SMITH MIDLAND CORP
Form 10-Q
May 14, 2015

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, 2015

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 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, 2015 : 4,852,628 shares, net of treasury shares

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SMITH-MIDLAND CORPORATION

Form 10-Q Index

PART I — FINANCIAL INFORMATION

ITEM 1. Financial Statements

SMITH-MIDLAND CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS	March 31, 2015	December 31, 2014
Current assets		
Cash and cash equivalents	$2,269,445	$3,572,405
Investment securities, available-for-sale, at fair value	1,019,633	1,013,417
Accounts receivable, net		
Trade - billed (less allowance for doubtful accounts of $347,175 and $267,985)	4,629,396	4,092,924
Trade - unbilled	194,032	240,635
Inventories		
Raw materials	538,149	353,089
Finished goods	1,366,974	1,373,455
Prepaid expenses and other assets	170,634	126,047
Refundable income taxes	1,000,727	722,948
Deferred taxes	496,000	441,000
Total current assets	11,684,990	11,935,920
Property and equipment, net	4,131,156	4,106,611
Other assets	307,072	255,385
Total assets	$16,123,218	$16,297,916

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

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SMITH-MIDLAND CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 2015	December 31, 2014
Current liabilities		
Accounts payable - trade	$1,239,243	$1,152,506
Accrued expenses and other liabilities	666,954	539,549
Accrued compensation	529,177	442,651
Current maturities of notes payable	364,204	363,821
Customer deposits	557,459	432,274
Total current liabilities	3,357,037	2,930,801
Notes payable - less current maturities	2,138,374	2,230,364
Deferred tax liability	660,000	663,000
Total liabilities	6,155,411	5,824,165
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; 4,893,548 and 4,881,548 issued and outstanding	48,935	48,815
Additional paid-in capital	5,062,418	5,041,438
Accumulated other comprehensive loss, net	(9,303)	(6,629)
Retained earnings	4,968,057	5,492,427
	10,070,107	10,576,051
Treasury stock, at cost, 40,920 shares	(102,300)	(102,300)
Total stockholders’ equity	9,967,807	10,473,751
Total liabilities and stockholders' equity	$16,123,218	$16,297,916

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

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

	Three Months Ended March 31, 2015	2014
Revenue		
Products sales and leasing	$3,268,737	$4,070,338
Shipping and installation revenue	599,253	1,114,904
Royalties	332,135	452,166
Total revenue	4,200,125	5,637,408
Cost of goods sold	3,670,133	4,907,402
Gross profit	529,992	730,006
Operating expenses		
General and administrative expenses	874,707	769,071
Selling expenses	504,014	539,480
Total operating expenses	1,378,721	1,308,551
Gain on sale of assets	5,254	11,977
Other income	10,607	30,077
Operating loss	(832,868)	(536,491)
Interest income (expense)		
Interest expense	(26,993)	(28,757)
Interest income	492	5,712
Total other expense	(26,501)	(23,045)
Loss before income tax benefit	(859,369)	(559,536)
Income tax benefit	(335,000)	(231,000)
Net loss	$(524,369)	$(328,536)
Basic loss per share	$(0.11)	$(0.07)
Diluted loss per share	$(0.11)	$(0.07)
Weighted average number of common shares outstanding:		
Basic	4,891,815	4,881,548
Diluted	4,891,815	4,881,548

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 LOSS
(Unaudited)

	Three Months Ended March 31, 2015	2014
Net loss	$(524,369)	$(328,536)
Other comprehensive gain (loss), net of tax:		
Net unrealized holding gain (loss) (1)	(5,675)	18,662
Comprehensive loss	$(530,044)	$(309,874)

(1) Unrealized gains (losses) on available for sale securities are shown net of income tax benefit of $4,000 for March 31, 2015 and an income tax expense of $16,000 for March 31, 2014.

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, 2015	2014
Reconciliation of net loss to cash absorbed by operating activities		
Net loss	$(524,369)	$(328,536)
Adjustments to reconcile net loss to net cash absorbed by operating activities:		
Depreciation and amortization	169,185	151,319
Gain on disposal of fixed assets	(5,254)	(11,977)
Deferred taxes	(58,000)	20,000
(Increase) decrease in:		
Accounts receivable - billed	(536,472)	993,024
Accounts receivable - unbilled	46,603	(236,059)
Inventories	(178,578)	74,801
Prepaid expenses and other assets	(96,274)	(376,852)
Prepaid income taxes	(277,779)	97,370
Increase (decrease) in:		
Accounts payable - trade	86,737	(111,693)
Accrued expenses and other	127,404	(217,846)
Accrued compensation	86,526	—
Accrued income taxes payable	—	(302,263)
Customer deposits	125,185	181,740
Net cash absorbed by operating activities	(1,035,086)	(66,972)
Cash flows from investing activities:		
Purchases of investment securities available-for-sale	(8,729)	(21,010)
Purchases of property and equipment	(193,730)	(139,994)
Proceeds from sale of fixed assets	5,092	13,141
Net cash absorbed by investing activities	(197,367)	(147,863)
Cash flows from financing activities:		
Proceeds from long-term borrowings	—	55,159
Repayments of long-term borrowings	(91,607)	(92,555)
Proceeds from options exercised	21,100	—
Net cash absorbed by financing activities	(70,507)	(37,396)
Net decrease in cash and cash equivalents	(1,302,960)	(252,231)
Cash and cash equivalents		
Beginning of period	3,572,405	3,136,063
End of period	$2,269,445	$2,883,832

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

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, 2014. The December 31, 2014 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 consolidated 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 consolidated 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 LOSS 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 81,166 for the three months ended March 31, 2015 and 364,599 for the three months ended March 31, 2014.

	Three Months Ended March 31,	
	2015	2014
Basic loss per share		
Loss available to common shareholders	$(524,369)	$(328,536)
Weighted average shares outstanding	4,891,815	4,881,548
Basic loss per share	$(0.11)	$(0.07)
Diluted loss per share		
Loss available to common shareholders	$(524,369)	$(328,536)
Weighted average shares outstanding	4,891,815	4,881,548
Dilutive effect of stock options	—	—
Total weighted average shares outstanding	4,891,815	4,881,548
Diluted loss per share	$(0.11)	$(0.07)

NOTE 3. – STOCK OPTIONS

In accordance with ASC 718, the Company had no stock option expense for the three months ended March 31, 2015 and 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 not issue any stock options for the three months ended March 31, 2015 or for the three months ended March 31, 2014.

The following table summarized options outstanding at March 31, 2015

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2014	305,099	$1.97
Granted	—	—
Forfeited	—	—
Exercised	(12,000)	1.76
Outstanding options at end of quarter	293,099	$1.98
Outstanding exercisable options at end of quarter	293,099	$1.98

The intrinsic value of outstanding and exercisable options at March 31, 2015 was approximately $143,000.

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, 2015 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:

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no assurance of profitable operations; in this respect, the Company reported a net loss for the year ended December 31, 2014, and a net loss for the three months ended March 31, 2015,

- 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 which has been showing gradual signs of improvement over the past few months,
- adverse weather, which inhibits the demand for our products,
- our compliance with governmental regulations,
- the outcome of future litigation, if any,
- 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 four members, has only one outside, independent director, 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, 2014.

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.

The three months ended March 31, 2015 resulted in a loss for the Company due to several factors, the largest being the adverse effect on production from the very cold winter weather in the Company's main manufacturing and delivery areas. In addition to the cold weather and its negative effect on production, the Company had a limited number of jobs ready to start production because of setbacks in the architects drawings, project owner delays and other ordinary construction delays. Revenue for the first quarter of 2015 was far below normal at $4.2 million compared to $5.6 million for the same period in 2014. As local weather improves, management believes revenue levels for the remainder of 2015 should increase significantly over that of the first quarter of the year.

Results of Operations

Three months ended March 31, 2015 compared to the three months ended March 31, 2014

Revenue By Type

	Three Months Ended March 31,			
	2015	2014	Change	% of Change
Product Sales:				
Soundwall Sales	$291,043	$257,724	$33,319	13 %
Architectural Panel Sales	581,305	351,138	230,167	66 %
Slenderwall Sales	495,872	265,501	230,371	87 %
Miscellaneous Wall Sales	131,326	196,561	(65,235)	(33)%
Total Wall Sales	1,499,546	1,070,924	428,622	40 %
Barrier Sales	436,298	1,091,384	(655,086)	(60)%
Easi-Set and Easi-Span Building Sales	381,359	887,903	(506,544)	(57)%
Utility and Farm Product Sales	377,072	362,187	14,885	4 %
Miscellaneous Product Sales	397,114	444,502	(47,388)	(11)%
Total Product Sales	3,091,389	3,856,900	(765,511)	(20)%
Royalty Income	332,135	452,166	(120,031)	(27)%
Barrier Rentals	177,348	213,438	(36,090)	(17)%
Shipping and Installation Revenue	599,253	1,114,904	(515,651)	(46)%
Total Service Revenue	1,108,736	1,780,508	(671,772)	(38)%
Total Revenue	$4,200,125	$5,637,408	$(1,437,283)	(25)%

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 increased significantly during the three months ended March 31, 2015, compared to the same period in 2014. The following describes the changes by product types:

Soundwall sales increased slightly during the three month period ended March 31, 2015 when compared to the same period in 2014. The increase in revenue was due to a higher level of government spending on highway projects in the Company's geographical sales area. The Company had four soundwall contracts in production during the first quarter of 2015. During the same period in 2014, the Company had only two soundwall projects in production. The Company has been awarded three new Soundwall projects that will be produced in 2015 for approximately $2.9 million. Management expects that Soundwall revenue should remain relatively strong during the remainder of the year and into 2016.

Architectural panel sales increased significantly during the three month period ended March 31, 2015, compared to the same period in 2014. The increase was due mainly to a large contract that started in first quarter of 2015 and and will continue into the fall of 2015. While the construction economy is trending up, the volume of architectural projects continues to be less than that of other wall panel projects and also while not as competitive as last year, are still the most competitive bids.

Slenderwall panel sales increased greatly during the three month period ended March 31, 2015 when compared to the same periods in 2014. During 2015 the Company had two Slenderwall projects in production while there was only one in production in 2014. The Company was recently awarded two new Slenderwall projects in the amount of $3.7 million which will start in the second quarter of 2015. In addition, the Company has bid on several additional Slenderwall projects over the past few months and management believes that it will be awarded at least two of the projects bid.

Miscellaneous wall panels showed a decrease for the three month period ended March 31, 2015 when compared to the same period in 2014. However, as these types of projects are not as common as the other types of panels, it is difficult to know when they will become available and how competitive the bidding will be. Management believes that miscellaneous wall sales should show progress during the remainder of the year.

Barrier Sales - Barrier sales decreased significantly during the three months ended March 31, 2015 compared to the same period in 2014. While the Company was producing two large contracts for barrier in 2014, the Company has only completed several smaller orders for barrier in 2015. Management is not sure at this time just how much barrier it will produce and sell during the remainder of year; however, it has bid on several contracts which, if awarded, should help improve the overall sales for the year.

Easi-Set® and Easi-Span® Building Sales - Building and restroom sales decreased 57% for the three months ended March 31, 2015, compared to the same period in 2014. The decrease in sales resulted primarily from weather too cold to install buildings in most of the northern portion of the Company's sales area to the north and west. The Company has a large backlog of both buildings and restrooms which began installation in the month of April 2015. The Company again received the contract for the production of restrooms and shower facilities for the state parks of Missouri. Management believes that the Company will show considerable improvement in building and restroom sales over the summer months and the remainder of the year. 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.

Utility and Farm Product Sales - Utility and farm products increased in sales only slightly during the three month periods ended March 31, 2015, compared to the same period in 2014. The number of manhole projects bid during the periods remained approximately the same as in prior recent periods. The Company recently received a relatively large project for manholes on a local highway project for which delivery will begin in the fourth quarter of 2015. Utility products are tied closely with infrastructure spending by federal, state and local governments which seems to be improving slightly.

Miscellaneous Product Sales - Miscellaneous products are products produced and sold that do not meet the criteria defined for other revenue categories. Miscellaneous product sales decreased moderately for the three months ended March 31, 2015, compared to the same periods in 2014. The Company recently received three related projects to produce miscellaneous slabs to be used as balconies and other areas for a building project in the amount of $1.3 million, which are already in production. Management believes that miscellaneous sales will increase over the remainder of the year.

Royalty Income - Royalty revenue decreased by 27% for the three months ended March 31, 2015 compared to the same period in 2014. The decrease for the three month period was due primarily to the cold winter in the USA and other countries where our licensees operate. Management believes that royalties will increase moderately over the remainder of 2015.

Barrier Rentals - Barrier rentals decreased moderately for the three months ended March 31, 2015 compared to the same period in 2014. The decrease for the three months ended March 31, 2015 resulted primarily from the cold weather encountered in the first quarter of 2015. Management believes its barrier rentals should show improvement over the remainder of 2015.

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 activities include 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 decreased by 46% for the three months ended March 31, 2015, compared to the same period in 2014. The Company is now in a production phase and is producing product and storing that product in its storage yard. In addition, due to the cold weather of the first quarter, many customers were not taking shipments or having installation performed, but waiting until warmer weather. Management believes that shipping and installation revenue levels should increase over the remainder of 2015 as these stored projects begin to ship and installation occurs.

Cost of Goods Sold – Total cost of goods sold for the three months ended March 31, 2015 decreased by $1,237,269, or 25%, from the same period in 2014. Total cost of goods sold, as a percentage of total revenue, not including royalties, was 95% for the three months ended March 31, 2015 and 2014. The high level of cost of goods sold as a percentage of total revenue for the comparative periods was primarily due to the relatively low level volume of production and sales during these periods. Effectively, for the first quarters of 2015 and 2014, the Company was operating below its break-even point resulting in substantial losses. Inflation continues to remain relatively low for raw materials used in production of the Company's precast products and management believes inflation will continue to remain relatively low for the remainder of the 2015. The Company anticipates that production and sales will increase significantly over the remainder of the year allowing the Company to operate above the break-even point and thus reducing the cost of goods sold as a percentage of revenue.

General and Administrative Expenses – For the three months ended March 31, 2015, the Company's general and administrative expenses increased $105,636, or 14% to $874,707 from $769,071 during the same period in 2014. The increase for the three month comparative periods was primarily due to a significant increase in bad debts expense and a small increase in general office expenses. General and administrative expense as a percentage of total revenue was 21% and 14% for the three months ended March 31, 2015 and 2014, respectively.
Selling Expenses – Selling expenses for the three months ended March 31, 2015 decreased to $504,014 from $539,480 for the same period in 2014 or 7%. The decrease was due mainly to decreased advertising expenses during the winter months. Advertising expenses should be higher in the following quarters.
Operating Loss – The Company had an operating loss for the three months ended March 31, 2015 of $832,868 compared to an operating loss of $536,491 for the same period in 2014. The increase in operating loss for the three months ended March 31, 2015 compared to the same period in 2014 was primarily the result of decreased sales and an increase in general and administrative expenses.
Interest Expense – Interest expense was slightly lower for the three months ended March 31, 2015, compared to the same period in 2014. The decrease for the three months ended March 31, 2015 was due primarily to the payment of notes payable of during the comparative periods.
Income Tax Benefit – The Company had a tax benefit of $335,000, with an effective rate of 39%, for the three months ended March 31, 2015 compared to a tax benefit of $231,000 with an effective rate of 41% for the same period in 2014. The changes in the tax expense for the periods correlated to the change in pre-tax income.
Net Loss – The Company had a net loss of $524,369 for the three months ended March 31, 2015, compared to a net loss of $328,536 for the same period in 2014.

Liquidity and Capital Resources
The Company has financed its capital expenditures and its operating requirements for the first three months of 2015 primarily from cash balances. The Company had $2,502,578 of debt obligations at March 31, 2015, of which $364,204 was scheduled to mature within twelve months. During the three months ended March 31, 2015, the Company made repayments of outstanding debt in the amount $91,607.
The Company has a note payable to Summit Community Bank (the “Bank”), with a balance of $1,755,812 as of March 31, 2015. The note has a term of approximately eight years and a fixed interest rate of 3.99% annually with monthly payments of $25,642 and is secured by principally all of the assets of the Company. Under the terms of the note, the Bank will permit chattel mortgages on purchased equipment not to exceed $250,000 for any one individual loan so long as the Company is not in default. Also, the Company is limited to $1,000,000 for annual capital expenditures. At March 31, 2015, the Company was in compliance with all covenants pursuant to the loan agreement as amended.
The Company also has a $2,000,000 line of credit, of which none was outstanding at March 31, 2015. The line is evidenced by a commercial revolving promissory note with the Bank, which carries a variable interest rate of prime and matures on September 12, 2015. In addition, the Company has a commitment from the Bank in the amount of $1,000,000 for an equipment line of credit.
At March 31, 2015, the Company had cash totaling $2,269,445 and $1,019,633 of investment securities available for sale compared to cash totaling $3,572,405 and $1,013,417 of investment securities available for sale at December 31, 2014. Investment securities available for sale at March 31, 2015 consist of 88,433 shares of USVAX (a Virginia Bond Fund). The decrease in cash is primarily the result of of the net loss for the period.
Capital spending totaled $193,730 for the three months ended March 31, 2015, as compared to $139,994 for the same period in 2014. The 2015 expenditures were for new vehicles and small miscellaneous manufacturing equipment. The Company plans to make additional capital purchases of approximately $500,000 over the remainder of the year.
The Company's mortgage loan is financed at a fixed rate of 3.99% per annum. This leaves the Company almost impervious to fluctuating 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 88 days for the year ended December 31, 2014 to 105 days for the three months ended March 31, 2015. The increase in days sales outstanding is due to the increased retainage being held by customers as well as slower than normal collection during the winter months. 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 $1,905,123 at March 31, 2015 and at December 31, 2014 was $1,726,544, or an increase of $178,579. Inventory turnover was 1.8 for the three months ended March 31, 2015, compared to 2.6 for the same period in 2014.

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, 2014. The preparation of consolidated financial statements in conformity with accounting principles generally accepted within the United States of America requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related notes. In preparing these consolidated financial statements, management has made its best estimates and judgments of certain amounts included in the consolidated 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 2014 and the first three months of 2015 and the Company anticipates prices will increase only slightly over the remainder of 2015.

Sales Backlog

As of March 31, 2015, the Company's sales backlog was approximately \$17.7 million, as compared to approximately \$10.0 million at the same time in 2014. 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, 2015.

(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, 2015 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 14, 2015	By: /s/ Rodney I. Smith Rodney I. Smith, President (Principal Executive Officer)
Date: May 14, 2015	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,

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