited or canceled under the Company's stock option plan during the three and nine months ended February 28, 2018 are summarized as follows:

	Three Months Ended February 28, 2018		Nine Months Ended February 28, 2018	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding beginning of period	360,000	\$ 2.28	360,000	\$ 2.28
Options granted	0	0	0	0
Options exercised	0	0	0	0
Options forfeited/canceled	(41,668)	1.70	(41,668)	1.70
Options outstanding end of period	318,332	2.36	318,332	2.36

NOTE 3:**EPS RECONCILIATION**

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2018	2017	2018	2017
Weighted average shares (basic)	3,706,050	2,995,910	3,230,022	2,995,910
Effect of dilutive stock options	63,764	0	0	0
Weighted average shares (diluted)	3,769,814	2,995,910	3,230,022	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.

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 that the deferred tax asset

can 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 February 28, 2018 and May 31, 2017. Interest and penalties associated with uncertain tax positions are recognized as components of the Provision for income taxes. The liability for payment of interest and penalties was \$0 as of February 28, 2018 and May 31, 2017.

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Several tax years are subject to examination by major tax jurisdictions. In the United States, federal tax years ended May 31, 2014 and after are subject to examination. In the United Kingdom, tax years ended May 31, 2012 and after are subject to examination. In Canada, tax years ended May 31, 2014 and after are subject to examination.

Change in Tax Law

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code by reducing the U.S. federal corporate tax rate from 34 percent to 21 percent, requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries, generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries, creating a new limitation on deductible interest expense and changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

The SEC staff subsequently issued Staff Accounting Bulletin 118 ("SAB 118"), which provides a one year measurement for companies to complete the accounting for the effects of the Tax Act. In accordance with SAB 118, where accounting is complete, a company must reflect the income tax effects of those aspects, but to the extent that a company's accounting is incomplete but a reasonable estimate may be made, a provisional estimate should be recorded in the financial statements. Where a company is unable to determine a provisional estimate, SAB 118 permits application of the tax laws that were in effect immediately before the enactment.

Due to the reduction of the corporate tax rate as part of the Tax Act, the Company has recorded a provisional decrease to deferred tax assets of \$778,400 and corresponding decrease to the valuation allowance. The change in tax rate did not impact tax expense due to the valuation allowance recorded against the net deferred tax asset. While the Company was able to reasonably estimate the impact of the change in tax rate, certain estimates may affect the calculations as they are refined.

The Act also provides for a tax on the deemed repatriation of previously untaxed accumulated earnings and profits of foreign subsidiaries. The Company was not subject to this tax due to an accumulated loss in the Company's foreign subsidiary.

Effective Tax Rate

The effective tax rate on consolidated net loss was 488.4% for the nine months ended February 28, 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 2018 will be approximately 27.9% 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 February 28,		2017	
	2018		2017	
	Balancer	Measurement	Balancer	Measurement
Gross sales	\$ 2,603,562	\$ 1,101,047	\$ 2,190,989	\$ 1,349,467
Intercompany sales	(465,751)	0	(341,334)	0
Net sales	\$ 2,137,811	\$ 1,101,047	\$ 1,849,655	\$ 1,349,467
Operating income (loss)	\$ (39,720)	\$ (275)	\$ (135,969)	\$ 37,271
Depreciation expense	\$ 16,300	\$ 9,235	\$ 17,531	\$ 9,220
Amortization expense	\$ 0	\$ 26,146	\$ 0	\$ 27,883
Capital expenditures	\$ 0	\$ 0	\$ 3,923	\$ 0

	Nine Months Ended February 28,		2017	
	2018		2017	
	Balancer	Measurement	Balancer	Measurement
Gross sales	\$ 7,688,490	\$ 3,654,332	\$ 5,631,370	\$ 3,955,384
Intercompany sales	(1,249,436)	0	(823,173)	(16,366)
Net sales	\$ 6,439,054	\$ 3,654,332	\$ 4,808,197	\$ 3,939,018
Operating income (loss)	\$ (340,486)	\$ 255,988	\$ (624,755)	\$ 57,748
Depreciation expense	\$ 49,670	\$ 28,218	\$ 53,336	\$ 28,087
Amortization expense	\$ 0	\$ 78,438	\$ 0	\$ 83,648
Capital expenditures	\$ 8,467	\$ 0	\$ 48,510	\$ 0

Geographic Information Net Sales by Geographic Area

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2018	2017	2018	2017
North America	\$ 1,898,796	\$ 2,118,627	\$ 6,174,874	\$ 5,861,484
Europe	552,018	393,963	1,526,917	1,044,869
Asia	752,712	637,360	2,297,617	1,585,839
Other markets	35,332	49,172	93,978	255,023

Total net sales	\$ 3,238,858	\$ 3,199,122	\$ 10,093,386	\$ 8,747,215
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	Three Months Ended February 28,		2017	
	United States	Europe	United States	Europe
Operating income (loss)	\$ (123,205)	\$ 83,210	\$ (106,315)	\$ 7,617
Depreciation expense	\$ 25,535	\$ 0	\$ 26,751	\$ 0
Amortization expense	\$ 26,146	\$ 0	\$ 27,883	\$ 0
Capital expenditures	\$ 0	\$ 0	\$ 3,923	\$ 0

	Nine Months Ended February 28,		2017	
	United States	Europe	United States	Europe
Operating income (loss)	\$ (307,015)	\$ 222,517	\$ (511,782)	\$ (55,225)
Depreciation expense	\$ 77,888	\$ 0	\$ 81,423	\$ 0
Amortization expense	\$ 78,438	\$ 0	\$ 83,648	\$ 0
Capital expenditures	\$ 8,467	\$ 0	\$ 48,510	\$ 0

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

Segment and Geographic Assets

	February 28, 2018	May 31, 2017
Segment assets to total assets		
Balancer	\$ 5,989,449	\$ 4,791,100
Measurement	3,012,995	3,340,327
Corporate assets	2,046,970	874,917
Total assets	\$ 11,049,414	\$ 9,006,344
Geographic assets to long-lived assets		
United States	\$ 793,683	\$ 865,224
Europe	0	0
Total long-lived assets	\$ 793,683	\$ 865,224
Geographic assets to total assets		
United States	\$ 9,886,769	\$ 8,149,507
Europe	1,162,645	856,837

Total assets	\$	11,049,414	\$	9,006,344
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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Statements**

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

RESULTS OF OPERATIONS

Overview

Schmitt Industries, Inc. designs, manufactures and markets computer-controlled vibration detection, ba