

SCHMITT INDUSTRIES INC  
Form DEF 14A  
August 26, 2016

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**SCHEDULE 14A**

**(RULE 14a-101)**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

**(Amendment No.    )**

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**Schmitt Industries, Inc.**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing party:

(4) Date Filed:

**SCHMITT INDUSTRIES, INC.**

**2765 N.W. NICOLAI STREET**

**PORTLAND, OREGON 97210**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON OCTOBER 7, 2016**

TO THE SHAREHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders (the "Annual Meeting") of SCHMITT INDUSTRIES, INC., an Oregon corporation (the "Company"), will be held on Friday, October 7, 2016 at 3:00 p.m., local time, at the Company's offices located at 2765 N.W. Nicolai Street, Portland, Oregon 97210 for the following purposes:

1. **Election of Directors.** To elect two director nominees named in the attached Proxy Statement to serve three-year terms expiring in 2019;
2. **Approval of Executive Compensation.** To approve, on an advisory basis, the compensation of the Company's Named Executive Officers (as defined in the Proxy Statement accompanying this Notice); and
3. **Other Business.** To transact such other business as may properly come before the Annual Meeting or any postponement or adjournment thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

The Board of Directors has fixed the close of business on August 15, 2016 as the record date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting and any postponements or adjournments thereof.

By Order of the Board of Directors

Wayne A. Case

*Chairman of the Board of Directors*

Portland, Oregon

August 26, 2016

**IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. THEREFORE, WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, SIGN AND DATE THE ACCOMPANYING PROXY CARD AND RETURN IT IN THE ENCLOSED PREPAID ENVELOPE, OR SUBMIT YOUR VOTING INSTRUCTIONS BY TELEPHONE OR**

**THROUGH THE INTERNET IF THOSE OPTIONS ARE AVAILABLE TO YOU. IF YOU ATTEND THE ANNUAL MEETING, YOU MAY REVOKE YOUR PROXY AND VOTE IN PERSON IF YOU WISH, EVEN IF YOU HAVE PREVIOUSLY RETURNED YOUR PROXY CARD.**

**YOUR VOTE IS IMPORTANT.**

**DEPENDING ON HOW YOUR SHARES ARE HELD THERE MAY BE THREE WAYS TO VOTE:**

Sign, date and return your proxy card in the enclosed envelope as soon as possible, or

By internet, or

By telephone.

***Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on October 7, 2016:*** The notice of annual meeting of shareholders, this proxy statement, and our annual report on Form 10-K are available at [www.schmitt-ind.com](http://www.schmitt-ind.com).

**SCHMITT INDUSTRIES, INC.**

**2765 N.W. Nicolai Street**

**Portland, Oregon 97210**

**(503) 227-7908**

**PROXY STATEMENT**

**for the**

**ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON OCTOBER 7, 2016**

**INTRODUCTION**

**General**

This Proxy Statement is being furnished to the shareholders of Schmitt Industries, Inc., an Oregon corporation (the "Company" or "Schmitt"), as part of the solicitation of proxies by the Company's Board of Directors from holders of the outstanding shares of Schmitt common stock (the "Common Stock") for use at the Company's Annual Meeting of Shareholders to be held on October 7, 2016, at 3:00 p.m. local time, at the Company's offices located at 2765 N.W. Nicolai Street, Portland, Oregon 97210, and at any postponements or adjournments thereof (the "Annual Meeting"). This Proxy Statement and the enclosed proxy card are first being mailed to shareholders of Schmitt entitled to vote at the Annual Meeting on or about August 26, 2016.

**Purpose of the Annual Meeting**

The purpose of the meeting is to vote on the following matters:

1. **Election of Directors.** To elect two directors to serve three-year terms expiring in 2019;
2. **Approval of Executive Compensation.** To approve, on an advisory basis, the compensation of the Company's Named Executive Officers (as defined in the paragraph immediately preceding the Summary Compensation Table below); and
3. **Other Business.** To transact such other business as may properly come before the Annual Meeting or any postponement or adjournment thereof.

As of the date of this Proxy Statement, the Company is not aware of any business to come before the meeting other than the items noted above.

**Solicitation, Voting and Revocability of Proxies**

## Edgar Filing: SCHMITT INDUSTRIES INC - Form DEF 14A

The Board of Directors has fixed the close of business on August 15, 2016 as the record date for the determination of the shareholders entitled to notice of and to vote at the Annual Meeting. Accordingly, only holders of record of shares of Common Stock at the close of business on such date will be entitled to vote at the Annual Meeting, with each such share entitling its owner to one vote on all matters properly presented at the Annual Meeting. On the record date, there were approximately 66 beneficial holders of the 2,995,910 shares of Common Stock then outstanding. The presence, in person or by proxy, of a majority of the total number of outstanding shares of Common Stock entitled to vote at the Annual Meeting is necessary to constitute a quorum at the Annual Meeting. Abstentions and broker non-votes are counted for purposes of determining whether a quorum exists at the Annual Meeting, but are not counted and have no effect on the outcome of any of the proposals to be voted upon.

If the enclosed form of proxy is properly executed and returned in time to be voted at the Annual Meeting, the shares represented thereby will be voted in accordance with the instructions marked thereon. *Executed but*

*unmarked proxies will be voted (1) FOR the election of the two nominees to the Board of Directors and (2) FOR the approval of the compensation paid to the Company's Named Executive Officers.* The Board of Directors does not know of any matters other than those described in the Notice of Annual Meeting that are to come before the Annual Meeting. If any other matters are properly brought before the Annual Meeting, the persons named in the proxy will vote the shares represented by such proxy upon such matters as determined by a majority of the Board of Directors.

The presence of a shareholder at the Annual Meeting will not automatically revoke such shareholder's proxy. A shareholder may, however, revoke a proxy at any time prior to its exercise by filing a written notice of revocation with, or by delivering a duly executed proxy bearing a later date to, Corporate Secretary, Schmitt Industries, Inc., 2765 N.W. Nicolai Street, Portland, Oregon 97210, or by attending the Annual Meeting and voting in person. However, a shareholder who attends the Annual Meeting need not revoke a previously executed proxy and vote in person unless such shareholder wishes to do so. All valid, unrevoked proxies will be voted at the Annual Meeting.

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on October 7, 2016:** The notice of annual meeting of shareholders, this proxy statement, and our annual report on Form 10-K are available at [www.schmitt-ind.com](http://www.schmitt-ind.com).

### ELECTION OF DIRECTORS

At the Annual Meeting, two Directors will be elected for three-year terms expiring in 2019. Unless otherwise specified on the proxy, it is the intention of the persons named in the proxy to vote the shares represented by each properly executed proxy for the election as Director of the persons named below as nominees. The Board of Directors believes that the nominees will stand for election and will serve if elected as Director. However, if the persons nominated by the Board of Directors fail to stand for election or are unable to accept election, the number of Directors constituting the Board of Directors may be reduced prior to the Annual Meeting or the proxies may be voted for the election of such other persons as the Board of Directors may recommend.

Under the Company's Articles of Incorporation and Restated Bylaws, the Directors are divided into three classes. The term of office of only one class of Directors expires in each year, and their successors are elected for terms of three years and until their successors are elected and qualified. There is no cumulative voting for election of Directors.

#### Information as to Nominee and Continuing Directors

The following table sets forth the name of the Board of Directors' nominees for election as Directors and those Directors who will continue to serve after the Annual Meeting. Also set forth is certain other information with respect to each such person's age, principal occupation or employment during the past five years, the periods during which he has served as a Director of Schmitt, the expiration of his term as a Director and the positions currently held with Schmitt.

| Nominees:                    | Age | Director Since | Expiration of Current Term | Expiration of Term for which Nominated | Position Held with Schmitt                      |
|------------------------------|-----|----------------|----------------------------|--|---|
| Charles Davidson             | 57  | 2016           | 2016                       | 2019                                   | Director  |
| David M. Hudson              | 64  | 2006           | 2016                       | 2019                                   | Director, President and Chief Executive Officer |
| <b>Continuing Directors:</b> |     |                |                            |  |   |
| Wayne A. Case                | 76  | 1986           | 2018                       |  | Chairman of the Board of Directors              |
| Maynard E. Brown             | 69  | 1992           | 2018                       |  | Director  |
| Michael J. Ellsworth         | 73  | 2006           | 2017                       |  | Director  |



*Nominees*

*Charles Davidson* was appointed as a director in May 2016. Mr. Davidson has served as Chief Executive Officer of Attensa Corporation, an enterprise software provider, since August 2014. He was the CEO of Attensa's predecessor company Leeward, Inc. from 2009 until 2014, when it was merged into Attensa Corporation, and was Chief Executive Officer of Attensa, Inc. from 2007 until 2009. From 2000 to 2003, Mr. Davidson was Chief Executive Officer and President of StatiaFX, a developer of software solutions for financial advisory services. When StatiaFX was acquired in 2003 by Financial Profiles, a business unit of Hanover Insurance Group, Mr. Davidson became Vice President for Strategy and Business Development of Financial Profiles and served in that function until 2006 when the business was sold. From 1994 to 1999, Mr. Davidson was Chief Operating Officer and a member of the Board of Directors of the Crabbe Huson Group. In 1993, he co-founded Co-Operations, Inc. and served as its Chairman until 2000. Mr. Davidson brings a variety of skills and attributes to the Board of Directors, including other directorial service and experience in the areas of executive leadership, technology, finance, strategy and operations. Mr. Davidson holds a B.S. degree in Business from the University of Oregon and a J.D. magna cum laude from Northwestern School of Law, Portland. He is a member (inactive) of the bar associations of Oregon and Washington.

*David M. Hudson* was appointed as a director in April 2006. In January 2016, Mr. Hudson was appointed President and Chief Executive Officer. He previously served as a director of the Company from 1996 to 2003. Prior to his appointment as Chief Executive Officer and President, Mr. Hudson was a private business consultant and the managing member of Gemini Value Partners LLC. Mr. Hudson was the founder and President of Hudson Capital Management, which through a merger became the Crabbe Huson Group. In 1994, he co-founded Coldstream Capital Management, Inc. Mr. Hudson brings a variety of skills and attributes to the Board of Directors, including other directorial service and experience in the areas of executive leadership, finance, strategy and operations. Mr. Hudson holds a B.S. degree in Mathematics from the University of Oregon.

*Continuing Directors*

*Wayne A. Case* has been Chairman of the Board since 1997. He was also the Chief Executive Officer of the Company from 1996 to 2012, President of the Company from 1986 through June 2009 and Managing Director of Schmitt Europe Ltd. from 1995 to 2009. Mr. Case brings a variety of skills and attributes to the Board of Directors, including experience in the areas of executive leadership, technology, finance, accounting, risk oversight, strategy and operations. Mr. Case holds a B.S. degree in Business and Economics from Linfield College and a M.B.A. degree from the University of Portland. He is the father of David W. Case.

*Maynard E. Brown*, a director since 1992, resides in West Vancouver, Canada. He is a retired member of the Law Society of British Columbia. Mr. Brown has more than 25 years of direct experience in advising publicly held corporations in securities and related matters. In addition to his extensive legal experience involving public companies and corporate law matters, Mr. Brown adds considerable directorial service, including audit committee service, and experience in the areas of finance, accounting, risk oversight and strategy. He currently serves as a director of two publicly-traded companies in Canada and is an audit committee member of one of those companies. Mr. Brown has a Bachelor of Law (LLB) degree from Dalhousie University in Halifax, Canada.

*Michael J. Ellsworth* was appointed as a director in April 2006. Mr. Ellsworth served as Chief Operating Officer and advisor to the Board for ADE Corporation, Westwood, Massachusetts, from 1993 to 1997. ADE is a semiconductor metrology and instrumentation company. After retirement from active management in 1997, he continued to serve as a Vice President and an advisor to the ADE Board until 2001. Mr. Ellsworth also served as President, CEO and Director of Electro Scientific Industries (NASDAQ: ESIO) from 1987 to 1992. Electro Scientific Industries is a microelectronics and semiconductor capital equipment corporation. He is presently Chairman of Motion Optics Corporation, a privately held semiconductor equipment company, and also works as a consultant to the semiconductor industry through his firm, Kinetic Technologies, Inc. where he serves as the company's President. Mr. Ellsworth brings a variety of skills and attributes to the Board of Directors, including other directorial service and experience in the areas of executive leadership, technology, finance, accounting, risk oversight, strategy and operations. Mr. Ellsworth holds a B.S. degree in Engineering Science from the University

of Portland, a M.S. degree in Mechanical Engineering from Northwestern University, and an M.B.A. from the University of Portland.

***Recommendation of the Board of Directors***

**The Board of Directors unanimously recommends that shareholders vote FOR the election of its nominees for Director.** If a quorum is present, the Company's Restated Bylaws provide that Directors are elected by a plurality of the votes cast by the shares entitled to vote.

**CORPORATE GOVERNANCE AND RELATED MATTERS**

**Shareholder Communications with the Board of Directors**

Any shareholder may contact the Board of Directors in writing by addressing the communication to the Board of Directors of Schmitt Industries, Inc., c/o Corporate Secretary, 2765 N.W. Nicolai Street, Portland, Oregon 97210.

Our Corporate Secretary has undertaken to forward all written shareholder correspondence to the appropriate director(s), except for spam, junk mail, mass mailings, customer complaints or inquiries, job inquiries, surveys, business solicitations or advertisements, or patently offensive or otherwise inappropriate material. Our Corporate Secretary will determine, in her discretion, whether any response is necessary and may forward certain correspondence, such as customer-related inquiries, elsewhere within our company for review and possible response. Comments or questions regarding our accounting, internal controls or auditing matters will be referred to the Audit Committee. Comments or questions regarding the nomination of directors will be referred to the Nominating Committee. Comments or questions regarding executive compensation will be referred to the Compensation Committee. Comments or questions regarding other corporate governance matters will be referred to the appropriate Committee.

**Board Leadership Structure and Role in Risk Oversight**

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. The Company faces a number of risks, including credit risk, interest rate risk, liquidity risk, operational risk, strategic risk and reputation risk. Management is responsible for the day-to-day management of risks the Company faces, while the Board of Directors, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the Board of Directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. To do this, the Chairman of the Board meets regularly with management to discuss strategy and the risks facing the Company. Senior management attends the Board of Directors meetings and is available to address any questions or concerns raised by the Board of Directors on risk management and any other matters. The Chairman of the Board and independent members of the Board of Directors work together to provide strong, independent oversight of the Company's management and affairs through its standing committees and, when necessary, special meetings of independent directors.

The Board of Directors does not have a policy on whether or not the roles of Chairman of the Board and Chief Executive Officer should be separate. The Board of Directors believes that it should be free to make a choice from time to time in any manner that is in the best interests of the Company and the shareholders. Currently, the Company separates the roles of Chairman and Chief Executive Officer, with Mr. Case serving as the Chairman of the Board and Mr. Hudson serving as Chief Executive Officer. The Board of Directors believes that this separation is appropriate as it allows the Chief Executive Officer to focus primarily on leading the day-to-day operations of the Company, while the Chairman can focus on leading the Board of Directors in its consideration of strategic issues and monitoring corporate governance and other shareholder issues.

The Board of Directors does not have a lead independent director.

Given our current size and operating history, we believe that the Board's existing leadership structure is appropriate. The Board will continue to evaluate its role and the appropriateness of its structure in the future.

### Meetings

During Fiscal 2016, the Company's Board of Directors held six meetings. With the exception of Mr. Davidson, who was appointed on May 31, 2016, each incumbent Director attended 75% or more of the aggregate of the total number of meetings held by the Board of Directors and the total number of meetings held by all committees of the Board on which he served during the period that he served. While the Company does not have a formal policy with regard to Directors' attendance at annual meetings, all members of the Company's Board of Directors, with the exception of Mr. Davidson, attended the 2015 Annual Meeting of Shareholders.

### Board of Director Committees

The Board of Directors has standing Audit, Compensation and Nominating Committees. The Audit, Compensation and Nominating Committees operate pursuant to written charters. The charters may be viewed online at [www.schmitt-ind.com](http://www.schmitt-ind.com). Each committee may obtain advice and assistance from internal or external legal, accounting and other advisors. The members of the committees, each of whom has been determined to be independent as defined by applicable rules of the Securities and Exchange Commission (the SEC) and the NASDAQ Stock Market, are identified in the following table. Neither Mr. Case nor Mr. Hudson is independent as defined by applicable SEC and NASDAQ Stock Market rules. Mr. Case serves as the Company's Chairman of the Board, and Mr. Hudson serves as its President and Chief Executive Officer.

| Name                 | Audit | Compensation | Nominating |
|----------------------|-------|--------------|------------|
| Maynard E. Brown     | X     | Chair        | X          |
| Charles Davidson     | X     | X            | X          |
| Michael J. Ellsworth | Chair | X            | Chair      |

*Audit Committee.* The Audit Committee currently consists of Messrs. Brown, Davidson and Ellsworth. Mr. Ellsworth chairs the committee. The Board has determined all current members of the Audit Committee are independent under the rules of the SEC and the NASDAQ Stock Market, and each of them is able to read and understand fundamental financial statements. The Board has determined that Mr. Ellsworth qualifies as an audit committee financial expert as defined by the rules of the SEC and the NASDAQ Stock Market. The Audit Committee is responsible for, among other things, the engagement, compensation and oversight of the Company's independent certified public accountants, the review of the scope and results of the audit, and the review and evaluation of accounting procedures and internal controls within the Company. The Audit Committee operates pursuant to a written charter which is available on the Company's website ([www.schmitt-ind.com](http://www.schmitt-ind.com)). The Audit Committee held four meetings in Fiscal 2016.

*Compensation Committee.* The Compensation Committee currently consists of Messrs. Brown, Davidson and Ellsworth. Mr. Brown chairs the committee. The Board has determined that all members of the Compensation Committee are independent under the rules of the SEC and the NASDAQ Stock Market. The Compensation Committee reviews executive compensation, establishes executive compensation levels, and administers the Company's stock option plans. The Compensation Committee held two meetings in Fiscal 2016. The Compensation Committee operates pursuant to a written charter which is available on the Company's website ([www.schmitt-ind.com](http://www.schmitt-ind.com)).

*Nominating Committee.* The Nominating Committee currently consists of Messrs. Brown, Davidson, and Ellsworth. Mr. Ellsworth chairs the committee. The Board has determined that all members of the Nominating Committee are independent under the rules of the SEC and the NASDAQ Stock Market. The Nominating Committee assists the Board in director selection, identifying and assessing each candidate based upon his or her background, skills and experience and in light of the needs of the Board of Directors at that time. The committee operates pursuant to a written charter which is available on the Company's website ([www.schmitt-ind.com](http://www.schmitt-ind.com)). The Nominating Committee held one meeting in Fiscal 2016.

### **Director Qualifications**

There are certain minimum qualifications for Board membership that director candidates should possess, including strong values and discipline, high ethical standards, a commitment to full participation on the Board and its committees, and relevant career experience. The Nominating Committee also evaluates candidates for Board membership based on individual skills, experience and demonstrated abilities that help meet the current needs of the Board, such as experience or expertise in some of the following areas: global business, science and technology, finance and/or economics, competitive positioning, corporate governance, public affairs, and experience as an executive officer. Other factors that are considered include independence of thought, meeting applicable director independence standards (where independence is desired) and absence of conflicts of interest. The Nominating Committee may modify the minimum qualifications and evaluation guidelines from time to time as it deems appropriate. The Nominating Committee does not have a formal policy with respect to diversity; however, the Board of Directors and the Nominating Committee believe that it is essential that Board members represent diverse viewpoints. In the context of the existing composition and needs of the Board and its committees, the Nominating Committee considers various factors, including, but not limited to, independence, age, diversity (which, in this context, means race, ethnicity and gender), integrity, skills, financial and other expertise, breadth of experience and knowledge about our business or industry.

### **Shareholder Nominations for Director and Related Procedures**

The Nominating Committee will consider recommendations by shareholders of individuals to consider as candidates for election to the Board of Directors. Any such recommendations should be submitted to Schmitt Industries, Inc., c/o Corporate Secretary, 2765 N.W. Nicolai Street, Portland, Oregon 97210. Historically, the Company has not had a formal policy concerning shareholder recommendations to the Nominating Committee (or its predecessors) because it believes that the informal consideration process in place to date, based in part on the minimum criteria as described in Director Qualifications above, has been adequate given that the Company has never received any Director recommendations from shareholders. The absence of such a policy does not mean, however, that a recommendation would not have been considered had one been received. The Nominating Committee intends to periodically review whether a more formal policy should be adopted.

The Company's Restated Bylaws permit shareholders to make nominations for the election of directors, if such nominations are made pursuant to timely notice in writing to the Company's Secretary. To be timely, notice must be delivered to, or mailed to and received at, the principal executive offices of the Company not less than 60 days nor more than 90 days prior to the date of the meeting, provided that at least 60 days notice or prior public disclosure of the date of the meeting is given or made to shareholders. If less than 60 days notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be received by the Company not later than the close of business on the tenth business day following the date on which such notice of the meeting was mailed or such public disclosure was made. Public disclosure of the date of the Annual Meeting was made by the issuance of a press release on July 27, 2016. A shareholder's notice of nomination must also set forth certain information specified in Section 2.3.2 of the Company's Restated Bylaws concerning each person the shareholder proposes to nominate for election and the nominating shareholder.

### **Director Compensation**

The Company's general philosophy towards Directors' compensation is that Directors should be paid fairly for the work, time and effort required to serve on the Board of Directors, and that Directors' compensation should be competitive relative to comparable companies. The Board of Directors believes that it is appropriate for all of the non-employee Directors to receive a monthly retainer, and for the Chairman and members of the Board committees to receive additional compensation on a per meeting basis for their services in those positions. A non-employee Director who does not serve on any committee may receive a monthly retainer that is greater than the monthly retainer for committee members in recognition of efforts made outside of committee and Board meetings.

Under a policy adopted by the Board of Directors, Messrs. Brown, Davidson and Ellsworth are paid a monthly retainer of \$500. Each non-employee Director is paid a \$1,500 fee for each Board meeting attended either in person or by phone. The chairman and members of the Audit Committee each receive a fee of \$3,500 and \$2,500 per quarter, respectively; the chairman and members of the Compensation Committee each receive a fee of \$1,000 for each meeting attended either in person or by phone; and the chairman and members of the Nominating Committee each receive a fee of \$500 for each meeting attended either in person or by phone. Non-employee Directors also receive either monthly compensation of \$500 or, at the non-employee Director's option, an annual award of nonstatutory options to purchase 5,000 shares of common stock pursuant to the Company's Stock Option Plan. As of May 31, 2016, all outside directors had elected monthly compensation. Cash fees paid to the non-employee Directors are recommended annually by the Compensation Committee for Board approval and paid quarterly beginning on the date the non-employee Director is elected by shareholders at our annual meeting of shareholders. The Company also reimburses travel and lodging expenses incurred in connection with attending meetings of the Board and its committees.

**2016 INDEPENDENT DIRECTORS COMPENSATION TABLE**

| Name                 | Fees                   |           |
|----------------------|------------------------|-----------|
|                      | Earned or Paid in Cash | Total     |
| Maynard E. Brown     | \$ 29,500              | \$ 29,500 |
| Charles Davidson(1)  | \$ 0                   | \$ 0      |
| Michael J. Ellsworth | \$ 30,500              | \$ 30,500 |
| David M. Hudson(2)   | \$ 25,500              | \$ 25,500 |

- (1) Mr. Davidson was appointed to the Board on May 31, 2016. As such, no compensation during fiscal 2016 was earned by him.
- (2) Mr. Hudson was appointed President and Chief Executive Officer on January 8, 2016. All fees earned or paid in cash were earned by and paid to Mr. Hudson for his role as an independent director prior to January 8, 2016.

**Corporate Governance**

As part of the Schmitt's Code of Ethics and Business Conduct, the Company has adopted a code of ethics that applies to all officers and employees, including the Company's principal executive, financial and accounting officers.

Schmitt maintains a Corporate Governance page on its website that includes key information about its corporate governance initiatives, including Schmitt's Code of Ethics and Business Conduct and charters for the Audit, Compensation and Nominating Committees of the Board of Directors. The Corporate Governance page can be found at [www.schmitt-ind.com](http://www.schmitt-ind.com) within the Investor Relations segment of the website.

Schmitt's policies and practices reflect corporate governance initiatives that are compliant with the listing requirements of the NASDAQ Stock Market and the corporate governance requirements of the Sarbanes-Oxley Act of 2002, including: (1) a majority of the Board members are independent of Schmitt and its management; (2) all members of the Board committees—the Audit, Compensation and Nominating Committees—are independent; (3) Schmitt has a Code of Ethics and Business Conduct that is monitored by its Corporate Secretary, who acts as the Company's ethics officer; and (4) the charters of the Audit, Compensation and Nominating Committees of the Board clearly establish their respective roles and responsibilities.

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**MANAGEMENT**
**Executive Officers**

The executive officers of the Company are as follows:

| <b>Name</b>     | <b>Age</b> | <b>Position</b>  |
|-----------------|------------|--|
| Wayne A. Case   | 76         | Chairman of the Board of Directors                         |
| David M. Hudson | 64         | President, Chief Executive Officer and Director            |
| David W. Case   | 52         | Vice President, Operations                                 |
| Ann M. Ferguson | 47         | Chief Financial Officer and Treasurer, Corporate Secretary |

Information concerning the principal occupation of Wayne A. Case and David M. Hudson is set forth under Board of Directors. Information concerning the principal occupation during the last five years of the executive officers of the Company who are not also Directors of the Company is set forth below.

*David W. Case* has been Vice President of Operations of the Company since 1996, and before then was Production Manager. He has been responsible for many of the design features of the SBS Dynamic Balance System. His duties include manufacturing, engineering and quality assurance. Mr. Case holds a B.S. degree in Economics from the University of Oregon. Mr. Case is the son of Wayne A. Case.

*Ann M. Ferguson* has been Chief Financial Officer and Treasurer of the Company since April 2013 and Corporate Secretary since April 2016. Ms. Ferguson is a certified public accountant (inactive) with over 25 years of experience in finance and accounting. Ms. Ferguson is also the Managing Director of Schmitt Europe Ltd. Until June 2012, Ms. Ferguson was a partner at Deloitte & Touche LLP, where she had been employed since 1991 and served in various roles of increasing responsibility until she was admitted to the partnership in 2006. Ms. Ferguson served as lead audit partner for two significant manufacturing clients, including one publicly traded company, as well as serving several other clients in other industries. Ms. Ferguson holds a B.S. degree in Business with an emphasis in accounting from the University of Oregon.

**EXECUTIVE COMPENSATION**

The Board of Directors has delegated the responsibility for fixing the compensation of the Named Executive Officers (as defined in the paragraph immediately preceding the Summary Compensation Table below) to the Compensation Committee. The Compensation Committee consists entirely of independent, non-employee Directors. No former employees of the Company serve on the Compensation Committee. The Compensation Committee approves all compensation and awards to executive officers, which include the President and Chief Executive Officer, Chief Financial Officer and Treasurer, Vice President for Operations and Corporate Secretary.

The Compensation Committee annually reviews the performance and compensation of the executive officers, or more often if necessary, and establishes their compensation. Wayne A. Case and/or David M. Hudson may participate in certain discussions with the Compensation Committee and the Company's Board of Directors concerning executive officer compensation, but Mr. Case does not participate in the decisions with respect to his own or David W. Case's compensation. Mr. Hudson does not participate in decisions with respect to his own compensation.

The Compensation Committee has not prepared tally sheets for executive officers because the compensation structure for these executive officers has consisted primarily of base salary, cash bonuses, and stock options and has not included many of the hidden costs (such as retirement benefits, perquisites and deferred compensation plans) that tally sheets are typically designed to reveal. Similarly, because of the overall size of the Company and the small number of executive officers, the Compensation Committee has not deemed it necessary to retain outside compensation consultants or conduct formal internal or external pay equity studies.

The key components of the Company's compensation program are base salary, personal performance bonuses and potential long-term compensation through stock options. These components are administered with the goal of providing total compensation that is competitive in the marketplace, rewards successful financial performance and aligns executive officers' interests with those of shareholders. The Company generally does not adhere to rigid formulas or necessarily react to short-term changes in business performance in determining the amount and mix of compensation elements for our executives, although changes in business performance do affect individual performance bonus awards.

The Company's executive compensation programs are designed to attract, retain, motivate and appropriately reward its executive officers, as well as to align the interests of executive officers with those of shareholders of the Company. The objectives of the Company's compensation programs are to:

provide competitive compensation opportunities that attract and retain top executives;

inspire the executive team to achieve superior performance in order to deliver results above the Company's business plan and those of its peers; and

continue to align the interests of executives and shareholders through the use of long-term and short-term incentives, while effectively managing dilution.

*Compensation levels should be sufficiently competitive to attract and retain the talent needed*

The Company's overall compensation levels are designed to attract and retain the type of talent needed to enable the Company to achieve and maintain a leadership position in the businesses in which it competes.

*Compensation should be related to performance*

In general, the Company's compensation policy is designed to reward the achievement of individual and company objectives. The Company has followed a practice of linking executive compensation to individual levels of performance, as well as to the performance of the Company as a whole. Cash bonuses are tied to individual performance, as well as to the performance of the Company. In addition, the value of long-term incentive compensation (stock options) is tied to corporate performance over the long term.

*Incentive compensation should strike a balance between short-term and long-term performance*

The Company's compensation policy is designed to focus management on achieving strong short-term (annual) performance objectives as well as ensuring that the necessary steps are taken to achieve long-term success and profitability. To reward a balanced approach, the Company uses both short-term performance bonuses and long-term incentives in structuring the compensation of its executive officers.

*Setting Executive Compensation*

The Compensation Committee awarded Fiscal 2016 compensation to the Named Executive Officers based on its review and analysis of their positions, responsibilities and performance as well as their anticipated responsibilities and potential contributions to growth in shareholder value. In establishing the compensation of the Named Executive Officers, the Committee based the amounts primarily on the individual performance of each Named Executive Officer in recent periods, and each Named Executive Officer's level of responsibility for the Company's key objectives and potential for future responsibility and promotion. The Committee also examined the outstanding stock options held by such executive officer for the purpose of considering the retention value of additional equity awards.

Because base compensation, annual cash bonuses, and equity awards are such basic elements of compensation within the Company's industry, as well as the high tech and software industries in general, and are generally expected by employees, the Committee believes that these components must be included in the Company's compensation mix in order for the Company to compete effectively for talented executives.

The Company has historically used stock options as an element of executive compensation for several reasons. First, stock options facilitate retention of executives. Stock options will provide a return to the executive only if he or she remains in the Company's employ. Second, stock options align executive compensation with the interests of the Company's shareholders and thereby focus executives on increasing value for the shareholders. Third, stock options are performance based. Stock options will provide a return to executives only to the extent that the market price of the Company's common stock appreciates over the option term. Fourth, stock options create incentive for increases in shareholder value over a longer term. In determining the number of options to be granted to executives, the Committee takes into account the individual's position, scope of responsibility, ability to affect profits and shareholder value, the individual's historic and recent performance, and the estimated value of stock options at the time of grant.

The Company does not believe there are risks arising from its compensation policies and practices for employees that are reasonably likely to have a material adverse effect on it.

#### *Employment Agreements*

The Company does not have employment agreements, written or unwritten, with its Named Executive Officers.

#### *Base Salary*

The Fiscal 2016 base salary for each Named Executive Officer was set on the basis of personal performance, skill set and experience, position criticality, the salary levels in effect for comparable positions with other companies in the industry, and internal comparability considerations.

#### *Benefits and Perquisites*

Benefits are established based upon an assessment of competitive market factors and a determination of what is needed to attract and retain talent. The primary benefits received by the Company's Named Executive Officers are the same as for all other employees and include participation in the Company's health, dental and vision plans, 401(k) plan and the Company's disability and life insurance plans. Wayne A. Case is also provided with use of an automobile.

#### *Annual Cash Performance Compensation*

Our executives' performance is reviewed annually in October, and executives may receive annual cash bonuses, generally based upon the Compensation Committee's evaluation of individual performance and the Company's performance generally. These executives are responsible for establishing strategic direction or are responsible for major functional or operating units and have an impact on bottom-line results. During Fiscal 2016, David W. Case and Ann M. Ferguson were each paid a cash bonus of \$10,000.

#### *Stock Options*

In Fiscal 2016, our Named Executive Officers received no stock options grants.



The following table sets forth amounts of cash and certain other compensation paid by the Company to Wayne A. Case, Chairman of the Board; David M. Hudson, President and Chief Executive Officer; Ann M. Ferguson, Chief Financial Officer and Treasurer; and David W. Case, Vice President of Operations (the Named Executive Officers ) during Fiscal 2016. No other executive officer was paid salary and bonus in excess of \$100,000 in Fiscal 2016.

**2016 SUMMARY COMPENSATION TABLE**

| <b>Name and Principal Position</b>                                       | <b>Fiscal Year</b> | <b>Salary</b> | <b>Cash Bonus</b> | <b>Option Awards(1)</b> | <b>All Other Compensation(2)</b> | <b>Total</b> |
|--|--------------------|---------------|-------------------|-------------------------|----------------------------------|--------------|
| Wayne A. Case<br>Chairman of the Board of Directors                      | 2016               | \$ 77,233     | \$                | \$ 5,338                | \$ 5,483                         | \$ 88,054    |
|  | 2015               | 90,005        |                   | 5,102                   | 2,782                            | 97,889       |
| David M. Hudson<br>Director, President and<br>Chief Executive Officer(3) | 2016               | 100,678       |                   | 4,002                   |                                  | 104,680      |
|  | 2015               |               |                   |                         |                                  |              |
| James A. Fitzhenry(3)  | 2016               | 136,528       |                   | 17,890                  |                                  | 154,418      |
|  | 2015               | 208,339       |                   | 23,327                  |                                  | 231,666      |
| Ann M. Ferguson<br>Chief Financial Officer and Treasurer                 | 2016               | 156,885       | 10,000            | 16,820                  |                                  | 183,705      |
|  | 2015               | 171,671       |                   | 22,369                  |                                  | 194,040      |
| David W. Case<br>Vice President of Operations                            | 2016               | 153,432       | 10,000            | 9,143                   | 2,100                            | 174,675      |
|  | 2015               | 169,508       |                   | 10,295                  | 2,100                            | 181,903      |

(1)