

SMITH MIDLAND CORP
Form 10QSB
May 11, 2007

U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

Quarterly Report under Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the quarterly period ended	Commission File Number
<u>March</u> <u>31, 2007</u>	<u>1-13752</u>

SMITH-MIDLAND CORPORATION
(Exact Name of Small Business
Issuer as Specified in Its Charter)

<u>Delaware</u> (State of Incorporation)	<u>54-1727060</u> (I.R.S. Employer I.D. No.)
--	---

5119 Catlett Road, P.O. Box 300, Midland, Virginia 22728
(Address of Principal Executive Offices)

(540) 439-3266
(Issuer's Telephone Number, Including Area Code)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 11, 2007, the Company had outstanding 4,635,282 shares of Common Stock, \$.01 par value per share.

Transitional Small Business Disclosure Format: Yes ☐ No ☒

SMITH-MIDLAND CORPORATION

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PART I - Financial Information**Item 1. Financial Statements**

SMITH-MIDLAND CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

	March 31, 2007 Unaudited	December 31, 2006 Audited
Assets		
Current assets		
Cash	\$ 303,973	\$ 482,690
Accounts receivable		
Trade - billed (less allowance for doubtful accounts of \$291,600 and \$239,300)	6,384,257	5,417,475
Trade - unbilled	278,822	825,524
Inventories		
Raw materials	781,326	903,674
Finished goods	2,013,858	2,213,798
Prepaid expenses and other assets	286,131	516,442
Deferred Taxes	350,000	351,000
Total currents assets	10,398,367	10,710,603
Property and equipment, net	3,765,058	3,729,537
Other assets	241,038	214,703
Total assets	\$ 14,404,463	\$ 14,654,843
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable - trade	\$ 2,276,757	\$ 2,733,974
Accrued expenses and other liabilities	1,650,309	1,884,386
Current maturities of notes payable	384,483	677,022
Customer deposits	974,995	614,127
Total current liabilities	5,286,544	5,909,509
Notes payable - less current maturities	3,873,182	3,918,041
Deferred taxes	221,000	221,000
Total liabilities	9,380,726	10,048,550
Stockholders' equity		
Preferred stock, \$.01 par value; authorized 1,000,000 shares, none outstanding	--	--
Common stock, \$.01 par value; authorized 8,000,000 shares; 4,635,282 and 4,634,615 issued and outstanding, respectively	46,353	46,346

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Additional paid-in capital	4,439,572	4,415,363
Retained earnings	640,112	246,884
Treasury stock, at cost, 40,920 shares	(102,300)	(102,300)
Total stockholders' equity	5,023,737	4,606,293
Total liabilities and stockholders' equity	\$ 14,404,463	\$ 14,654,843

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

SMITH-MIDLAND CORPORATION AND SUBSIDIARIES
Consolidated Statements of Income
(Unaudited)

	Three Months Ended March 31,	
	2007	2006
Revenue		
Product sales and leasing	\$ 6,871,420	\$ 5,188,175
Shipping and installation revenue	1,313,765	1,533,324
Royalties	304,477	275,669
Total Revenue	8,489,662	6,997,168
Cost of goods sold	6,298,599	5,508,381
Gross profit	2,191,063	1,488,787
Operating expenses:		
General and administrative expenses	977,138	615,949
Selling expenses	466,064	449,154
Total operating expenses	1,443,202	1,065,103
Operating income	747,861	423,684
Other income (expense):		
Interest expense	(110,299)	(94,866)
Interest income	3,100	8,164
Gain (Loss) on sale of fixed assets	(1,002)	0
Other, net	(432)	(1,853)
Total other income (expense)	(108,633)	(88,555)
Income before income tax expense	639,228	335,129
Income tax expense	246,000	127,000
Net income	\$ 393,228	\$ 208,129
Basic earnings per share	\$.09	\$.05
Diluted earnings per share	\$.08	\$.04

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

SMITH-MIDLAND CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

	Three months ended March 31,	
	2007	2006
Cash flows from operating activities:		
Cash received from customers	\$ 8,340,449	\$ 5,515,678
Cash paid to suppliers and employees	(8,053,173)	(5,640,069)
Income taxes paid, net	(9,926)	(304,735)
Interest paid	(110,299)	(94,866)
Other	176,472	108,786
Net cash provided (absorbed) by operating activities	343,523	(415,206)
Cash flows from investing activities:		
Purchases of property and equipment	(190,158)	(122,980)
Proceeds from sale of fixed assets	4,764	0
Net cash absorbed by investing activities	(185,394)	(122,980)
Cash flows from financing activities:		
Repayments on line of credit borrowings, net	(250,000)	--
Proceeds from long-term borrowings	46,125	48,097
Repayments of long-term borrowings	(133,524)	(109,895)
Proceeds from options exercised	553	10,545
Net cash absorbed by financing activities	(336,846)	(51,253)
Net increase (decrease) in cash and cash equivalents	(178,717)	(589,439)
Cash and cash equivalents at beginning of period	482,690	1,003,790
Cash and cash equivalents at end of period	\$ 303,973	\$ 414,351
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 393,228	\$ 208,129
Adjustments to reconcile net income to net cash provided (absorbed) by operating activities:		
Depreciation and amortization	150,434	102,475
Loss (Gain) on sale/disposal of fixed assets	1,002	--
Expenses (net) related to pay down on officer note receivable	--	29,909
Deferred taxes	1,000	22,000
Stock option compensation expense	23,662	15,389
Decrease (increase) in:		
Accounts receivable - billed	(966,782)	(1,197,900)
Accounts receivable - unbilled	546,702	(301,236)
Inventories	322,288	(149,652)
Prepaid expenses and other	202,415	(31,889)
Increase (decrease) in:		
Accounts payable - trade	(457,217)	1,036,927

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Accrued expenses and other liabilities	(234,077)	32,731
Accrued income taxes payable	--	(199,735)
Customer deposits	360,868	17,646
Net cash provided (absorbed) by operating activities	\$ 343,523	\$ (415,206)

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

SMITH-MIDLAND CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2007

(Unaudited)

Basis of Presentation

As permitted by the rules of the Securities and Exchange Commission applicable to quarterly reports on Form 10-QSB, these notes are condensed and do not contain all disclosures required by generally accepted accounting principles. Reference should be made to the consolidated financial statements and related notes included in Smith-Midland Corporation's Annual Report on Form 10-KSB for the year ended December 31, 2006.

In the opinion of the management of Smith-Midland Corporation (the "Company"), the accompanying consolidated financial statements reflect all adjustments of a normal recurring nature, which were necessary for a fair presentation of the Company's results of operations for the three months ended March 31, 2007 and 2006.

The results disclosed in the consolidated statements of income are not necessarily indicative of the results to be expected for any future periods.

In June 2006, the Company entered into a non-binding letter of intent to purchase a manufacturing facility in Columbia, South Carolina and, pursuant to a month to month operating and rental agreement, began operating the plant, on an interim basis, while completing the due diligence and acquisition activities. For the period from July 1, 2006 to December 31, 2006, the Company reported a pre-tax net loss on operations for the Columbia plant of \$362,930. On March 14, 2007, the Company terminated the agreement and ended negotiations to purchase the facility. As a result of this decision, the Company recorded a pre-tax loss of \$613,374 in 2006, which included the loss from operations and expensing capitalized acquisition related costs and other costs incurred for the potential acquisition. The Company recognized additional losses of \$61,000 in the first quarter of 2007 related to operations during the period and termination of the agreement.

Principles of Consolidation

The Company's accompanying consolidated financial statements include the accounts of Smith-Midland Corporation, a Delaware corporation, and its wholly owned subsidiaries: Smith-Midland Corporation, a Virginia corporation; Easi-Set Industries, Inc., a Virginia corporation; Smith-Carolina Corporation, a North Carolina corporation; Smith-Columbia Corporation, a South Carolina corporation; Concrete Safety Systems, Inc., a Virginia corporation; and Midland Advertising & Design, Inc., a Virginia corporation. All significant inter-company accounts and transactions have been eliminated in consolidation.

Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the 2007 presentation.

Inventories

Inventories are stated at the lower of cost or market, using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment, net is stated at depreciated cost. Expenditures for ordinary maintenance and repairs are charged to expense as incurred. Costs of betterments, renewals, and major replacements are capitalized. At the time properties are retired or otherwise disposed of, the related cost and allowance for depreciation are eliminated from the accounts and any gain or loss on disposition is reflected in income.

Depreciation is computed using the straight-line method over the following estimated useful lives:

	Years
Buildings	10-33
Trucks and automotive equipment	3-10
Shop machinery and equipment	3-10
Land improvements	10-15
Office equipment	3-10

Income Taxes

The provision for income taxes is based on earnings reported in the financial statements. A deferred income tax asset or liability is determined by applying currently enacted tax laws and rates to the expected reversal of the cumulative temporary differences between the carrying value of assets and liabilities for financial statement and income tax purposes. Deferred income tax expense is measured by the change in the deferred income tax asset or liability during the year.

The current provision for federal income taxes for the three-month period ending March 31, 2007 consists of alternative minimum tax due to utilization of the net operating loss carry forwards, which were approximately \$130,000 as of December 31, 2006.

The Company adopted the provisions of FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48") effective January 1, 2007. FIN 48 provides a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The Company did not have any unrecognized tax benefits and there was no effect on our financial condition or results of operations as a result of implementing FIN 48.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company is no longer subject to U.S. or state tax examinations for years before 2002. The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

Revenue Recognition

The Company primarily recognizes revenue on the sale of its standard precast concrete products at shipment date, including revenue derived from any projects to be completed under short-term contracts. Installation services for precast concrete products, leasing and royalties are recognized as revenue as they are earned on an accrual basis. Licensing fees are recognized under the accrual method unless collectibility is in doubt, in which event revenue is recognized as cash is received. Certain sales of Soundwall, architectural precast panels and Slenderwall™ concrete products are recognized upon completion of production and customer site inspections. Provisions for estimated losses on contracts are made in the period in which such losses are determined.

Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Earnings Per Share

Basic earnings per share are computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilutive effect of securities that could share in earnings of an entity. Earnings per share was calculated as follows:

	Three months ended March 31,	
	2007	2006
Net income	\$ 393,228	\$ 208,129
Average shares outstanding for basic earnings per share	4,635,253	4,612,731
Dilutive effect of stock options and warrants	160,187	248,244
Average Shares Outstanding for Diluted Earnings per Share	4,795,440	4,860,974
Basic earnings per share	\$.09	\$.05
Diluted earnings per share	\$.08	\$.04

Stock Options

In accordance with SFAS 123R, stock option expense for the three months ended March 31, 2007 and 2006 was \$23,662 and \$15,389, respectively. The Company currently utilizes the Black-Scholes option pricing model to measure the fair value of stock options granted to employees. The Company expects to continue using the Black-Scholes option pricing model in connection with its adoption of SFAS 123R to measure the fair value of stock options. The fair value of options granted in 2006 was estimated at grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	4.42%
Dividend yield	0%
Volatility factor	84%
	6.0
Weighted average expected life	years

The following table summarizes options outstanding:

	Three months Ended March 31, 2007	
	Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	511,424	\$ 1.49
Granted	--	--
Forfeited	--	--
Exercised	(667)	\$.83
Options outstanding at end of period	510,757	\$ 1.49
Options exercisable at end of period	353,482	\$ 1.10

Item 2. Management's Discussion and Analysis or Plan of Operation

General

The Company generates revenues primarily from the sale, licensing, leasing, shipping and installation of precast concrete products for the construction, utility and farming industries. The Company's operating strategy has involved producing innovative and proprietary products, including Slenderwall™, a patented, lightweight, energy efficient concrete and steel exterior wall panel for use in building construction; J-J Hooks™ Highway Safety Barrier, a patented, positive-connected highway safety barrier; Sierra Wall, a sound barrier primarily for roadside use; and Easi-Set® transportable concrete buildings. In addition, the Company produces custom order precast concrete products with various architectural surfaces, typically used in commercial building construction, as well as utility vaults, farm products such as cattle guards, and water and feed troughs.

This Form 10-QSB contains forward-looking statements, which involve risks and uncertainties. The Company's actual results may differ significantly from the results discussed in the forward-looking statements and the results for the three months ended March 31, 2007 are not necessarily indicative of the results for the Company's operations for the year ending December 31, 2007. Factors that might cause such a difference include, but are not limited to, product demand, the impact of competitive products and pricing, capacity and supply constraints or difficulties, general business and economic conditions, the effect of the Company's accounting policies and other risks detailed in the Company's Annual Report on Form 10-KSB and other filings with the Securities and Exchange Commission.

In June 2006, the Company entered into a non-binding letter of intent to purchase a manufacturing facility in Columbia, South Carolina and, pursuant to a month to month operating and rental agreement, began operating the plant, on an interim basis, while completing the due diligence and acquisition activities. For the period from July 1, 2006 to December 31, 2006, the Company reported a pre-tax net loss on operations for the Columbia plant of \$362,930. On March 14, 2007, the Company terminated the agreement and ended negotiations to purchase the facility. As a result of this decision, the Company recorded a pre-tax loss of \$613,374 in 2006, which included the loss from operations and expensing capitalized acquisition related costs and other costs incurred for the potential acquisition. The Company recognized additional losses of \$61,000 in the first quarter of 2007 related to operations during the period and termination of the agreement.

Results of Operations

Three months ended March 31, 2007 compared to the three months ended March 31, 2006

For the three months ended March 31, 2007, the Company had total revenue of \$8,489,662 compared to total revenue of \$6,997,168 for the three months ended March 31, 2006, an increase of \$1,492,494, or 21%. Total product sales were \$6,871,420 for the three months ended March 31, 2007 compared to \$5,188,175 for the same period in 2006, an increase of \$1,683,245, or 32%. The increase related primarily to increased production and revenues from the utility and highway safety barrier product categories, which accounted for approximately \$1,282,000 of the increase. The Slenderwall™ and architectural product line revenues increased 5.3%, or \$131,096, as compared to prior year. Revenue from Columbia operations was \$304,304 for the three months ended March 31, 2007. Shipping and installation revenue was \$1,313,765 for the three months ended March 31, 2007 compared to \$1,533,324 for the same period in 2006, a decrease of \$219,559, or 14%. The decrease was primarily related to the decreased installation activity related to the Slenderwall™ and architectural product lines. Normal shipping and installation activity is highly cyclical in nature and fluctuates based on our customers' schedules. Royalty revenue was \$304,477 for the three months ended March 31, 2007 compared to \$275,669 for the same period in 2006, an increase of \$28,808, or 11%. The increase was due primarily to increased barrier production and initial royalty revenues from a new Slenderwall™ licensee. The Company expects these increased royalty revenues to continue through the end of 2007. The new Slenderwall™ licensee started producing its first Slenderwall™ project in 2006 and has two other projects in its backlog expected to be produced through the end of the second quarter 2007.

Total cost of goods sold for the three months ended March 31, 2007 was \$6,298,599, an increase of \$790,218, or 14%, from \$5,508,381 for the three months ended March 31, 2006. Cost of goods sold as a percentage of total revenue decreased from 79% for the three months ended March 31, 2006 to 74% for the three months ended March 31, 2007. The decrease was due to improved raw materials pricing combined with decreases in fuel-related costs and fuel surcharges. Decreased labor costs due to better management of overtime also contributed to the improvement. Cost of sales for the Columbia operations was \$295,403 for the three months ended March 31, 2007. Also, included in cost of goods sold were shipping and installation expenses of \$1,180,663 for the three months ended March 31, 2007 and \$1,432,268 for the same period in 2006, a decrease of \$251,605, or 18%. The decrease related mostly to decreased shipping and installation activity combined with improved management of these service lines.

For the three months ended March 31, 2007, the Company's general and administrative expenses increased \$361,189, or 59%, to \$977,138 from \$615,949 during the same period in 2006. The increase was primarily due to increased insurance costs, depreciation, audit fees, bad debt expense, and use taxes, resulting from increased Slenderwall and architectural production volume. General and administrative expense from Columbia operations of \$69,138 also contributed to the increase.

Selling expenses for the three months ended March 31, 2007 increased \$16,910, or 4%, to \$466,064 from \$449,154 for the three months ended March 31, 2006, primarily due to the hiring of a new Beach Prism™ salesperson and management's decision to apply more resources to selling activities. Sales commissions also increased in relation to increased revenues.

The Company had operating income of \$747,861 for the three months ended March 31, 2007 compared to operating income of \$423,684 for the three months ended March 31, 2006, an increase of \$324,177, or 77%. The increased operating income was primarily the result of higher revenues and production, while labor and overhead costs remained flat. The Columbia operations had an operating loss of \$61,288 for the three months ended March 31, 2007, which reduced operating income for the period.

Interest expense was \$110,299 for the three months ended March 31, 2007, compared to \$94,866 for the three months ended March 31, 2006. The increase of \$15,433, or 16%, was due primarily to higher market interest rates in 2007 and new loans added over the past 12 months.

The Company had net income of \$393,228 for the three months ended March 31, 2007, compared to net income of \$208,129 for the same period in 2006. The basic and diluted net income per share for the current three-month period were \$.09 and \$.08, respectively, compared to basic and diluted net income per share of \$.05 and \$.04, respectively, for the three months ended March 31, 2006.

Liquidity and Capital Resources

The Company has financed its capital expenditures, operating requirements and growth to date primarily with proceeds from operations and bank and other borrowings. The Company had \$4,257,665 of debt obligations at March 31, 2007, of which \$384,483 was scheduled to mature within twelve months. The Company also has a \$1,500,000 line of credit, under which there was no outstanding balance at March 31, 2007. The line of credit is evidenced by a commercial revolving promissory note, which carries a variable interest rate of prime and matures on June 15, 2007.

At March 31, 2007, the Company had cash totaling \$303,973 compared to cash totaling \$482,690 at December 31, 2006. During the period, financing activities absorbed \$336,846 (net) and the Company used \$185,394 in its investing activities, primarily for the purchase of new equipment and real estate directly adjacent to its North Carolina manufacturing plant. The Company's operating activities provided cash of \$343,523 (net), primarily due to increased profitability and decreases in inventory levels during the period.

Capital spending totaled \$190,158 for the three months ended March 31, 2007 versus \$122,980 in the comparable period of the prior year, mainly because of routine equipment replacements, plant modernization, and the purchase of real estate located directly adjacent to the North Carolina plant. The Company plans to make additional capital expenditures for routine equipment replacement, productivity improvements and plant upgrades, which are planned through 2007 based on the achievement of operating goals and the availability of funds.

As a result of the Company's existing debt burden, the Company is especially sensitive to changes in the prevailing interest rates. Increases in such interest rates may materially and adversely affect the Company's ability to finance its operations either by increasing the Company's cost to service its current debt, or by creating a more burdensome refinancing environment.

The Company's cash flow from operations is affected by production schedules set by contractors, which generally provide for payment 35 to 75 days after the products are produced. This payment schedule has resulted in liquidity problems for the Company because it must bear the cost of production for its products before it receives payment. Although no assurance can be given, the Company believes that anticipated cash flow from operations with adequate project management on jobs would be sufficient to finance the Company's operations for at least the next 12 months.

Significant Accounting Policies and Estimates

The Company's significant accounting policies are more fully described in its Summary of Accounting Policies to the Company's annual consolidated financial statements. The preparation of financial statements in conformity with accounting principles generally accepted within the United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying financial statements and related notes. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Company does not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below, however, application of these accounting policies involves the exercise of judgment and the use of assumptions as to future uncertainties and as a result, actual results could differ from these estimates.

The Company evaluates the adequacy of its allowance for doubtful accounts at the end of each quarter. In performing this evaluation, the Company analyzes the payment history of its significant past due accounts, subsequent cash collections on these accounts and comparative accounts receivable aging statistics. Based on this information, along with consideration of the general strength of the economy, the Company develops what it considers to be a reasonable estimate of the uncollectible amounts included in accounts receivable. This estimate involves significant judgment by the management of the Company. Actual uncollectible amounts may differ from the Company's estimate.

The Company recognizes revenue on the sale of its standard precast concrete products at shipment date, including revenue derived from any projects to be completed under short-term contracts. Installation services for precast concrete products, leasing and royalties are recognized as revenue as they are earned on an accrual basis. Licensing fees are recognized under the accrual method unless collectibility is in doubt, in which event revenue is recognized as cash is received. Certain sales of Soundwall and Slenderwall™ concrete products are recognized upon completion of units produced under long-term contracts. When necessary, provisions for estimated losses on these contracts are made in the period in which such losses are determined. Changes in job performance, conditions and contract settlements that affect profit are recognized in the period in which the changes occur. Unbilled trade accounts receivable represents revenue earned on units produced and not yet billed.

Other Comments

As of May 6, 2007, the Company's unaudited production backlog was approximately \$11,600,000 as compared to approximately \$14,900,000 at the same time in 2006. Selling and bidding activity, as well as the economic condition of the construction industry in our service areas remains strong. Management is continuing with its aggressive marketing and advertising initiatives and no changes are expected in the near future. The majority of the projects relating to the backlog as of May 6, 2007 are scheduled to be produced and erected in the remainder of 2007 and through the first quarter of 2008. The Company continues to see significant demand for its Slenderwall™ and architectural product lines. Also, due to the lighter weight characteristics of the Slenderwall™, the Company has been able to considerably expand its service area into regions that previously could not be reached economically in the past.

The Company also enjoys a regularly occurring repeat customer business, which should be considered in addition to the ordered production backlog described above. These orders typically have a quick turn around and represent purchases of a significant portion of the Company's inventoried standard products, such as highway safety barrier, utility and Easi-Set® building products. Historically, this regularly occurring repeat customer business is equal to approximately \$7 million annually.

However, the risk still exist that these improved economic conditions may not continue and future sales levels may be adversely affected. To mitigate these economic and other risks the Company has historically been a leader in innovation and new product development in the industry. In continuing this trend, the Company has ramped up development, marketing and sales efforts for two new products for the industry:

First, the Company completed research and development and a patent application was submitted to the US Patent Office for H2Out™, the first "in the caulk joint" secondary drainage and street level leak detection product for panelized exterior cladding. A second line of caulking and drainage strip located behind the exterior line of caulking exits all water leakage to the exterior of the building preventing moisture and mold, and hence deterring lawsuits from tenants and owners of buildings. H2Out™ is currently ready for production and implementation and the Company has received many inquiries for this new innovative product.

Second, the Company has begun production and launched full-scale advertising and promotional efforts for its newest product, Beach Prisms™, a shoreline erosion control product that uses the preferred natural "soft" approach as opposed to the "hard" approach of seawalls and jetties, to solve this worldwide problem. This product is expected to provide a higher margin than many of the Company's other products lines. Beach Prisms™ are also available for production at all Easi-Set® licensees.

The Company is also in the process of opening an Engineering Office in the Philippines. This new office will ultimately provide engineering, drafting and design services for all subsidiaries of the Company and its licensees. Once the office is fully operational, the lower cost of this off-shore engineering office is expected to contribute to the profitability of the Company.

Management believes that the Company's operations have not been materially affected by inflation.

Item 3. Controls and Procedures

Our principal executive and financial officers have concluded, based on their evaluation as of the end of the period covered by this Form 10-QSB, that our disclosure controls and procedures under Rule 13a-15 of the Securities Exchange Act of 1934 are effective to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2007 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

The Company's independent auditors advised management of deficiencies with respect to the documentation of job costs and the ability to identify on an on-going manner, the amount of profit or loss to be recognized on long-term contracts. New accounting software, installed in January of 2006, provides the Company with improved monitoring and accounting for actual versus estimated costs for subcontracted activities. The Company is also researching additional software and hardware options to provide improved accounting for direct labor by project.

PART II - Other Information

Item 1. Legal Proceedings.

The Company is not presently involved in any litigation of a material nature.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. None.

Item 3. Defaults Upon Senior Securities. None.

Item 4. Submission of Matters to a Vote of Security Holders. None.

Item 5. Other Information. None.

Item 6. Exhibits.

The following exhibits are filed herewith:

Exhibit No.

- | | |
|------|--|
| 31.1 | Section 302 Certification of Chief Executive Officer |
| 31.2 | Section 302 Certification of Chief Financial Officer |
| 32.1 | Section 906 Certification of Chief Executive Officer |
| 32.2 | Section 906 Certification of Chief Financial Officer |

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SMITH-MIDLAND CORPORATION

Date: By: /s/ Rodney I.
May 11, Smith
2007

Rodney I. Smith
Chairman of the
Board,
Chief Executive
Officer and
President
(Principal Executive
Officer)

Date: By: /s/ Lawrence R.
May 11, Crews
2007

Lawrence R. Crews
Chief Financial
Officer
(Principal Financial
Officer)