

SCHMITT INDUSTRIES, INC.

INSIDER TRADING POLICY

As adopted on August 10, 2004

Implemented September 1, 2004

This Insider Trading Policy (the "Policy") outlines procedures that all directors, officers, employee, consultants and independent contractors of, and other persons associated with, Schmitt Industries, Inc. (the "Company") must follow. This Policy and the procedures set forth herein arise from our responsibilities as a public company. It is important that you review this Policy carefully. Any questions pertaining to this Policy should be directed to the Company's Chief Financial Officer or to Company's outside legal counsel.

A. Prohibition on Trading on Inside Information. No member of the Company's Board of Directors (the "Board") and no officer, employee, consultant, independent contractor or other person associated with the Company may legally trade in the securities of the Company if such person possesses "material" information about the Company that has not been disclosed to the public. Such trading not only violates the Company's policy, but also violates federal securities laws.

While you possess material information concerning the Company that has not been disclosed to the public, you cannot legally:

- *buy or sell the Company's securities; or*
- *communicate such information to other persons ("tipping").*

Persons who trade on such inside information, as well as persons who have tipped others, and the persons who have received such material inside information, may be the subjects of civil and criminal proceedings. In addition, any employee of or consultant to the Company who engages in such illegal conduct is subject to immediate discipline, including termination of employment or service.

B. Definition of "Inside Information".

"Inside information" is material nonpublic information, and includes any information that has not been disclosed to the public and that likely would influence a reasonable investor to buy or sell the Company's stock. Some examples of "material" information are:

- *Revenues, including increases and decreases in quarterly revenues;*
- *Earnings, including increases and decreases in quarterly earnings;*
- *Significant mergers, acquisitions or other transactions;*
- *Unusual gains, losses or other changes in operations;*
- *Major personnel changes; and*
- *A gain or loss of one or more major customers.*

Employees should treat all corporate information with discretion and discuss confidential data only with those the Company employees who have a right and a need to know. Under no circumstances should you discuss the Company's confidential information with friends, relatives or acquaintances. If you have material inside information concerning the Company, you must refrain from trading in the Company's securities until you know that such information has been made public. Members of your

immediate family that live in your home also are covered by this policy. Material information is not considered to have been “made public” until at least three full business days after such information has been released by the Company to major U.S. news services.

C. Non-Trading Window. You may not trade the Company’s securities during the non-trading window-period. The non-trading window-period is defined as: The period commencing on the sixteenth business day after the end of the quarter and continuing through the close of business on the third business day after the day on which the Company’s financial results for the quarter are released to the public markets.

D. Restrictions Beyond the Non-Trading Window-Period. Even when outside a designated non-trading window-period, trading will be permitted only if no development of major importance remains unannounced and the individual is not in possession of inside information (see Paragraph B, above). In order to ensure that persons do not give the appearance of impropriety in their trading activities, members of the Board, executive officers, vice presidents, and all directors and managers involved with finance or operations (and administrative assistants to all such persons) should clear all transactions in the Company’s securities in advance with the Company’s Chief Financial Officer or the Company’s outside legal counsel.

E. Individual Responsibility to Comply with Policy. Every person has the individual responsibility to comply with this Policy against insider trading, regardless of whether the Company has recommended a trading window to that person. In all cases, an individual should exercise appropriate judgment in connection with any transaction in the Company’s securities and seriously consider whether he or she has knowledge of material inside information before trading. An individual may, from time to time, be required to forego a proposed transaction in the Company’s securities even if he or she planned to make the transaction before learning of the material nonpublic information and even though the individual may suffer economic loss or forego anticipated profit by waiting.

F. Inside Information Regarding Other Companies. This Policy and the guidelines described herein also apply to material nonpublic information relating to other companies, including the Company’s customers, vendors and suppliers (“Business Partners”), particularly when that information is obtained in the course of employment with, or other services performed for or on behalf of the Company. Civil and criminal penalties, and discipline, including termination of employment, may result from trading on inside information involving Business Partners. Each individual should treat material nonpublic information about Business Partners with the same care required with respect to information related directly to the Company.

G. Definition of “Trading”. “Trading” includes open market purchases and sales, changes in ownership, loans, pledges and other transfers, but does not include gifts (where the grantor retains no pecuniary or beneficial interest in the stock) or stock option exercises.

H. Absolute Prohibition on Trading in Derivative Securities. No member of the Board, officer, employee, consultant or other person associated with the Company may trade in any interest or position relating to the future price of the Company securities, such as a put, call or short sale or using the Company stock as collateral for margin loans.

I. Inquiries. Please direct any questions as to any of the matters discussed in the Policy to the Company’s Chief Financial Officer or the Company’s outside legal counsel.