

SCHMITT INDUSTRIES INC  
Form 10-Q  
October 15, 2007

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended: August 31, 2007**

Or

**o** **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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 October 8, 2007

Common stock, no par value 2,668,933



SCHMITT INDUSTRIES, INC.

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**PART I - FINANCIAL INFORMATION**





## Item 1. Financial Statements

**SCHMITT INDUSTRIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

<b>ASSETS</b>	<b>August 31, 2007</b>	<b>May 31, 2007</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,535,691	\$ 1,513,061
Short-term investments	4,453,830	3,964,650
Accounts receivable, net of allowance of \$40,876 and \$16,658 at August 31, 2007 and May 31, 2007, respectively	981,446	1,454,179
Inventories	3,746,903	3,690,363
Prepaid expenses	62,888	71,331
Income taxes receivable	75,824	
Deferred tax asset	145,435	144,957
	11,002,017	10,838,541
<b>Property and equipment</b>		
Land	299,000	299,000
Buildings and improvements	1,336,181	1,336,181
Furniture, fixtures and equipment	790,019	826,380
Vehicles	97,955	97,955
	2,523,155	2,559,516
Less accumulated depreciation and amortization	(1,323,795)	(1,333,738)
	1,199,360	1,225,778
<b>Other assets</b>		
Long-term deferred tax asset	548,475	32,780
Other assets	365,157	373,797
	913,632	406,577
<b>TOTAL ASSETS</b>	<b>\$ 13,115,009</b>	<b>\$ 12,470,896</b>
<b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 407,438	\$ 335,820
Accrued commissions	185,536	225,782
Accrued payroll liabilities	78,358	83,365
Other accrued liabilities	246,206	319,289
Income taxes payable		142,108
Current portion of long-term obligations		
<b>Total current liabilities</b>	<b>917,538</b>	<b>1,106,364</b>
<b>Other long term liabilities</b>	<b>595,255</b>	
<b>Stockholders equity</b>		
Common stock, no par value, 20,000,000 shares authorized, 2,668,933 and 2,664,419 shares issued and outstanding at August 31, 2007 and May 31, 2007, respectively	8,140,318	8,114,251
Accumulated other comprehensive loss	(129,312)	(122,050)
Retained earnings	3,591,210	3,372,331
<b>Total stockholders equity</b>	<b>11,602,216</b>	<b>11,364,532</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 13,115,009</b>	<b>\$ 12,470,896</b>

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



## SCHMITT INDUSTRIES, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED AUGUST 31, 2007 AND 2006

(UNAUDITED)

	Three Months Ended August 31,	
	2007	2006
<b>Net sales</b>	\$ 2,305,659	\$ 3,072,552
Cost of sales	1,070,294	1,474,261
<b>Gross profit</b>	1,235,365	1,598,291
Operating expenses:		
General, administration and sales	976,836	1,111,762
Research and development	45,392	21,209
Total operating expenses	1,022,228	1,132,971
<b>Operating income</b>	213,137	465,320
Other income	72,778	40,272
<b>Income before income taxes</b>	285,915	505,592
Provision for income taxes	101,500	235,000
<b>Net income</b>	\$ 184,415	\$ 270,592
<b>Net income per common share, basic</b>	\$ 0.07	\$ 0.10
<b>Net income per common share, diluted</b>	\$ 0.07	\$ 0.10

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

**SCHMITT INDUSTRIES, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

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FOR THE THREE MONTHS ENDED AUGUST 31, 2007 AND 2006

(UNAUDITED)

	Three Months Ended August 31,	
	2007	2006
<b>Cash flows relating to operating activities</b>		
Net income	\$ 170,915	\$ 270,592
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,246	52,664
Loss on disposal of property and equipment	803	510
Deferred taxes	(6,000)	159,210
Stock based compensation	7,652	13,459
Tax benefit related to stock options	8,186	32,253
Excess tax benefit from stock based compensation	(8,207)	(19,986)
(Increase) decrease in:		
Accounts receivable	479,358	328,714
Inventories	(54,345)	208,801
Prepaid expenses	8,559	(13,841)
Income taxes receivable	(75,824)	
Increase (decrease) in:		
Accounts payable	69,807	13,147
Accrued liabilities and customer deposits	(120,303)	46,995
Income taxes payable	(22,562)	(6,161)
Net cash provided by operating activities	516,785	1,086,357
<b>Cash flows relating to investing activities</b>		
Purchase of short-term investments	(3,489,180)	(1,986,536)
Maturities of short-term investments	3,000,000	1,500,000
Purchase of property and equipment	(10,865)	(7,954)
Proceeds from sale of property and equipment		
Advance on convertible promissory note		
Net cash used in investing activities	(500,045)	(494,490)
<b>Cash flows relating to financing activities</b>		
Repayments on long-term obligations		(4,815)
Common stock issued on exercise of stock options	10,229	40,387
Excess tax benefit from stock based compensation	8,207	19,986
Net cash provided by financing activities	18,436	55,558
<b>Effect of foreign exchange translation on cash</b>	(12,546)	96,646
<b>Increase (decrease) in cash and cash equivalents</b>	22,630	744,071
<b>Cash and cash equivalents, beginning of period</b>	1,513,061	1,552,072
<b>Cash and cash equivalents, end of period</b>	\$ 1,535,691	\$ 2,296,143
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the period for interest	\$	\$ 450
Cash paid during the period for income taxes	\$ 197,700	\$ 50,028

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







## SCHMITT INDUSTRIES, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY  
AND COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED AUGUST 31, 2007

(UNAUDITED)

	Shares	Amount	Accumulated other comprehensive loss	Retained earnings	Total	Total comprehensive income
<b>Balance, May 31, 2007</b>	2,664,419	\$ 8,114,251	\$ (122,050)	\$ 3,372,331	\$ 11,364,532	
Adoption of FIN 48				34,464	34,464	
Stock options exercised and related tax benefit of \$8,186	4,514	18,415			18,415	
Stock based compensation		7,652			7,652	
Net income				184,415	184,415	\$ 184,415
Other comprehensive income			(7,262)		(7,262)	(7,262)
<b>Balance, August 31, 2007</b>	2,668,933	\$ 8,140,318	\$ (129,312)	\$ 3,591,210	\$ 11,602,216	