

SCHMITT INDUSTRIES INC  
Form 10-Q  
October 09, 2009  
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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: August 31, 2009

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)

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**Oregon** **93-1151989**  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) 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

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 September 30, 2009  
Common stock, no par value 2,894,802

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**Table of Contents****PART I - FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	August 31, 2009	May 31, 2009
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,661,928	\$ 4,174,335
Short-term investments	1,000,000	
Accounts receivable, net of allowance of \$38,578 and \$38,233 at August 31, 2009 and May 31, 2009, respectively	921,855	1,110,850
Inventories	3,953,782	3,866,971
Prepaid expenses	99,603	171,178
Income taxes receivable	330,908	330,134
	8,968,076	9,653,468
<b>Property and equipment</b>		
Land	299,000	299,000
Buildings and improvements	1,564,880	1,564,880
Furniture, fixtures and equipment	1,023,280	1,037,346
Vehicles	90,452	90,452
	2,977,612	2,991,678
Less accumulated depreciation and amortization	(1,568,456)	(1,563,840)
	1,409,156	1,427,838
<b>Other assets</b>		
Intangible assets	1,515,494	1,542,694
<b>TOTAL ASSETS</b>	<b>\$ 11,892,726</b>	<b>\$ 12,624,000</b>
<b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 212,597	\$ 335,609
Accrued commissions	127,055	172,755
Accrued payroll liabilities	223,378	228,887
Other accrued liabilities	166,986	168,325
<b>Total current liabilities</b>	<b>730,016</b>	<b>905,576</b>
<b>Long-term liabilities</b>	<b>3,993</b>	
<b>Stockholders equity</b>		
Common stock, no par value, 20,000,000 shares authorized, 2,870,160 shares issued and outstanding at both August 31, 2009 and May 31, 2009	9,569,990	9,545,678

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Accumulated other comprehensive loss	(192,651)	(183,629)
Retained earnings	1,781,378	2,356,375
<b>Total stockholders equity</b>	<b>11,158,717</b>	<b>11,718,424</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 11,892,726</b>	<b>\$ 12,624,000</b>

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

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## SCHMITT INDUSTRIES, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED AUGUST 31, 2009 AND 2008

(UNAUDITED)

	<b>Three Months Ended August 31,</b>	
	<b>2009</b>	<b>2008</b>
Net sales	\$ 1,223,234	\$ 3,193,385
Cost of sales	674,145	1,536,005
Gross profit	549,089	1,657,380
Operating expenses:		
General, administration and sales	960,707	1,322,918
Research and development	173,044	247,219
Total operating expenses	1,133,751	1,570,137
Operating income (loss)	(584,662)	87,243
Other income	9,665	20,231
Income (loss) before income taxes	(574,997)	107,474
Provision for income taxes		73,927
Net income (loss)	\$ (574,997)	\$ 33,547
Net income (loss) per common share:		
Basic	\$ (0.20)	\$ 0.01
Weighted average number of common shares, basic	2,870,160	2,870,160
Diluted	\$ (0.20)	\$ 0.01
Weighted average number of common shares, diluted	2,870,160	2,966,182

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

**Table of Contents****SCHMITT INDUSTRIES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE THREE MONTHS ENDED AUGUST 31, 2009 AND 2008****(UNAUDITED)**

	<b>Three Months Ended August 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows relating to operating activities</b>		
Net income (loss)	\$ (574,997)	\$ 33,547
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	87,693	98,922
Gain on disposal of property and equipment	(1,200)	
Stock based compensation	24,312	79,695
(Increase) decrease in:		
Accounts receivable	191,186	250,213
Inventories	(85,740)	(85,323)
Prepaid expenses	64,086	32,846
Income taxes receivable	(980)	
Increase (decrease) in:		
Accounts payable	(123,719)	13,821
Accrued liabilities and customer deposits	(48,948)	(179,803)
Income taxes payable		5,118
Net cash provided by (used in) operating activities	(468,307)	249,036
<b>Cash flows relating to investing activities</b>		
Purchase of short-term investments	(1,000,000)	(1,008,794)
Maturities of short-term investments		1,000,000
Purchase of property and equipment	(34,226)	(92,674)
Proceeds from sale of property and equipment	1,200	
Net cash used in investing activities	(1,033,026)	(101,468)
<b>Effect of foreign exchange translation on cash</b>	<b>(11,074)</b>	<b>(41,058)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(1,512,407)</b>	<b>106,510</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>4,174,335</b>	<b>3,020,131</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,661,928</b>	<b>\$ 3,126,641</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the period for income taxes	\$ 980	\$ 68,809

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

## AND COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED AUGUST 31, 2009

(UNAUDITED)

	Shares	Amount	Accumulated other comprehensive loss	Retained earnings	Total	Total comprehensive loss
<b>Balance, May 31, 2009</b>	2,870,160	\$ 9,545,678	\$ (183,629)	\$ 2,356,375	\$ 11,718,424	
Stock based compensation		24,312			24,312	
Net loss				(574,997)	(574,997)	\$ (574,997)
Other comprehensive loss			(9,022)		(9,022)	(9,022)
<b>Balance, August 31, 2009</b>	2,870,160	\$ 9,569,990	\$ (192,651)	\$ 1,781,378	\$ 11,158,717	

Comprehensive loss, three months ended  
August 31, 2009

\$ (584,019)

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 August 31, 2009 and its results of operations and its cash flows for the periods presented. The consolidated balance sheet at May 31, 2009 has been derived from the Annual Report on Form 10-K for the fiscal year ended May 31, 2009. 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, 2009. 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, 2010.

The Company has performed a review for subsequent events through the date of the filing of these financial statements with the Securities and Exchange Commission on October 9, 2009.

***Revenue Recognition and Accounts Receivable***

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 fulfillment of all significant obligations, pursuant to the guidance provided by Staff Accounting Bulletin No. 104, Revenue Recognition, issued by the Securities and Exchange Commission in December 2003. 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, short term investments, accounts receivable and accounts payable) also approximates fair value because of their short-term maturities.

***Recent Issued Accounting Pronouncements***

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ( SFAS 141(R) ), which replaces SFAS No 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS is to be applied prospectively to business combinations for which the acquisition date is after May 31, 2009.

In May 2009, the FASB issued SFAS No 165, Subsequent Events (SFAS 165 ). SFAS 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009. The Company has adopted SFAS 165.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a Replacement of FASB Statement No. 162, which establishes the FASB



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Accounting Standards Codification (the Codification ) as the source of authoritative U.S. generally accepted accounting principles ( GAAP ) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the codification will become non-authoritative. This Statement is effective for financial statements issued for interim and annual periods after September 15, 2009.

**Note 2:**

**INVENTORY**

Inventory is 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 August 31, 2009 and May 31, 2009, inventories consisted of:

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**Aug. 31, 2009      May 31, 2009**