UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: February 28, 1998

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: 0-23996

SCHMITT INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Oregon	93-1151989
(Place of Incorporation)	(IRS Employer ID Number)

2765 NW Nicolai Street, Portland, Oregon 97210
(Address of registrant's principal executive office)

(503) 227-7908
(Registrant's telephone number)

Indicate by check mark whether the registrant has (1) filed all reports required to be filed by Section 13 of 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 xx No ------

The number of shares of each class of common stock outstanding as of February 28, 1998 Common stock, no par value 7,096,889

SCHMITT INDUSTRIES, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SCHMITT INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS

ASSETS

	February 28, 1998 Unaudited	May 31, 1997
Cash	$ 890,089	$ 504,662
Marketable securities & commercial paper	213,440	168,000
Accounts receivable	1,435,699	2,725,512
Inventories	3,887,751	2,479,820
Prepaid expenses	139,247	30,668
Deferred tax asset	244,585	136,000
Total current assets	6,810,811	6,044,662
Property and equipment		
Land	299,000	299,000
Buildings & leasehold improvements	1,195,093	1,025,868
Furniture and equipment	863,351	760,596
Vehicles	158,886	146,299
	2,516,330	2,231,763
Less accumulated depreciation	642,114	530,587
Total property & equipment	1,874,216	1,701,176
Other assets		
Long-term deferred tax	679,000	679,000
Other assets	-0-	90,415
Total other assets	679,000	769,415
Total assets	$ 9,364,027	$ 8,515,253

SCHMITT INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS

LIABILITIES

	February 28, 1998 Unaudited	May 31, 1997
Current liabilities		
Trade accounts payable	$ 662,098	$ 530,667
Accrued liabilities	153,978	306,811
Income taxes payable	-0-	68,563
Current portion of long term debt	-0-	29,061
Total current liabilities	816,076	935,102
Long-term debt, net of current portion	-0-	150,922
Total liabilities	$ 816,076	$ 1,086,024

STOCKHOLDERS' EQUITY

Common stock Authorized: 20,000,000 shares without par value Issued and outstanding: February 28, 1998 and May 31, 1997 7,096,889 and 7,081,889 shares respectively	5,058,406	4,952,411
Cumulative foreign translation adjustment	(175,337)	(36,270)
Retained earnings	3,664,882	2,513,088
Total stockholders' equity	8,547,951	7,429,229
Total liabilities and stockholders' equity	$ 9,364,027	$ 8,515,253

SCHMITT INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS AND NINE MONTHS ENDED FEBRUARY 28, 1998
AND FEBRUARY 28, 1997

(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	02/28/98	02/28/97	02/28/98	02/28/97
Sales	$2,372,320	$2,918,912	$8,259,736	$7,450,924
Cost of sales	1,313,120	1,059,330	3,862,310	2,776,712
Gross profit	1,059,200	1,859,582	4,397,426	4,674,212
General and administrative expenses	821,997	1,122,128	2,826,670	3,011,641
Research and development	78,655	56,650	270,579	116,161
Total operating expense	900,652	1,178,778	3,097,249	3,127,802
Income from operations	158,548	680,804	1,300,177	1,546,410
Other income and expense				
Interest income	7,784	14,805	31,803	27,156
Interest expense	(20,104)	(5,593)	(22,252)	(5,609)
Misc. income	55,566	38,448	176,066	69,127
	43,246	47,660	185,617	90,674
Income before income tax	201,794	728,464	1,485,794	1,637,084
Provision for income tax	100,000	269,809	334,000	430,809
Net income for period	$ 101,794	$ 458,655	$1,151,794	1,206,275
Net income per share				
Basic	.01	.07	.16	.17
Diluted	.01	.06	.15	.17

SCHMITT INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED FEBRUARY 28, 1998 AND FEBRUARY 28, 1997
(UNAUDITED)

	February 28, 1998	February 28, 1997
Cash flows from operating activities:		
Net income from operations	$ 1,151,794	$ 1,206,275
Items not affecting cash:		
Amortization	-0-	23,815
Depreciation	111,487	199,768
Deferred taxes	(108,585)	(5,659)
Unrealized gain on trading securities	(45,400)	-0-
	1,109,296	1,424,199
Changes in certain assets & liabilities:		
Decrease (increase) in accounts receivable	1,289,813	(759,740)
Decrease (increase) in marketable securities & commercial paper	-0-	(176,782)
Decrease (increase) in inventory	(1,407,931)	(890,459)
Decrease (increase) in prepaid expenses	(108,579)	(13,943)
Decrease (increase) in other assets	90,415	-0-
Increase (decrease) in accounts payable	131,431	278,756
Increase (decrease) in other liabilities	(152,833)	26,419
Increase (decrease) in income tax payable	(68,563)	(88,140)
	(226,247)	(1,623,889)
Net cash provided (used) by operating activities:	883,049	(199,690)
Cash flows used by investing activities:		
Acquisition of capital assets:	(284,567)	(313,884)
Net cash provided (used) by investing activities:	(284,567)	(313,884)
Cash flows from financing activities:		
Line of credit	-0-	400,000
Repayment of debt	(179,983)	-0-
Exercise of stock options	105,995	278,512
Net cash provided (used) by financing activities:	(73,988)	678,512
Effect of foreign exchange rate changes on cash:	(139,067)	-0-
Increase (decrease) in cash:	385,427	164,938
Cash beginning of period:	504,662	508,240
Cash end of period	$ 890,089	$ 673,178

	February 28, 1998	February 28, 1997
SUPPLEMENTAL SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES		
Income tax benefit of stock options exercised	$ 19,370	$ 330,000
Supplemental Information		
Income taxes paid	$ 399,200	$ 124,100
Interest paid	$ 22,252	$ 5,609

NOTES TO INTERIM FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information, and all adjustments considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended February 28, 1998 are not necessarily indicative of the results that may be experienced for the fiscal year ending May 31, 1998.

These financial statements are those of the Company and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in the preparation of the consolidated financial statements. Certain prior year amounts have been reclassified to conform with current year presentation. Such reclassifications had no effect on previously reported results of operations or stockholders' equity.

Note 2: EPS Reconciliation	Three Months Ended		Nine Months Ended	
	2/28/98	2/28/97	2/28/98	2/28/97
Weighted average shares (basic)	7,095,711	7,042,886	7,088,728	7,012,557
Effect of dilutive stock options	342,639	159,226	382,614	154,973
Weighted average shares (diluted)	7,438,350	7,202,112	7,471,342	7,167,530

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations:

The following information contains certain forward-looking statements that anticipate future trends or events. These statements are based on certain assumptions that may prove to be erroneous and are subject to certain risks including but not limited to the uncertainties of the Company's new product introductions and the risks of increased competition and technological change in the Company's industry. Accordingly, actual results may differ, possibly materially, from the predictions contained herein.

Company operations slowed during the third quarter of fiscal 1998, ended February 28, 1998, as evidenced by decreases in sales and profit levels. Sales of balancer products increased in the United States, the United Kingdom, Germany and other world markets during the third quarter of this fiscal year, but sales of measurement products slowed during this period due primarily to the impact of delayed orders for the Asian markets. Management expects these reduced sales trends of measurement products to continue throughout fiscal year 1998.

During the third quarter ended February 28, 1998, the Company experienced declining sales of the TMS-2000 non-contact laser texture measurement systems (TMS 2000) to the computer hard drive market. Sales of the TMS series products have been made pursuant to an exclusive marketing agreement with Veeco (NASDAQ: VECO). Veeco has projected reduced delivery of these products during the balance of fiscal year 1998.

RESULTS OF OPERATIONS:

Sales in the third quarter of fiscal 1998 declined to $2,372,320 versus $2,918,912 in the same period last year. This 19% decline was caused by delays in orders from both domestic and international measurement customers. SMS sales accounted for $675,051 of the third quarter sales, as compared with $916,226 in third quarter 1997 SMS sales.

Third quarter cost-of-sales increased to 55% of sales versus 36% in the same period last year. The declining sales of TMS-2000 products during the third quarter had a negative impact on gross earnings and net earnings. Cost-of-sales of SMS products was 59% of related revenues for the third quarter 1998 versus 42% in the same period last year. Management expects SMS cost-of-sales for fiscal 1998 to be approximately 40% of related revenues.

Nine-month general operating expenses totaled $3,097,249 versus $3,127,802 for the same period last year. The acquisition of Schmitt Hofmann Systems GmbH ("SHS") and Schmitt Europe Ltd. ("SEL") added to ongoing operating expenses. General and administrative expenses for U.S.A. operations have declined slightly in fiscal year 1998 as compared with the comparable nine-month period in fiscal year 1997.

Sales by the German subsidiary, SHS, totaled $410,734 for the third quarter, with SEL reporting $220,867 in sales for the period. These sales levels met management's expectations and resulted from intensive efforts expended during this quarter in Germany and the United Kingdom to expand sales levels. The quarter included operating losses for SHS of $56,357 and operating profit at SEL of $23,846.

General operating expenses as a percentage of sales during the first nine months of fiscal 1998 were 37% compared with 42% for the same period last year. Management estimates these costs will stabilize at approximately 39% for fiscal 1998, down from 41% for fiscal 1997 and 43% in fiscal year 1996.

In the three-month period ended February 28, 1998, net income totaled $101,794 versus $458,655 for the same period last year. For the nine-month period, taxes were accrued at approximately a 22% rate compared with 26% in the same period last year. Management now anticipates that the tax rate for fiscal 1998 will approximate 34%, due to the timing of tax benefit realization from net operating loss carry forwards.

Nine-month net income was $1,151,794 versus $1,206,275 for the same period last year. Nine-month income per share was $0.16 for fiscal year 1998 versus $0.17 last year on a basic basis and $.15 for fiscal year 1998 versus $.17 last year on a diluted basis, respectively.

LIQUIDITY AND CAPITAL RESOURCES:

The Company maintained its working capital position during the third quarter while still financing the growth of the new measurement products and inventory at SHS and SEL. Working capital totaled $5,994,735 at February 28, 1998 versus $5,109,560 at May 31, 1997 fiscal year end. Corporate cash and marketable securities levels stood at $1,103,529 at February 28, 1998.

During the nine-month period ended February 28, 1998, net cash provided by operating activities totaled $883,049, including net income of $1,151,794. Included in cash flow was a $1,407,931 increase in inventory. During the period, accounts receivable decreased by $1,289,813 and marketable securities and commercial paper appreciated $45,400. The increase in inventory was caused by planned changes of balancer inventory for the U.S.A. and Europe and the ramp up of the new DTM-2000 measurement product line.

The decrease in accounts receivable occurred because of reduced invoicing and improved collections during the nine-month period ended February 28, 1998 compared with the same nine months of fiscal year 1997. As a result of its high-quality customer base, the Company has experienced near 100% collection and no reserve for uncollectable accounts, returns or allowances has been established. Net cash used for repayment of debt was $179,983, which was used for the retirement of long-term debt obligations. Net cash used by financing activities was $73,988.

Management believes that cash from operations, available credit resources and its improving cash position will provide adequate funds on a short-term basis to cover currently foreseeable debt payments, lease commitments and payments under existing and anticipated supplier agreements. Management believes that such cash flow is also sufficient to finance current short-term operations, projected capital expenditures, anticipated short-term sales agreements and other contingencies during at least the next six months.

Management is currently reviewing long-range capital requirements as they relate to expansion of products and markets. This analysis may or may not result in future decisions to seek additional funding for the Company via debt or equity to service the Company's future growth requirements.

PART II - OTHER INFORMATION

Item 1.	Legal Proceedings - None
Item 2.	Changes in Securities - None
Item 3.	Default Upon Senior Securities - None
Item 4.	Submission of Matters to a Vote of Security Holders: -- None --
Item 5.	Other Information - None
Item 6(a)	Exhibit 10.1 - Exclusive Distribution Agreement Exhibit 27 - Financial Data Schedule
Item 6(b)	Reports on Form 8-K - None

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: 04/10/98 /s/ Wayne A. Case

Wayne A. Case, President/CEO/Director

Date: 04/10/98 /s/ Annie Windsor

Annie Windsor, Chief Financial Officer

SCHMITT INDUSTRIES, INC.
FORM 10-Q

EXHIBIT INDEX

EXCLUSIVE
DISTRIBUTION AGREEMENT

THIS AGREEMENT is made this February 23, 1998, effective January 1, 1998.

BY AND BETWEEN

SCHMITT MEASUREMENT SYSTEMS, INC., a company organized and existing under the laws of the State of Oregon, U.S.A., having its registered office at 2765 NW Nicolai St., Portland, Oregon 97210, represented hereto by Mr. Wayne A. Case, acting in his capacity as President and Chairman of the board (hereinafter referred to as "SMS").

AND

SLOAN TECHNOLOGY INC. (DBA VEECO PROCESS METROLOGY), a company organized and existing under the laws of the State of California, U.S.A., having its registered office at 602 East Montecito Street, Santa Barbara, California 93013, represented hereto by Dr. Timothy Stultz, Vice-President and General Manager (hereinafter referred to as "Veeco").

WHEREAS

Veeco has committed to promote and sell the SMS products listed in Appendix (1) hereto to Customers in the Territory, under the terms and conditions herein set forth.

NOW THEREFORE IT HAS BEEN AGREED AS FOLLOWS:

ARTICLE 1 - DEFINITIONS

Whenever used in this Agreement, the following terms and expressions, whether used in the singular or in the plural, shall have the meaning set forth in the Article 1, except where the context clearly otherwise requires:

- - "Contractual Period" shall mean a period of twenty-four consecutive months starting from the date of entry into force of the Agreement or from any anniversary date of entry into force of this Agreement.

- - "Customers" shall mean those persons and entities comprising the micro-electronics markets, including, without limitations semi-conductor, device, materials and equipment manufacturers, data storage products, materials and equipment manufacturers, flat panel display products, materials and equipment manufacturers, and university and research laboratories engaged in the development, production and/or characterization of micro-electronic materials and devices.

- - "Products" shall mean the products listed in Appendix 1, attached hereto, which products are manufactured and/or sold by SMS.

- - "TERRITORY" SHALL MEAN THE TOTAL WORLD MICROELECTRONICS MARKETS FOR THE PRODUCTS.

- - "Trademarks" shall mean the trademark "SMS" and its associated logo as well as the trademarks registered by Veeco (or of its affiliated companies) in the Territory.

- - "Patents" shall mean issued and pending SMS Patents applicable to the products.

ARTICLE 2 - PURPOSE OF THIS AGREEMENT

2.1 SMS HEREBY APPOINTS VEECO AS ITS EXCLUSIVE DISTRIBUTOR FOR THE PROMOTION AND SALE OF THE PRODUCTS TO MICROELECTRONICS CUSTOMERS IN THE TERRITORY, UNDER THE TERMS AND CONDITIONS OF THIS AGREEMENT.

2.2 During the term of this Agreement, Veeco shall purchase the Products exclusively from SMS for the purpose of their exclusive resale by Veeco to Customers in the Territory. Veeco shall resell the Products purchased from SMS under the names of one or more of the Trademarks and Patents of SMS.

ARTICLE 3 - LEGAL STATUS

Veeco is an independent legal entity acting for its own account and at its own risk in its capacity as distributor. Its relationship with SMS is that of a purchaser and a seller. Nothing in this Agreement shall be construed as conferring upon Veeco any authority, express or implied, to bind or commit SMS to any third party in any way.

ARTICLE 4 - EXCLUSIVITY - NON COMPETITION

4.1 During the term of this Agreement, SMS undertakes not to appoint, directly or indirectly, any other distributor, agent or representative for the promotion or sale of the Products to Customers in the Territory. SMS also undertakes not to sell, directly or indirectly, the Products to the Customers in the Territory. Notwithstanding the foregoing, SMS may upon the written consent of Veeco, sell Products to Customers in the Territory provided that such Customers request that SMS sell Products to them in lieu of Veeco selling Products to them, in the event of such a sale, SMS shall pay to Veeco, as a commission, a sum to be agreed to by SMS and Veeco prior to the effectuation of any such sale but which shall not be less than ten percent (10%) of the gross sales price of the Products sold, such commission to be paid to Veeco upon SMS' receipt of the sale proceeds.

ARTICLE 5 - OBLIGATIONS OF VEECO

5.1 Veeco agrees to use reasonable efforts (i) to promote and sell the Products to customers in the Territory, (ii) to provide the customers in the Territory to whom Veeco sells the Products with reasonably diligent and efficient services, in particular after-sale services, and (iii) to purchase the agreed quantities of products as detailed in Appendix 3.

5.2 In order to carry out these responsibilities, Veeco, at its sole expense, agrees:

(I) to take all measures reasonably necessary to ensure the promotion, sale and service of the Products to Customers in the Territory;

(II) to treat its Customers and conduct its business activities with a view to maintaining and increasing the public goodwill and reputation attached to the Products and to the Trademarks;

(III) to distribute to prospective purchasers of the Products such commercial or technical catalogues, booklets, leaflets and other printed documentation as SMS may, at its own expense, supply to Veeco for such purpose;

(IV) to prepare, with the assistance of SMS, and distribute to potential Customers any other booklets or documentation which are reasonably necessary for the sale of the Products to Customers in the Territory;

(V) to participate, at its own expense, in fairs, exhibitions or other trade shows which are likely to promote the sale of the Products to Customers in the Territory;

(VI) to apply its general conditions of sale and warranty in compliance with the requirements of the laws, regulations and practices applicable to the sale of the Products to Customers in the Territory;

(VII) to ensure adequate after-sales service for the Products in the Territory by itself (or through any third party);

(VIII) to obtain all permits and authorizations required for the import of the Products in the Territory; and

(IX) to purchase and maintain all necessary insurance policies reasonably required in connection with the promotion and sale of the Products to Customers in the Territory;

(X) to provide SMS with a running 90 day advanced schedule of product models and quantities to be purchased by Veeco.

ARTICLE 6 - OBLIGATIONS OF SMS

6.1 SMS shall provide to Veeco, upon the request of Veeco, reasonable assistance in promoting the sale of the Products to Customers in the Territory. To this effect, SMS shall provide, at its offices, training to Veeco's personnel with respect to the specifications, promotion, sale and usage of the Products; the specifics of this training program shall be jointly defined and agreed to in advance between the parties. Traveling and living expenses incurred by Veeco for the training of its staff shall be borne by Veeco.

6.2 SMS shall furnish to Veeco, at no charge to Veeco, specifications, promotional material and other documentation relevant to the Products which are currently in its possession. SMS shall also furnish to Veeco at the prices set forth herein, demonstration units of the Products which are currently in its possession.

6.3 SMS shall ensure an adequate Product flow so that it is able to promptly deliver to Veeco Products ordered by Veeco hereunder.

6.4 SMS shall promptly deliver to Veeco all Products ordered by Veeco hereunder, in the condition warranted by SMS hereunder.

6.5 SMS shall produce all production products to ISO 9001 standards and have all such products CE certified.

6.6 SMS shall use its best efforts to respond to specific market requirements, as indicated by Veeco, to ensure adequate product availability to suit market needs with short lead times.

ARTICLE 7 - WARRANTY

7.1 SMS warrants to Veeco that each Product sold and delivered to Veeco shall be fit for the purpose intended, free from defects in material and workmanship, and be of the quality described in the Product specifications.

7.2 In the event Veeco receives notice from a purchaser of a Product, within twenty-four (24) months of the delivery of a Product to such purchaser, that the purchased Product fails to satisfy the warranty set forth in Section 7.1, Veeco shall make such product available for inspection by SMS and, within ten (10) days of such inspection, SMS shall at its own expense, either (I) correct the defect by repairing the Product or, at its option, (ii) replace the defective Product, and deliver the repaired or replaced Product to Veeco.

ARTICLE 8 - PRICES - METHODS OF PAYMENT

8.1 The discounted prices applicable to the sales of Products by SMS to Veeco shall be those appearing in Appendix 2, attached hereto.

8.2 The prices set forth in Appendix 2, both list and discounted, shall remain constant during the first Contractual Year. Such prices may be increased for subsequent Contractual Years upon the written agreement of SMS and Veeco.

8.3 All monies due to SMS from Veeco for purchased Products shall be paid within forty-five (45) days of the date of invoicing, and shall be paid in United States dollars.

8.4 Veeco shall sell the Products to Customers at the list prices listed on Appendix 2, unless otherwise agreed upon in writing by SMS and Veeco.

ARTICLE 9 - CHANGES IN THE PRODUCTS

9.1 SMS shall have the right to modify any of the Products provided, however, (i) the modification does not change the performance to the specifications of the Products, and (ii) SMS furnishes Veeco with three (3) months prior written notice of any such modification, or immediately with Veeco's agreement.

ARTICLE 10 - TRADEMARK/PATENTS - ASSISTANCE AGAINST UNFAIR COMPETITION AND INFRINGEMENT OF INTELLECTUAL PROPERTY RIGHTS

10.1 SMS hereby authorizes Veeco to use the Patents and Trademarks owned by it but only in connection with the promotion and sale of the Products pursuant to this Agreement and under the terms and conditions described in Article 10.2 hereafter.

10.2 Veeco agrees in particular:

- to use the Patents and Trademarks owned by SMS only in connection with the promotion and sale of the Products and the performance of this Agreement;

- to inform forthwith SMS of any Patent or Trademark infringement of which Veeco becomes aware of in the Territory;

- to cease and desist from using the Patents or Trademarks owned by SMS at the expiry or termination of this Agreement for any reason whatsoever.

10.3 Veeco shall inform SMS of any act of unfair competition, and of any infringement of the intellectual property rights of SMS, of which Veeco may be aware.

10.4 SMS represents and warrants that it is the sole owner of the Products and the intellectual property rights associated therewith, and that the Products do not infringe on intellectual property rights of third parties. SMS agrees to defend, indemnify and hold Veeco (and its affiliated companies) harmless with respect to any claims by others that the promotion and sale of any of the Products constitutes an act of unfair competition or infringes on the intellectual property rights of another.

10.5 SMS and Veeco shall together aggressively defend the Patents and Trademarks against those who are unfairly competing with the Products, or otherwise infringing on the intellectual property rights associated with the Products.

ARTICLE 11 - TERM

This agreement shall enter into force on its date of signature by both parties and shall remain in force for an initial period of two (2) Contractual Years. This Agreement shall be automatically renewed for an additional two years unless either party notifies the other party, by certified letter with return receipt requested, of its intention not to renew this Agreement six (6) months prior to the expiry of the current Contractual Year or any following Contractual Year.

ARTICLE 12 - EARLY TERMINATION

12.1 Either party shall have the right to terminate this Agreement by sending a ninety (90) day notice, by certified mail with return receipt requested, in the event that the other party fails to perform any of its material obligations under this Agreement, and has not ceased such failure within thirty (30) days after receipt of notice in writing to that effect from the first party, sent by certified letter with return receipt requested, without prejudice to any damages which might be claimed by the non-defaulting party.

12.2 Either party shall have the right to terminate forthwith this Agreement by sending a notice, by certified mail with return receipt requested, to the other party should this other party be subject to bankruptcy proceedings or to a reorganization plan with creditors (whether amicable or decided by the court), or in the event of appointment of a bankruptcy trustee, arrangement for the benefit of creditors, or should this other party be subject to winding-up or any other procedure evidencing the insolvency of this other party.

ARTICLE 13 - CONSEQUENCES OF EXPIRY OR EARLY TERMINATION

Upon expiry or termination of this Agreement as provided for in Articles 11 and 12 hereabove, SMS shall have the option:

(i) either to authorize Veeco to sell, on a non-exclusive basis, the remaining stock of Products in its possession for a limited period of time, to be defined by SMS and Veeco according to the magnitude of the remaining stock of Products at the time of expiry or termination, or

(ii) to repurchase all Products still existing in Veeco's stock and which were purchased by Veeco from SMS, at a price equivalent to the net price (all taxes excluded), paid to SMS by Veeco for such Products, less a 10% restocking charge.

ARTICLE 14 - TERMINATION OF EXCLUSIVITY

The exclusive nature of Veeco's right to promote and sell a Product to Customers in the Territory may be terminated by SMS in the event Veeco fails to purchase from SMS a minimum number of units of such Product, as set forth on Appendix 3, attached hereto. Any such termination may be effected by furnishing to Veeco ninety (90) days written notice thereof, to be sent by certified mail, return receipt requested. The termination of the exclusive nature of Veeco's right to promote and sell any one Product shall not affect the exclusive nature of Veeco's right to promote and sell other Products, which exclusive right shall continue unabated.

ARTICLE 15 - FORCE MAJEURE

Neither party hereto shall be in default hereunder by reason of its delay in the performance or failure to perform any of its obligations hereunder due to any event, circumstance or cause beyond its control such as, but not limited to, Acts of God, strikes, lock-out, acts or restrictions of governmental authorities, wars, threats of war, hostilities, shortage in the raw materials or means of transportation, revolution, riots, epidemics, fire, floods, all of which shall be considered as events of force majeure.

The party affected by any such event shall notify the other party within fifteen (15) days of its occurrence. The performance of this Agreement shall then be suspended for as long as any such event shall prevent the affected party from performing its obligations hereunder. If such suspension lasts more than three (3) months, either party may terminate forthwith this Agreement by sending a thirty (30) day written notice to this effect to the other party by certified letter with return receipt requested.

ARTICLE 16 - CONFIDENTIALITY

Each party agrees at any times, even after the expiry or termination of this Agreement, for any reason whatsoever, to keep and maintain secret and in strict confidence all proprietary information received from the other party under this Agreement and not to permit such proprietary information to be disclosed to third parties as long as this information is not in the public domain, except for the purpose of the promotion, sale and/or servicing of the Products as provided for in this Agreement. See the secrecy agreement singed by both Parties.

ARTICLE 17 - APPENDICES

The appendices to this Agreement form an integral part thereof. There are three (3) appendices.

ARTICLE 18 - NOTICES

Any notice required or permitted hereunder, made by any party to the other party, shall be in writing and sent by certified mail with return receipt requested at the addresses shown herein or at the last address notified by either party to the other.

ARTICLE 19 - ENTIRE AGREEMENT - MODIFICATIONS

This Agreement contains the entire agreement of the parties hereto relating to the subject matter hereof and supersedes all previous agreements between the parties pertaining to subject matters covered by this Agreement.

ARTICLE 20 - APPLICABLE LAW

This Agreement shall be governed by and interpreted in accordance with Oregon Law.

ARTICLE 21 - JURISDICTION

All disputes between the parties which may arise under this Agreement shall be submitted to the exclusive jurisdiction of the Courts of Oregon, even where there are multiple defendants or appeals.

Dated Portland, Oregon, February 23, 1998.

/s/ Wayne A. Case	/s/ Timothy Stultz
Wayne A. Case, President Schmitt Measurement Systems, Inc.	Dr. Timothy Stultz, Vice President Sloan Technology Inc. dba Veeco Process Metrology

Exclusive
Distribution Agreement
by and between
Schmitt Measurement Systems, Inc. and
Sloan Technology Inc. dba Veeco Process Metrology.

APPENDIX 1

PRODUCTS

SMS Light Scatter Surface Measurement Systems for application to the microelectronics markets.

TMS-2000
TMS-2000W
TMS-3000W
DTM-2000

It is understood and agreed between the parties that new products to service the microelectronics markets may be required and developed by SMS at Veeco's request. These products will be added to this agreement by mutual consent.

Exclusive
Distribution Agreement
by and between
Schmitt Measurement Systems, Inc. and
Sloan Technology, Inc. dba Veeco Process Metrology

APPENDIX 2

[The text of Appendix 2 has been deleted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.]

Exclusive
Distribution Agreement
by and between
Schmitt Measurement Systems, Inc. and
Sloan Technology, Inc. dba Veeco Process Metrology

APPENDIX 3

[The text of Appendix 3 has been deleted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.]

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM 10Q OF
FEBRUARY 28, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH
FINANCIAL STATEMENTS.

9-MOS
MAY-31-1998
JUN-01-1997
FEB-28-1998
890,089
213,440
1,435,699
0
3,887,751
6,810,811
2,516,330
642,114
9,364,027
816,076
0
0
0
5,058,406
3,489,545
9,364,027
8,259,736
8,259,736
3,862,310
3,862,310
3,097,249
0
22,252
1,485,794
334,000
0
0
0
0
1,151,794
16
15