SMITH MIDLAND CORP
Form 10-Q
May 15, 2014

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

FORM 10-Q

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

For the quarterly period ended March 31, 2014

or

o 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 1-13752

Smith-Midland Corporation
(Exact name of Registrant as specified in its charter)

Delaware	54-1727060
(State or other jurisdiction of of incorporation or organization)	(I.R.S. Employer Identification No.)

5119 Catlett Road, P.O. Box 300
Midland, VA 22728
(Address, zip code of principal executive offices)

(540) 439-3266
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o

Non-accelerated filer o Smaller reporting company þ

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $.01 par value, outstanding as of May 5, 2014 : 4,840,628 shares, net of treasury shares

SMITH-MIDLAND CORPORATION

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PART I — FINANCIAL INFORMATION

ITEM 1. Financial Statements

SMITH-MIDLAND CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS	March 31, 2014	December 31, 2013
Current assets		
Cash and cash equivalents	$2,883,832	$3,136,063
Investment securities, available-for-sale, at fair value	952,068	915,341
Accounts receivable, net		
Trade - billed (less allowance for doubtful accounts of $271,737 and $285,305)	6,303,768	7,296,792
Trade - unbilled	277,918	41,859
Inventories		
Raw materials	614,013	861,129
Finished goods	1,250,663	1,078,349
Prepaid expenses and other assets	155,885	231,365
Refundable income taxes	376,852	—
Deferred taxes	433,000	475,000
Total current assets	13,247,999	14,035,898
Property and equipment, net	4,311,670	4,322,995
Other assets	276,026	297,915
Total assets	$17,835,695	$18,656,808

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

SMITH-MIDLAND CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 2014	December 31, 2013
Current liabilities		
Accounts payable - trade	$1,405,931	$1,517,625
Accrued expenses and other liabilities	1,113,829	1,331,675
Income taxes payable	—	302,263
Current maturities of notes payable	375,411	364,204
Customer deposits	729,529	547,789
Total current liabilities	3,624,700	4,063,556
Notes payable - less current maturities	2,496,206	2,544,809
Deferred tax liability	608,000	630,000
Total liabilities	6,728,906	7,238,365
Commitments and contingencies	—	—
Stockholders’ equity		
Preferred stock, $.01 par value; authorized 1,000,000 shares, none outstanding	—	—
Common stock, $.01 par value; authorized 8,000,000 shares; 4,881,548 issued and outstanding	48,815	48,815
Additional paid-in capital	5,041,438	5,041,438
Accumulated other comprehensive loss, net	(24,132)	(41,014)
Retained earnings	6,142,968	6,471,504
	11,209,089	11,520,743
Treasury stock, at cost, 40,920 shares	(102,300)	(102,300)
Total stockholders’ equity	11,106,789	11,418,443
Total liabilities and stockholders' equity	$17,835,695	$18,656,808

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

SMITH-MIDLAND CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Revenue		
Products sales and leasing	$4,070,338	$5,859,381
Shipping and installation revenue	1,114,904	706,804
Royalties	452,166	327,450
Total revenue	5,637,408	6,893,635
Cost of goods sold	4,907,402	5,077,872
Gross profit	730,006	1,815,763
Operating expenses		
General and administrative expenses	769,071	629,753
Selling expenses	539,480	660,899
Total operating expenses	1,308,551	1,290,652
Gain on sale of assets	11,977	7,157
Other income (expense)	30,077	20,101
Operating income (loss)	(536,491)	552,369
Interest income (expense)		
Interest expense	(28,757)	(32,378)
Interest income	5,712	1,080
Total other expense	(23,045)	(31,298)
Income (loss) before income tax expense (benefit)	(559,536)	521,071
Income tax expense (benefit)	(231,000)	212,000
Net income (loss)	$(328,536)	$309,071
Basic earnings (loss) per share	$(0.07)	$0.06
Diluted earnings (loss) per share	$(0.07)	$0.06
Weighted average number of common shares outstanding:		
Basic	4,881,548	4,826,182
Diluted	4,881,548	4,898,348

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

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SMITH-MIDLAND CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Net income (loss)	$(328,536)	$309,071
Other comprehensive gain (loss), net of tax:		
Net unrealized holding gain (loss) (1)	18,662	(6,378)
Comprehensive income (loss)	$(309,874)	$302,693

(1) Unrealized gains (losses) on available for sale securities are shown net of income tax expense of $16,000 for March 31, 2014 and an income tax benefit of $5,000 for March 31, 2013.

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

SMITH-MIDLAND CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Reconciliation of net income to cash provided by operating activities		
Net income (loss)	$(328,536)	$309,071
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	151,319	159,844
Gain on disposal of fixed assets	(11,977)	(7,157)
Deferred taxes	20,000	11,000
(Increase) decrease in:		
Accounts receivable - billed	993,024	(1,115,048)
Accounts receivable - unbilled	(236,059)	15,748
Inventories	74,801	125,422
Prepaid expenses and other assets	(376,852)	124,617
Prepaid income taxes	97,370	—
Increase (decrease) in:		
Accounts payable - trade	(111,693)	42,813
Accrued expenses and other	(217,846)	(242,980)
Accrued income taxes payable	(302,263)	189,602
Customer deposits	181,740	81,815
Net cash absorbed by operating activities	(66,972)	(305,253)
Cash flows from investing activities:		
Purchases of investment securities available-for-sale	(21,010)	(1,998,922)
Purchases of property and equipment	(139,994)	(112,668)
Proceeds from sale of fixed assets	13,141	7,144
Net cash absorbed by investing activities	(147,863)	(2,104,446)
Cash flows from financing activities:		
Proceeds from long-term borrowings	55,159	42,814
Repayments of long-term borrowings	(92,555)	(86,023)
Net cash absorbed by financing activities	(37,396)	(43,209)
Net decrease in cash and cash equivalents	(252,231)	(2,452,908)
Cash and cash equivalents		
Beginning of period	3,136,063	4,367,474
End of period	$2,883,832	$1,914,566

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

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SMITH-MIDLAND CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. – INTERIM FINANCIAL REPORTING

Basis of Presentation

The accompanying condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, we have condensed or omitted certain information and footnote disclosures that are included in our annual financial statements. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2013. The December 31, 2013 balance sheet was derived from audited financial statements included in the Form 10-K.

In the opinion of management, these condensed consolidated financial statements reflect all adjustments (which consist of normal, recurring adjustments) necessary for a fair presentation of the financial position and results of operations and cash flows for the periods presented.The results disclosed in the condensed consolidated statements of operations are not necessarily indicative of the results to be expected in any future periods.

Reclassifications

Certain minor reclassifications have been made in prior year amounts to conform to the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Smith-Midland Corporation (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 of the Company’s standard products is typically performed by the customer; however, in some circumstances, the Company will install certain products which are accomplished at the time of delivery. The installation activities of smaller buildings are usually performed at the Company's site and shipped completed to the customers site. In larger utility building sales, the buildings are erected on the customers site within one or two days, depending on style and size.

Leasing fees are paid at the beginning of the lease agreement and recorded to a deferred revenue account. As the revenue is earned each month during the contract, the amount earned is recorded as lease income and an equivalent amount is debited to deferred revenue.

Royalties are recognized as revenue as they are earned. The Company licenses certain other precast companies to produce its licensed products to our engineering specifications under licensing agreements. The agreements are typically for five year terms and require royalty payments from 4% to 6% which are paid on a monthly basis. The

revenue from licensing agreements is recognized in the month earned.

With respect to certain sales of Soundwall panels, architectural precast panels and Slenderwall™ precast panels, revenue is recognized using the percentage of completion method for recording revenues on long term contracts pursuant to ASC 605-35-25. The contracts are executed by both parties and clearly stipulate the requirements for progress payments and a schedule of delivery dates. Provisions for estimated losses on contracts are made in the period in which such losses are determined.

Shipping revenues are recognized in the period the shipping services are provided to the customer.

Smith-Midland products are typically sold pursuant to an implicit warranty as to merchantability only. Warranty claims are reviewed and resolved on a case by case method. Although the Company does incur costs for these types of expense, historically the amount of expense is immaterial.

Investments

Investments in marketable securities are classified as available-for-sale and are stated at market value with unrealized holding gains and losses excluded from earnings and reported as a separate component of stockholders' equity until realized.

NOTE 2. – NET INCOME PER COMMON SHARE

Basic earnings per common share exclude all dilutive stock options and are computed using the weighted average number of common shares outstanding during the period. The diluted earnings per common share calculation reflect the potential dilutive effect of securities that could share in earnings of an entity. Outstanding options were excluded from the diluted earnings per share calculation because they would have an anti-dilutive effect were 364,599 for the three months ended March 31, 2014 and 254,166 for the three months ended March 31, 2013.

	Three Months Ended March, 31	
	2014	2013
Basic earnings (loss) per share		
Income (loss) available to common shareholders	$(328,536)	$309,071
Weighted average shares outstanding	4,881,548	4,826,182
Basic earnings (loss) per share	$(0.07)	$0.06
Diluted earnings (loss) per share		
Income (loss) available to common shareholders	$(328,536)	$309,071
Weighted average shares outstanding	4,881,548	4,826,182
Dilutive effect of stock options	—	72,166
Total weighted average shares outstanding	4,881,548	4,898,348
Diluted earnings (loss) per share	$(0.07)	$0.06

NOTE 3. – STOCK OPTIONS

In accordance with ASC 718, the Company had no stock option expense for the three months ended March 31, 2014. The Company uses the Black-Scholes option-pricing model to measure the fair value of stock options granted to employees. The Company did not issue any stock options for the three months ended March 31, 2014.

The following table summarized options outstanding at March 31, 2014

	Number of Shares	Weighted Average Exercise Price
Balance, March 31, 2014	370,599	$1.96
Granted	—	—
Forfeited	6,000	0.83
Exercised	—	—
Outstanding options at end of quarter	364,599	$1.98
Outstanding exercisable options at end of quarter	364,599	$1.98

The intrinsic value of outstanding and exercisable options at March 31, 2014 was approximately $155,000.

NOTE 4. – SUBSEQUENT EVENTS

Through the date of the filing of this Form 10-Q, the Company has evaluated events and transactions occurring subsequent to March 31, 2014 and has determined that there have been no significant events or transactions that provide additional evidence about conditions of the Company that existed as of the balance sheet date.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report and related documents include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act 1934. Forward-looking statements involve known and unknown risks, uncertainties and other factors which could cause the Company's actual results, performance (financial or operating) or achievements expressed or implied by such forward looking statements not to occur or be realized. Such forward looking statements generally are based upon the Company's best estimates of future results, performance or achievement, based upon current conditions and the most recent results of operations. Forward-looking statements may be identified by the use of forward-looking terminology such as "may," "will," "expect," "believe," "estimate," "anticipate," "continue," or similar terms, variations of those terms or the negative of th terms. Potential risks and uncertainties include, among other things, such factors as:

- no assurance of profitable operations; in this respect, the Company reported a net loss for the first quarter of 2014, it incurred losses for the second quarter of 2013, the fourth quarter of 2012 and for the year ended December 31, 2011,
- while our debt level is decreasing, the ability to satisfy the same cannot be assured,
- the continued availability of financing in the amounts, at the times, and on the terms required, to support our future business and capital projects,
- the extent to which we are successful in developing, acquiring, licensing or securing patents for proprietary products,
- changes in economic conditions specific to any one or more of our markets (including the availability of public funds and grants for construction),

- changes in general economic conditions, such as the current weakness in construction in the Company's primary service area,

- adverse weather, such as occurred in the first quarter of 2014, which inhibits the demand for our products,

- our compliance with governmental regulations,
- the outcome of future litigation,
- on material construction projects, our ability to produce and install product that conforms to contract specifications and in a time frame that meets the contract requirements,
- the cyclical nature of the construction industry,
- our exposure to increased interest expense payments should interest rates change,
- the Company's Board of Directors, which is composed of five members, has only two outside, independent directors, and
- the other factors and information disclosed and discussed in other sections of this Report, and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Investors and shareholders should carefully consider such risks, uncertainties and other information, disclosures and discussions which contain cautionary statements identifying important factors that could cause actual results to differ materially from those provided in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

The Company invents, develops, manufactures, markets, leases, licenses, sells, and installs a broad array of precast concrete products for use primarily in the construction, utilities and farming industries. The Company's customers are primarily general contractors and federal, state, and local transportation authorities located in the Mid-Atlantic, Northeastern, and Midwestern regions of the United States. The Company's operating strategy has involved producing innovative and proprietary products, including Slenderwall™, a patented, lightweight, energy efficient concrete and steel exterior insulated wall panel for use in building construction; J-J Hooks® Highway Safety Barrier, a positive-connected highway safety barrier; Sierra Wall, a sound barrier primarily for roadside use; and Easi-Set® transportable concrete buildings, also patented. In addition, the Company produces custom order precast concrete products with various architectural surfaces, as well as generic highway sound barriers, utility vaults, and farm products such as cattleguards and water and feed troughs.

The Company was incorporated in Delaware on August 2, 1994. Prior to a corporate reorganization completed in October 1994, the Company conducted its business primarily through Smith-Midland Virginia, which was incorporated in 1960 as Smith Cattleguard Company, a Virginia corporation, and which subsequently changed its name to Smith-Midland Corporation in 1985. The Company's principal offices are located at 5119 Catlett Road, Midland, Virginia 22728 and its telephone number is (540) 439-3266. As used in this report, unless the context otherwise requires, the term the "Company" refers to Smith-Midland Corporation and its subsidiaries.

Revenues decreased by 18% during the three months ended March 31, 2014 when compared to the same period in 2013. For the three months ended March 31, 2014, the Company had a net loss of $328,536, as compared to net income of $309,071 for the same period in 2013. There were several issues that kept the first quarter from being profitable, starting with the fact that the winter of 2014 was one of the coldest on record for the Mid-west, the Mid-Atlantic and the Northeast areas, all of which are part of the geographical areas serviced by the Company. The Company had the highest number of missed production days for snow and ice than in recent history. Because of the

weather, several projects were delayed during the quarter causing additional missed production. While the weather was the most pervasive issue, the economy continues to increase at a slow pace, particularly in the Company's geographical sales area, limiting the number of profitable contract bids available. In addition, the Company comparative results were adversely affected due to the significant barrier rental revenue generated in the first quarter of 2013 from the rental contract for the Presidential inauguration, which was not repeated in the first quarter of 2014. The Company still maintains a large sales backlog which leads management to believe that the second quarter will improve in sales and profit over the first quarter.

Results of Operations

Three months ended March 31, 2014 compared to the three months ended March 31, 2013

Revenue By Type

	Three Months Ended March 31,			
	2014	2013	Change	% of Change
Product Sales:				
Soundwall Sales	$257,724	$426,678	$(168,954)	(40)%
Architectural Panel Sales	351,138	112,969	238,169	211 %
Slenderwall Sales	265,501	1,097,360	(831,859)	(76)%
Miscellaneous Wall Sales	196,561	158,248	38,313	24 %
Total Wall Sales	1,070,924	1,795,255	(724,331)	(40)%
Barrier Sales	1,091,384	1,026,065	65,319	6 %
Easi-Set and Easi-Span Building Sales	887,903	811,701	76,202	9 %
Utility and Farm Product Sales	362,187	410,997	(48,810)	(12)%
Miscellaneous Product Sales	444,502	266,607	177,895	67 %
Total Product Sales	3,856,900	4,310,625	(453,725)	(11)%
Royalty Income	452,166	327,450	124,716	38 %
Barrier Rentals	213,438	1,548,756	(1,335,318)	(86)%
Shipping and Installation Revenue	1,114,904	706,804	408,100	58 %
Total Service Revenue	1,780,508	2,583,010	(802,502)	(31)%
Total Revenue	$5,637,408	$6,893,635	$(1,256,227)	(18)%

Wall Panel Sales – Wall sales are generally large contracts issued by general contractors for production and delivery of a specific wall panel for a specific construction project. Changes in the mix of wall sales depend on what contracts are being bid and what projects are in production during the period. Overall wall panel sales decreased significantly during the three months ended March 31, 2014, compared to the same period in 2013. The decrease in soundwall sales is primarily due to the effects of the adverse weather conditions on highway projects in our area. The largest soundwall project in production was delayed for more than a month during the period. Soundwall production has started back up during the second quarter and should be above the rate at this time last year. Architectural panel sales increased significantly during the three months ended March 31, 2014, compared to the same period in 2013, due to a large contract that started in the third quarter of 2013 and ended in first quarter of 2014. There are no other architectural projects in production at the current time because of the continued competitive pressures in the market place on these types of projects and the Company being more selective in bidding these lower margin projects. Slenderwall™ panel sales decreased significantly during the three month period ending March 31, 2014 when compared to the same periods in 2013. During the first quarter of 2013, the Company had four Slenderwall™ jobs in production while it currently only has one Slenderwall™ job in production. The Company has bid on several large Slenderwall™ jobs and management believes it has a good chance to be awarded at least one of these jobs. Miscellaneous wall panels increased significantly during the three months period ended March 31, 2014 when compared to the same period in 2013 because of several large jobs awarded to the Company in late 2013, the largest being a retaining wall in the Washington D.C. area.

Barrier Sales - Barrier sales increased by 6% during the three months ended of March 31, 2014 compared to the same period in 2013. The Company was awarded two large contracts for barrier in 2013 that continued into the first quarter

of 2014 in conjunction with road projects on interstate I-95 and the Dulles toll road, both in northern Virginia. While the overall barrier market has slowed over the last several years, management has been successful in maintaining its market share for the last several years.

Easi-Set® and Easi-Span® Building Sales - Building sales increased 9% for the three months ended March 31, 2014, compared to the same period in 2013. The Company continues to emphasize the sales of its proprietary restroom buildings to federal, state and local governmental parks, sports complexes and other governmental facilities. It is anticipated by the Company that building and restroom sales will increase slightly through 2014 when compared to 2013.

Utility and Farm Product Sales - Utility and farm products recorded a decrease in sales during the three months ended March 31, 2014, compared to the same period in 2013. The number of manhole projects bid during the period increased slightly, however, bid prices remained low. The Company was awarded a relatively large project, in excess of $200,000, to be produced in the second quarter of 2014. The Company believes utility and farm product sales will increase only slightly for the remainder of the year as there are some signs in the market place, the $200,000 plus project awarded above, which indicate that 2014 may be a slightly better year for utility and farm product sales than 2013.

Miscellaneous Product Sales - Miscellaneous products are products produced and sold that do not meet the criteria defined for other revenue categories. Miscellaneous product sales increased significantly for three months ended March 31, 2014, compared to the same period in 2013. The increase is due primarily to the award of a large retaining wall project currently in production in Washington D.C. Management believes that miscellaneous sales will increase only slightly, or remain flat over the remainder of 2014. In addition, with the increased focus sales of Slenderwall™ over the past several years, management has placed less emphasis on the sales and marketing of miscellaneous products.

Royalty Income - Royalty revenue increased significantly for the three months ended March 31, 2014 compared to the same period in 2013. The increase was due primarily to increased building and barrier royalties. Building royalties have remained relatively stable with a slight increase over the last year. Barrier royalties, which are usually down in the winter as most of the barrier is put in place on highway projects before winter begins, in some areas of the country stayed strong during the first quarter. It is anticipated that royalty income will increase slightly during 2014.

Barrier Rentals - Barrier rentals were significantly lower for the three months ended March 31, 2014 compared to the same period in 2013. The decrease for the three month period was the result of the rental contract for the Presidential Inauguration held in January 2013 making the first quarter of 2013 abnormally high. Core barrier rentals (rentals other than special projects such as the Presidential Inauguration) increased slightly in the first quarter of 2014 compared to the same period in 2013. Management believes its core barrier rentals should show a slight increase during the remainder of 2014.

Shipping and Installation - Shipping revenue results from shipping our products to the customers' final destination and is recognized when the shipping services take place. Installation revenue results from installation of our products at the customers’ construction site. Installation revenue results when attaching architectural wall panels to a building, installing an Easi-Set® building at a customers' site or setting any of our other precast products at a site specific to the requirements of the owner. Shipping and installation revenue increased by 58% for the three months ended March 31, 2014, compared to the same period in 2013. As noted in the Form 10-K for the year ended December 31, 2013, a significant portion of our panel projects had not been shipped or installed prior to the end of 2013, consequently, shipping and installation revenue were lower when compared to the prior year, 2012. Several of the large projects that were manufactured in late 2013, but held in our storage yard are now beginning to be shipped and/or installed, thereby, increasing these revenues for the first quarter of 2014. Management believes that shipping and installation revenues should exceed the revenues earned in 2013.

Cost of Goods Sold – Total cost of goods sold for the three months ended March 31, 2014 decreased by $170,470, or 3%, from the same period in 2013. Total cost of goods sold, as a percentage of total revenue, not including royalties, was 95% and 77% for the three months ended March 31, 2014 and March 31, 2013, respectively. The increase in cost of goods sold as a percentage of total revenue, not including royalties, for the three months ended March 31, 2014 compared to the same period in 2013 was primarily due to the low level of sales generated for the period resulting in the inability of sales to cover the overhead generated for the period. In essence, the Company operated below the break-even point for the first quarter. In addition, two of the jobs in production during the period were bid with lower than normal profit margins. The actual cost and usage of raw materials was not a significant factor in the increase of the percentage of the cost of goods sold as a percentage of revenue as discussed above. Inflation remains relatively

low for raw materials used in production of the Company's precast products and management believes inflation will continue to remain low for the remainder of the 2014. The Company anticipates that production will increase during the second quarter of 2014 allowing the Company to operate above the break-even point and thus reducing the cost of goods sold as a percent of revenue.

General and Administrative Expenses – For the three months ended March 31, 2014, the Company's general and administrative expenses increased $139,318, or 22%, to $769,071 from $629,753 during the same period in 2013. The increase for the three month comparative period was primarily due to increased salary expense (salaries were increased company wide in late 2013 for the first time in five years), bonuses paid to associates in profitable divisions, general office expense and an increase in state use tax assessed on installation projects. General and administrative expense as a percentage of total revenue was 14% and 9% for the three months ended March 31, 2014 and 2013, respectively.

Selling Expenses – Selling expenses for the three months ended March 31, 2014 decreased to $539,480 from $660,899 for the same period in 2013, or 18%. The decrease for the three months period March 31, 2014 resulted primarily from slightly lower salaries, significantly lower commissions and slightly lower expenses in most general sales expenses when compared to the same period in 2013.

Operating Income – The Company had an operating loss for the three months ended March 31, 2014 of $536,491 compared to operating income of $552,369 for the same period in 2013. The decrease in operating income for the three months ended March 31, 2014 was primarily the result of decreased sales, a significant increase in cost of goods sold for the period as a percentage of total revenue, not including royalties, and an increase in administrative expenses partially offset by a decrease in selling expenses.

Interest Expense – Interest expense was slightly lower for the three months ended March 31, 2014, compared to the same period in 2013. The decrease was due primarily to payment of notes payable during the current periods.

Income Tax Expense – The Company had a tax benefit of $231,000, with an effective rate of 41%, for the three months ended March 31, 2014 compared to tax expense of $212,000, with an effective rate of 41% for the same period in 2013. The changes in the tax expense for the periods correlated to the change in pre-tax income.

Net Income – The Company had a net loss of $328,536 for the three months ended March 31, 2014, compared to net income of $309,071 for the same period in 2013.

Liquidity and Capital Resources

The Company has financed its capital expenditures and its operating requirements for the first three months of 2014 primarily from cash balances. The Company had $2,871,617 of debt obligations at March 31, 2014, of which $375,411 was scheduled to mature within twelve months. During the three months ended March 31, 2014, the Company made repayments of outstanding debt in the amount $92,555. The Company has a $2,000,000 line of credit, of which none was outstanding at March 31, 2014. The line of credit is evidenced by a commercial revolving promissory note, which carries a variable interest rate of prime and matures on September 12, 2014. In addition, the Company has a commitment from Summit Community Bank in the amount of $1,000,000 for an equipment line of credit which expires on September 12, 2014.

At March 31, 2014, the Company had cash totaling $2,883,832 and $952,068 of investment securities available for sale compared to cash totaling $3,136,063 and $915,341 of investment securities available for sale on December 31, 2013 Investment securities available for sale at March 31, 2014 consist of 85,235 shares of USVAX (a Virginia Bond Fund). The decrease in aggregate cash and investment securities available for sale is primarily the result of cash used by operations, cash payments on outstanding debt and purchase of capital equipment.

Capital spending totaled $139,994 for the three months ended March 31, 2014, as compared to $112,668 for the same period in 2013. The 2014 expenditures were for new vehicles and small miscellaneous manufacturing equipment. The Company plans to be particularly cautious in its capital purchases over the remainder of the year and further until the economy begins to make a strong comeback.

In 2013, the Company refinanced its prior existing variable rate mortgage with a fixed rate loan of 3.99% per annum. Because of the refinancing, the Company is no longer sensitive to changes in the prevailing interest rates. Increases in such rates will only slightly affect the interest paid by the Company annually. Each 1% increase in the interest rates of the Company’s outstanding debt will reduce income by approximately $7,000 annually.

The Company’s cash flow from operations is affected by production schedules set by contractors, which generally provide for payment 35 to 90 days after the products are produced. This payment schedule may result in liquidity

problems for the Company because it must bear a portion of the cost of production before it receives payment from its customers. The Company's average days sales outstanding, excluding the effect of unbilled revenue, increased from 91 days for the year ended December 31, 2013 to 100 days for the three months ended March 31, 2014. The increase in days sales outstanding is attributable to increased retainage held on accounts receivable by customers until the project is completed and two large
contracts that were slow paying but that have made significant payments at the end of the quarter and subsequent to the end of the quarter. Although no assurances can be given, the Company believes that anticipated cash flow from operations and the availability under the lines of credits will be sufficient to finance the Company's operations for at least the next twelve months.
The Company's inventory was $1,864,676 at March 31, 2014 and at December 31, 2013 was $1,939,478, or a decrease of $74,802. Inventory turnover was 2.6 for the three months ended March 31, 2014, compared to 2.5 for the same period in 2013.

Critical Accounting Policies and Estimates

The Company's critical accounting policies are more fully described in its Summary of Accounting Policies to the Company's consolidated financial statements on Form 10-K for the year ended December 31, 2013. 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 other related factors, 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 collectability is in doubt, in which event revenue is recognized as cash is received. Certain sales of Soundwall, Slenderwall™, and other architectural 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 for a specific customer contract and not yet billed.

Seasonality

The Company services the construction industry primarily in areas of the United States where construction activity may be inhibited by adverse weather during the winter. As a result, the Company may experience reduced revenues from December through February and realize a more significant part of its revenues during the other months of the year. The Company may experience lower profits, or losses, during the winter months, and as such, must have sufficient working capital to fund its operations at a reduced level until the spring construction season. The failure to generate or obtain sufficient working capital during the winter may have a material adverse effect on the Company.

Inflation

Raw material costs for the Company, steel, cement, aggregates and other direct materials used in production increased only slightly in 2013 and the first three months of 2014 and the Company anticipates prices will increase only slightly over the remainder of 2014.

Sales Backlog

As of May 5, 2014, the Company's sales backlog was approximately $10.0 million, as compared to approximately $10.6 million at the same time in 2013. It is estimated that substantially all of the projects in the sales backlog will be produced within 12 months. The Company also maintains 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® and Easi-Span® building products. Historically, this regularly occurring repeat customer business has ranged from $5.0 million to $7.0 million annually.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

ITEM 4. Controls and Procedures

(a) Disclosure controls and procedures

The Company carried out our evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, the chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures were effective at March 31, 2014.

(b) Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the three months ended March 31, 2014 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

Not required

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Mine Safety Disclosures

Not applicable

ITEM 5. Other Information

None

ITEM 6. Exhibits

Exhibit No.	Exhibit Description
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.
32.1	Certification pursuant 18 U.S.C. Section 1350 as adapted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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.

SMITH-MIDLAND CORPORATION
(Registrant)

Date: May 15, 2014

By: /s/ Rodney I. Smith
Rodney I. Smith, President
(Principal Executive Officer)

Date: May 15, 2014

By: /s/ William A. Kenter
William A. Kenter, Chief Financial Officer
(Principal Financial Officer)

Smith-Midland Corporation
Exhibit Index to Quarterly Report on Form 10-Q
For the three months ended March 31, 2014

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