

SCHMITT INDUSTRIES INC
Form 10-Q
April 09, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: February 28, 2015

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)

93-1151989
(IRS Employer
Identification Number)

2765 NW Nicolai Street, Portland, Oregon 97210-1818
(Address of principal executive offices) (Zip Code)

(503) 227-7908
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant has (1) filed all reports required to be filed by Section 13 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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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, 2015

Common stock, no par value	2,995,910
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Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****SCHMITT INDUSTRIES, INC.****CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

	February 28, 2015	May 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,652,564	\$ 1,510,565
Accounts receivable, net	2,453,944	2,235,194
Inventories	4,716,335	4,789,822
Prepaid expenses	165,617	152,237
Income taxes receivable	1,529	1,339
	8,989,989	8,689,157
Property and equipment, net	1,099,892	1,191,591
Other assets		
Intangible assets, net	852,294	943,643
TOTAL ASSETS	\$ 10,942,175	\$ 10,824,391
LIABILITIES & STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 602,745	\$ 512,219
Accrued commissions	242,565	204,772
Accrued payroll liabilities	134,306	127,035
Other accrued liabilities	601,115	366,848
Income taxes payable	0	210
Total current liabilities	1,580,731	1,211,084
Stockholders equity		
Common stock, no par value, 20,000,000 shares authorized, 2,995,910 shares issued and outstanding at February 28, 2015 and May 31, 2014	10,488,463	10,438,750
Accumulated other comprehensive loss	(378,485)	(263,337)
Accumulated deficit	(748,534)	(562,106)
Total stockholders equity	9,361,444	9,613,307

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$	10,942,175	\$ 10,824,391
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The accompanying notes are an integral part of these financial statements.

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SCHMITT INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

FOR THE THREE AND NINE MONTHS ENDED FEBRUARY 28, 2015 AND 2014

(UNAUDITED)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2015	2014	2015	2014
Net sales	\$ 3,010,618	\$ 3,066,163	\$ 9,211,410	\$ 9,108,662
Cost of sales	1,660,256	1,608,233	4,843,303	4,851,742
Gross profit	1,350,362	1,457,930	4,368,107	4,256,920
Operating expenses:				
General, administration and sales	1,405,140	1,387,972	4,243,492	4,246,720
Research and development	95,730	151,613	292,825	390,473
Total operating expenses	1,500,870	1,539,585	4,536,317	4,637,193
Operating loss	(150,508)	(81,655)	(168,210)	(380,273)
Other income (loss), net	(15,578)	11,497	(11,181)	5,404
Loss before income taxes	(166,086)	(70,158)	(179,391)	(374,869)
Provision for income taxes	2,285	1,949	7,037	6,998
Net loss	\$ (168,371)	\$ (72,107)	\$ (186,428)	\$ (381,867)
Net loss per common share:				
Basic	\$ (0.06)	\$ (0.02)	\$ (0.06)	\$ (0.13)
Weighted average number of common shares, basic	2,995,910	2,990,910	2,995,910	2,990,910
Diluted	\$ (0.06)	\$ (0.02)	\$ (0.06)	\$ (0.13)
Weighted average number of common shares, diluted	2,995,910	2,990,910	2,995,910	2,990,910
Comprehensive loss				
Net loss	\$ (168,371)	\$ (72,107)	\$ (186,428)	\$ (381,867)
Foreign currency translation adjustment	(36,239)	9,561	(115,148)	62,485
Total comprehensive loss	\$ (204,610)	\$ (62,546)	\$ (301,576)	\$ (319,382)

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, 2015 AND 2014
(UNAUDITED)

	Nine Months Ended February 28,	
	2015	2014
Cash flows relating to operating activities		
Net loss	\$ (186,428)	\$ (381,867)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	201,982	254,291
Gain on disposal of property and equipment	0	(13,667)
Stock based compensation	49,713	42,042
(Increase) decrease in:		
Accounts receivable	(244,823)	(136,344)
Inventories	50,305	544,102
Prepaid expenses	(15,192)	80,283
Income taxes receivable	(190)	30,152
Increase (decrease) in:		
Accounts payable	95,133	(398,357)
Accrued liabilities and customer deposits	285,074	(65,706)
Income taxes payable	(210)	0
Net cash provided by (used in) operating activities	235,364	(45,071)
Cash flows relating to investing activities		
Purchases of property and equipment	(18,933)	(1,893)
Proceeds from sales of property and equipment	0	19,500
Net cash provided by (used in) investing activities	(18,933)	17,607
Cash flows relating to financing activities		
Increase in line of credit	0	400,000
Payments on line of credit	0	(400,000)
Net cash provided by (used in) financing activities	0	0
Effect of foreign exchange translation on cash	(74,432)	4,249
Increase (decrease) in cash and cash equivalents	141,999	(23,215)
Cash and cash equivalents, beginning of period	1,510,565	1,909,071

Cash and cash equivalents, end of period	\$ 1,652,564	\$ 1,885,856
Supplemental disclosure of cash flow information		
Cash paid during the period for income taxes	\$ 7,427	\$ 7,061
Cash paid during the period for interest	\$ 2,709	\$ 8,378

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

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SCHMITT INDUSTRIES, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE NINE MONTHS ENDED FEBRUARY 28, 2015

(UNAUDITED)

	Shares	Amount	Accumulated other comprehensive loss	Accumulated deficit	Total
Balance, May 31, 2014	2,995,910	\$ 10,438,750	\$ (263,337)	\$ (562,106)	\$ 9,613,307
Stock-based compensation	0	49,713	0	0	49,713
Net loss	0	0	0	(186,428)	(186,428)
Other comprehensive loss	0	0	(115,148)	0	(115,148)
Balance, February 28, 2015	2,995,910	\$ 10,488,463	\$ (378,485)	\$ (748,534)	\$ 9,361,444

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, 2015 and its results of operations and its cash flows for the periods presented. The consolidated balance sheet at May 31, 2014 has been derived from the Annual Report on Form 10-K for the fiscal year ended May 31, 2014. 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, 2014. 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, 2015.

Revenue Recognition

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

Financial Instruments

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

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 \$58,748 and \$63,297 as of February 28, 2015 and

May 31, 2014, respectively.

Inventories

Inventories are valued at the lower of cost or market with cost determined on the average cost basis. Costs included in inventories consist of materials, labor and manufacturing overhead, which are related to the purchase or production of inventories. Write-downs, when required, are made to reduce excess inventories to their net realizable values. Such estimates are based on assumptions regarding future demand and market conditions. If actual conditions become less favorable than the assumptions used, an additional inventory write-down may be required. As of February 28, 2015 and May 31, 2014, inventories consisted of:

	February 28, 2015	May 31, 2014
Raw materials	\$ 1,865,341	\$ 1,888,985
Work-in-process	1,319,139	994,009
Finished goods	1,531,855	1,906,828
	\$ 4,716,335	\$ 4,789,822

Table of Contents**Property and Equipment**

Property and equipment are stated at cost. 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, 2015 and May 31, 2014, property and equipment consisted of:

	February 28, 2015	May 31, 2014
Land	\$ 299,000	\$ 299,000
Buildings and improvements	1,814,524	1,805,951
Furniture, fixtures and equipment	1,378,890	1,370,131
Vehicles	86,838	86,838
	3,579,252	3,561,920
Less accumulated depreciation	(2,479,360)	(2,370,329)
	\$ 1,099,892	\$ 1,191,591

Note 2:**LINE OF CREDIT**

The Company had a \$2 million bank line of credit secured by U.S. accounts receivable, inventories, general intangibles and a depository account. The line of credit was subject to certain covenant requirements if draws on the line were executed. Interest was payable at the bank's prime rate or LIBOR plus 2.0%. The term on the line of credit expired on September 1, 2014, and the Company chose not to renew the line. The outstanding balance on the line of credit was \$0 at May 31, 2014.

Note 3:**STOCK OPTIONS AND STOCK-BASED COMPENSATION**

Stock-based compensation includes expense charges for all stock-based awards to employees and directors granted under the Company's stock option plan. Stock-based compensation recognized during the period is based on the portion of the grant date fair value of the stock-based award that will vest during the period, adjusted for expected forfeitures. Compensation cost for all stock-based awards is recognized using the straight-line method. The Company uses the Black-Scholes option pricing model as its method of valuation for stock-based awards. The Black-Scholes option pricing model requires the input of highly subjective assumptions, and other reasonable assumptions could provide differing results. These variables include, but are not limited to:

Risk-Free Interest Rate. The Company bases the risk-free interest rate on the implied yield currently available on U.S. Treasury issues with an equivalent remaining term approximately equal to the expected life of the award.

Expected Life. The expected life of awards granted represents the period of time that they are expected to be outstanding. The Company determines the expected life based on historical experience with similar awards, giving consideration to the contractual terms, vesting schedules and pre-vesting and post-vesting forfeitures.

Expected Volatility. The Company estimates the volatility of its common stock at the date of grant based on the historical volatility of its common stock. The volatility factor the Company uses is based on its historical stock prices over the most recent period commensurate with the estimated expected life of the award. These historical periods may exclude portions of time when unusual transactions occurred.

Expected Dividend Yield. The Company does not anticipate paying any cash dividends in the foreseeable future. Consequently, the Company uses an expected dividend yield of zero.

Expected Forfeitures. The Company uses relevant historical data to estimate pre-vesting option forfeitures. The Company records stock-based compensation only for those awards that are expected to vest.

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To determine stock-based compensation expense recognized for those options granted during the nine months ended February 28, 2015 and 2014, the Company has computed the value of all stock options granted using the Black-Scholes option pricing model. 87,500 and 35,000 options were issued during the nine months ended February 28, 2015 and February 28, 2014, respectively.

At February 28, 2015, the Company had a total of 332,500 outstanding stock options (205,002 vested and exercisable and 127,498 non-vested) with a weighted average exercise price of \$3.68. The Company estimates that \$107,758 will be recorded as additional stock-based compensation expense for all options that were outstanding as of February 28, 2015, but which were not yet vested.

Outstanding Options			Exercisable Options	
Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (yrs)	Number of Shares	Weighted Average Exercise Price
35,000	\$ 2.53	8.6	11,668	\$ 2.53
112,500	2.84	9.3	8,334	2.90
130,000	3.65	6.3	130,000	3.65
5,000	5.80	0.7	5,000	5.80
50,000	6.25	3.3	50,000	6.25
332,500	3.68	7.0	205,002	4.24

Options granted, exercised, and forfeited or canceled under the Company's stock option plan during the three and nine months ended February 28, 2015 are summarized as follows:

	Three Months Ended February 28, 2015		Nine Months Ended February 28, 2015	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding - beginning of period	332,500	\$ 3.68	281,666	\$ 3.77
Options granted	0	0	87,500	2.82
Options exercised	0	0	0	0
Options forfeited/canceled	0	0	(36,666)	2.30
Options outstanding - end of period	332,500	3.68	332,500	3.68

Note 4:**EPS RECONCILIATION**

	Three Months Ended		Nine Months Ended	
	February 28,		February 28,	
	2015	2014	2015	2014
Weighted average shares (basic)	2,995,910	2,990,910	2,995,910	2,990,910
Effect of dilutive stock options	0	0	0	0
Weighted average shares (diluted)	2,995,910	2,990,910	2,995,910	2,990,910

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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 5:

INCOME TAXES

The Company accounts for income taxes using the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Each year the Company files income tax returns in the various national, state and local income taxing jurisdictions in which it operates. These tax returns are subject to examination and possible challenge by the taxing authorities. Positions challenged by the taxing authorities may be settled or appealed by the Company. As a result, there is an uncertainty in income taxes recognized in the Company's financial statements in accordance with ASC Topic 740. The Company applies this guidance by defining criteria that an individual income tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements and provides guidance on measurement, de-recognition, classification, accounting for interest and penalties, accounting in interim periods, disclosure, and transition.

Other long-term liabilities related to tax contingencies were \$0 as of both February 28, 2015 and May 31, 2014. 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, 2015 and May 31, 2014.

Several tax years are subject to examination by major tax jurisdictions. In the United States, federal tax years for Fiscal 2011 and after are subject to examination. In the United Kingdom, tax years for Fiscal 2012 and after are subject to examination. In Canada, tax years for Fiscal 2005 and after are subject to examination.

Effective Tax Rate

The effective tax rate on consolidated net loss was 3.9% for the nine months ended February 28, 2015. The effective tax rate on consolidated net income (loss) differs from the federal statutory tax rate primarily due to the amount of income from foreign jurisdictions, changes in the deferred tax valuation allowance and certain expenses not being deductible for income tax reporting purposes. Management believes the effective tax rate for Fiscal 2015 will be approximately 5.1% due to the items noted above.

Note 6:

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,			
	2015		2014	
	Balancer	Measurement	Balancer	Measurement
Gross sales	\$ 2,269,691	\$ 1,108,449	\$ 2,201,178	\$ 1,123,186
Intercompany sales	(366,209)	(1,313)	(231,317)	(26,884)
Net sales	\$ 1,903,482	\$ 1,107,136	\$ 1,969,861	\$ 1,096,302
Operating loss	\$ (127,375)	\$ (23,133)	\$ 4,345	\$ (86,000)
Depreciation expense	\$ 23,271	\$ 10,879	\$ 32,786	\$ 12,542
Amortization expense	\$ 0	\$ 27,882	\$ 0	\$ 33,659
Capital expenditures	\$ 5,883	\$ 0	\$ 457	\$ 0

	Nine Months Ended February 28,			
	2015		2014	
	Balancer	Measurement	Balancer	Measurement
Gross sales	\$ 6,537,038	\$ 3,517,884	\$ 6,603,586	\$ 3,316,516
Intercompany sales	(870,537)	27,025	(765,987)	(45,453)
Net sales	\$ 5,666,501	\$ 3,544,909	\$ 5,837,599	\$ 3,271,063
Operating income (loss)	\$ (237,357)	\$ 69,147	\$ (236,031)	\$ (144,242)
Depreciation expense	\$ 77,543	\$ 33,090	\$ 108,933	\$ 44,382
Amortization expense	\$ 0	\$ 91,349	\$ 0	\$ 100,976
Capital expenditures	\$ 18,933	\$ 0	\$ 1,893	\$ 0

Geographic Information-Net Sales by Geographic Area

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2015	2014	2015	2014
North America	\$ 1,894,564	\$ 1,763,223	\$ 5,713,638	\$ 5,455,496
Europe	226,011	526,372	852,561	1,401,713
Asia	807,875	742,006	2,435,357	2,115,187
Other markets	82,168	34,562	209,854	136,266

Total net sales	\$ 3,010,618	\$ 3,066,163	\$ 9,211,410	\$ 9,108,662
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	Three Months Ended February 28,			
	2015		2014	
	United States	Europe	United States	Europe
Operating income (loss)	\$ (115,502)	\$ (35,006)	\$ (185,597)	\$ 103,942
Depreciation expense	\$ 34,150	\$ 0	\$ 45,328	\$ 0
Amortization expense	\$ 27,882	\$ 0	\$ 33,659	\$ 0
Capital expenditures	\$ 5,883	\$ 0	\$ 457	\$ 0

	Nine Months Ended February 28,			
	2015		2014	
	United States	Europe	United States	Europe
Operating income (loss)	\$ (151,969)	\$ (16,241)	\$ (442,338)	\$ 62,065
Depreciation expense	\$ 110,633	\$ 0	\$ 153,315	\$ 0
Amortization expense	\$ 91,349	\$ 0	\$ 100,976	\$ 0
Capital expenditures	\$ 18,933	\$ 0	\$ 1,893	\$ 0

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

Segment and Geographic Assets

	February 28, 2015	May 31, 2014
Segment assets to total assets		
Balancer	\$ 4,944,084	\$ 4,863,423
Measurement	4,343,994	4,449,064
Corporate assets	1,654,097	1,511,904
Total assets	\$ 10,942,175	\$ 10,824,391
Geographic assets to long-lived assets		
United States	\$ 1,099,892	\$ 1,191,591
Europe	0	0
Total long-lived assets	\$ 1,099,892	\$ 1,191,591
Geographic assets to total assets		
United States	\$ 9,694,718	\$ 10,090,242
Europe	1,247,457	734,149

Total assets	\$	10,942,175	\$	10,824,391
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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. designs, manufactures and markets computer-controlled vibration detection, balancing and process control equipment (the Balancer segment) to the worldwide machine tool industry and through its wholly owned subsidiary, Schmitt Measurement Systems, Inc., designs, manufactures and markets precision laser-based surface measurement products, laser-based distance measurement products and ultrasonic measurement systems (the Measurement segment) for a variety of industrial applications worldwide. The Company sells and markets its products in Europe through its wholly owned subsidiary, Schmitt Europe Ltd. (SEL), located in the United Kingdom. The Company is organized into two operating segments: the Balancer segment and the Measurement segment. 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, 2014.

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

For the three months ended February 28, 2015, total sales decreased \$55,545, or 1.8%, to \$3,010,618 from \$3,066,163 in the three months ended February 28, 2014. For the nine months ended February 28, 2015, total sales increased \$102,748, or 1.1%, to \$9,211,410 from \$9,108,662 in the nine months ended February 28, 2014.

Balancer segment sales focus throughout the world on end-users, rebuilders and original equipment manufacturers of grinding machines with the target geographic markets in North America, South America, Asia and Europe. Balancer segment sales decreased \$66,379, or 3.4%, to \$1,903,482 for the three months ended February 28, 2015 compared to \$1,969,861 for the three months ended February 28, 2014, primarily due to softer sales in North America, offset in part by increased sales into Asia. Balancer segment sales decreased \$171,098, or 2.9%, to \$5,666,501 for the nine months ended February 28, 2015 compared to \$5,837,599 for the nine months ended February 28, 2014. The decrease

in worldwide balancer sales for the nine month period ended February 28, 2015 is attributed to softer sales in our North American market, offset in part by increased sales in Asia.

The Measurement segment product line consists of laser-based light-scatter, distance measurement and dimensional sizing products and ultrasonic-based remote tank monitoring products for propane and diesel tanks. Total Measurement segment sales increased \$10,834, or 1.0%, to \$1,107,136 for the three months ended February 28, 2015 compared to \$1,096,302 for the three months ended February 28, 2014, primarily due to an increase in revenues associated with the sales of remote tank monitoring products and related monitoring services, offset in part by a decrease in sales of our laser-based light-scatter surface measurement products and our laser-based distance measurement products. Total Measurement segment sales increased \$273,846, or 8.4%, to \$3,544,909 for the nine months ended February 28, 2015 compared to \$3,271,063 for the nine months ended February 28, 2014. The increase in worldwide measurement system sales for the nine month period

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ended February 28, 2015 is primarily due to the delivery and acceptance of one of our CASI® (Complete Angle Scatter Instrument) systems during the first quarter of Fiscal 2015 and an increase in revenues associated with the sales of remote tank monitoring products and related monitoring services.

Operating expenses decreased \$38,715, or 2.5%, to \$1,500,870 for the three months ended February 28, 2015 from \$1,539,585 for the three months ended February 28, 2014. Operating expenses decreased \$100,876, or 2.2%, to \$4,536,317 for the nine months ended February 28, 2015 from \$4,637,193 for the nine months ended February 28, 2014. General, administration and sales expenses increased \$17,168, or 1.2%, to \$1,405,140 for the three months ended February 28, 2015 from \$1,387,972 for the same period in the prior year. General, administration and sales expenses decreased \$3,228, or 0.1%, to \$4,243,492 for the nine months ended February 28, 2015 from \$4,246,720 for the same period in the prior year. Research and development expenses decreased \$55,883, or 36.9%, to \$95,730 for the three months ended February 28, 2015 from \$151,613 for the three months ended February 28, 2014. Research and development expenses decreased \$97,648, or 25.0%, to \$292,825 for the nine months ended February 28, 2015 from \$390,473 for the nine months ended February 28, 2014.

Net loss was \$168,371, or \$(0.06) per fully diluted share, for the three months ended February 28, 2015 as compared to net loss of \$72,107, or \$(0.02) per fully diluted share, for the three months ended February 28, 2014. Net loss was \$186,428, or \$(0.06) per fully diluted share, for the nine months ended February 28, 2015 as compared to net loss of \$381,867, or \$(0.13) per fully diluted share, for the nine months ended February 28, 2014.

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, 2014.

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	Three Months Ended February 28,			
	2015		2014	
Balancer sales	\$ 1,903,482	63.2%	\$ 1,969,861	64.2%
Measurement sales	1,107,136	36.8%	1,096,302	35.8%
Total sales	3,010,618	100.0%	3,066,163	100.0%
Cost of sales	1,660,256	55.1%	1,608,233	52.5%
Gross profit	1,350,362	44.9%	1,457,930	47.5%
Operating expenses:				
General, administration and sales	1,405,140	46.7%	1,387,972	45.3%
Research and development	95,730	3.2%	151,613	4.9%
Total operating expenses	1,500,870	49.9%	1,539,585	50.2%
Operating loss	(150,508)	-5.0%	(81,655)	-2.7%
Other income (loss)	(15,578)	-0.5%	11,497	0.4%
Loss before income taxes	(166,086)	-5.5%	(70,158)	-2.3%
Provision for income taxes	2,285	0.1%	1,949	0.1%
Net loss	\$ (168,371)	-5.6%	\$ (72,107)	-2.4%

	Nine Months Ended February 28,			
	2015		2014	
Balancer sales	\$ 5,666,501	61.5%	\$ 5,837,599	64.1%
Measurement sales	3,544,909	38.5%	3,271,063	35.9%
Total sales	9,211,410	100.0%	9,108,662	100.0%
Cost of sales	4,843,303	52.6%	4,851,742	53.3%
Gross profit	4,368,107	47.4%	4,256,920	46.7%
Operating expenses:				
General, administration and sales	4,243,492	46.1%	4,246,720	46.6%
Research and development	292,825	3.2%	390,473	4.3%
Total operating expenses	4,536,317	49.2%	4,637,193	50.9%
Operating loss	(168,210)	-1.8%	(380,273)	-4.2%
Other income (loss)	(11,181)	-0.1%	5,404	0.1%

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Loss before income taxes	(179,391)	-1.9%	(374,869)	-4.1%
Provision for income taxes	7,037	0.1%	6,998	0.1%
Net loss	\$ (186,428)	-2.0%	\$ (381,867)	-4.2%

Sales Sales in the Balancer segment decreased \$66,379, or 3.4%, to \$1,903,482 for the three months ended February 28, 2015 compared to \$1,969,861 for the three months ended February 28, 2014. This decrease is primarily attributed to softer sales in our North American market, offset in part by increased sales in Asia. Sales in North America decreased \$160,192, or 15.0%, for the three months ended February 28, 2015 as compared to the three months ended February 28, 2014. Asia sales increased \$100,973, or 15.7%, in the three months ended February 28, 2015 compared to the same period in the prior year. European sales decreased \$45,073, or 19.7%, in the third quarter of Fiscal 2015 compared to the third quarter of Fiscal 2014. Sales in other regions of the world increased \$37,913, or 118.7%, in the third quarter of Fiscal 2015 as compared to the same quarter in the prior year.

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Sales in the Balancer segment decreased \$171,098, or 2.9%, to \$5,666,501 for the nine months ended February 28, 2015 compared to \$5,837,599 for the nine months ended February 28, 2014. This decrease is primarily due to lower unit sales in North America, offset in part by increased sales into the Asia market. Sales in North America decreased \$448,673, or 14.5%, for the nine months ended February 28, 2015 as compared to the nine months ended February 28, 2014. Asia sales increased \$253,459, or 13.6%, in the nine months ended February 28, 2015 compared to the same period in the prior year. European sales decreased \$11,281, or 1.4%, in the first three quarters of Fiscal 2015 compared to the first three quarters of Fiscal 2014. Sales in other regions of the world increased \$35,397, or 35.6%, in the nine months ended February 28, 2015 as compared to the same period in the prior year. The levels of demand for our Balancer products in any of the geographic markets cannot be forecasted with any certainty given the recent volatility in the global economy and the historical volatility experienced in these markets.

Sales in the Measurement segment increased \$10,834, or 1.0%, to \$1,107,136 in the three months ended February 28, 2015 compared to \$1,096,302 in the three months ended February 28, 2014. Sales of remote tank monitoring products and revenues from monitoring services increased \$305,886, or 154.6%, to \$503,690 during the third quarter of Fiscal 2015 as compared to \$197,804 for the same period in the prior year. Sales of laser-based surface measurement products in the three months ended February 28, 2015 decreased \$160,699, or 72.2%, as compared to the same period in the prior year primarily due to the delivery and acceptance of one of our CASI® products during the quarter ended February 28, 2014. Sales of our laser-based distance measurement and dimensional sizing products in the third quarter of Fiscal 2015 decreased \$206,891, or 32.1%, as compared to the third quarter of Fiscal 2014 due to softness in the markets that these products are used.

Sales in the Measurement segment increased \$273,846, or 8.4%, to \$3,544,909 in the nine months ended February 28, 2015 compared to \$3,271,063 in the nine months ended February 28, 2014. Sales of remote tank monitoring products and revenues from monitoring services increased \$447,947, or 61.4%, to \$1,177,435 during the nine months ended February 28, 2015 as compared to \$729,488 for the same period in the prior year. Sales of laser-based surface measurement products in the nine months ended February 28, 2015 increased \$104,549, or 18.0%, as compared to the same period in the prior year. These increases were offset by the decrease in sales of our laser-based distance measurement and dimensional sizing products in the amount of \$350,537, or 19.2%, for the nine months ended February 28, 2015 as compared to the same period in the prior year. Given the recent volatility in these markets, future sales of laser-based measurement products cannot be forecasted with any certainty.

Gross margin Gross margin for the three months ended February 28, 2015 decreased to 44.9% as compared to 47.5% for the three months ended February 28, 2014. Gross margin for the nine months ended February 28, 2015 increased to 47.4% as compared to 46.7% for the nine months ended February 28, 2014. The fluctuations in gross margin in both the three and nine months periods ended February 28, 2015 compared to the three and nine month periods in the prior fiscal year is primarily influenced by shifts in the product sales mix involving our five product lines.

Operating expenses Operating expenses decreased \$38,715, or 2.5%, to \$1,500,870 for the three months ended February 28, 2015 as compared to \$1,539,585 for the three months ended February 28, 2014. General, administrative and selling expenses increased \$17,168, or 1.2%, for the three months ended February 28, 2015 as compared to the same period in the prior year due in part to increases in personnel expenses offset by reductions in professional fees and depreciation expense. Research and development expenses decreased \$55,883, or 36.9%, for the quarter ended February 28, 2015 as compared to the same period in the prior year due to fewer development projects within our existing product lines occurring during the third quarter of Fiscal 2015 as compared to the third quarter of Fiscal 2014. Operating expenses decreased \$100,876, or 2.2%, to \$4,536,317 for the nine months ended February 28, 2015 as compared to \$4,637,193 for the nine months ended February 28, 2014. General, administrative and selling expenses decreased \$3,228, or 0.1%, for the nine months ended February 28, 2015 as compared to the same period in the prior

year. Increases in personnel costs and marketing and trade show expenses were offset by decreases in professional fees, depreciation expense and other general office and utility costs. Research and development expenses decreased \$97,648, or 25.0%, as compared to the same period in the prior year due to fewer development projects within our existing product lines occurring during the first three quarters of Fiscal 2015 as compared to the first three quarters of Fiscal 2014.

Other income (loss) Other income (loss) consists of interest income (expense), foreign currency exchange gain (loss) and other income (expense). Interest income (expense), net was \$(742) and \$(1,166) for the three months ended February 28, 2015 and 2014, respectively and \$(2,628) and \$(7,968) for the nine months ended February 28, 2015 and 2014, respectively. Foreign currency exchange gains (losses) were \$(14,848) and \$(855) for the three months ended February 28, 2015 and 2014, respectively and \$(8,593) and \$302 for the nine months ended February 28, 2015 and 2014, respectively. The shifts in the foreign currency exchange are related to fluctuations of foreign currencies against the U.S. dollar during the current period. Also included in other income (loss) for the quarter and nine months ended February 28, 2014 is a \$13,667 gain on the sale of a fixed asset.

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Income taxes The Company's effective tax rate on consolidated net loss was 3.9% for the nine months ended February 28, 2015. The effective tax rate on consolidated net loss differs from the federal statutory tax rate primarily due to the amount of income from foreign jurisdictions, changes in the deferred tax valuation allowance and certain expenses not being deductible for income tax reporting purposes. Management believes the effective tax rate for Fiscal 2015 will be approximately 5.1% due to the items noted above

Net loss Net loss was \$168,371, or \$(0.06) per diluted share, for the three months ended February 28, 2015 as compared to a net loss of \$72,107, or \$(0.02) per diluted share, for the three months ended February 28, 2014. The increase in the net loss for the third quarter of Fiscal 2015 as compared to the same period in the prior year is directly related to the mix of product sold in each of the respective quarters. Net loss was \$186,428, or \$(0.06) per diluted share, for the nine months ended February 28, 2015 as compared to a net loss of \$381,867, or \$(0.13) per diluted share, for the same period in the prior year. Net loss for the first three quarters of Fiscal 2015 decreased as compared to the same period in the prior year primarily due to shifts in product mix with increased sales of higher margin products.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital decreased to \$7,409,258 as of February 28, 2015 as compared to \$7,478,073 as of May 31, 2014. Cash and cash equivalents increased \$141,999 to \$1,652,564 as of February 28, 2015 from \$1,510,565 as of May 31, 2014.

Cash provided by operating activities totaled \$235,364 for the nine months ended February 28, 2015 as compared to cash used in operating activities of \$45,071 for the nine months ended February 28, 2014. The increase in cash provided by operating activities was primarily impacted by the \$186,428 in net loss for the first three quarters of Fiscal 2015 as compared to \$381,867 of net loss in the first three quarters of Fiscal 2014. Changes in accounts receivable and accounts payable and other accrued liabilities also impacted the total cash provided/used and the changes are the result of timing of receipts and payments.

At February 28, 2015, the Company had accounts receivable of \$2,453,944 as compared to \$2,235,194 at May 31, 2014. The increase in accounts receivable of \$218,750 was due to timing of receipts. Inventories decreased \$73,487 to \$4,716,335 as of February 28, 2015 compared to \$4,789,822 at May 31, 2014, which is due to increased sales within the Xact® product line and targeted reductions of certain inventories in our SBS product line. At February 28, 2015, total current liabilities increased \$369,647 to \$1,580,731 as compared to \$1,211,084 at May 31, 2014. The increase in accounts payable and other accrued expenses is primarily due to the timing of payments to our vendors and an increase in accrued commissions.

During the nine months ended February 28, 2015, net cash used by investing activities was \$18,933, which was for building improvements necessary for the installation of manufacturing equipment being leased by the Company and purchase of office furniture and equipment.

The Company had a \$2 million bank line of credit secured by U.S. accounts receivable, inventories, general intangibles and a depository account. The line of credit was subject to certain covenant requirements if draws on the line were executed. Interest was payable at the bank's prime rate or LIBOR plus 2.0%. The term on the line of credit expired on September 1, 2014, and the Company chose not to renew the line. The outstanding balance on the line of credit was \$0 at May 31, 2014.

We believe that our existing cash and cash equivalents combined with the cash we anticipate to generate from operating activities and financing available from other sources will be sufficient to meet our cash requirements for the

foreseeable future. We do not have any significant commitments nor are we aware of any significant events or conditions that are likely to have a material impact on our liquidity or capital resources.

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, 2014 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, 2014.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of February 28, 2015, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the Exchange Act). Based on the evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Report, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the Company's Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives, and management necessarily is required to use its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended February 28, 2015 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 6. Exhibits

Exhibit	Description
3.1	Second Restated Articles of Incorporation of Schmitt Industries, Inc. (the Company). Incorporated by reference to Exhibit 3(i) to the Company s Annual Report on Form 10-K for the fiscal year ended May 31, 1998.
3.2	Second Restated Bylaws of the Company. Incorporated by reference to Exhibit 3(ii) to the Company s Annual Report on Form 10-K for the fiscal year ended May 31, 1998.
4.1	See Exhibits 3.1 and 3.2 for provisions of the Articles of Incorporation and Bylaws defining the rights of security holders.
31.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SCHMITT INDUSTRIES, INC.
(Registrant)

Date: April 9, 2015

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