

SMITH MIDLAND CORP
Form 10QSB
May 25, 2004
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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

March 31, 2004

Commission File Number

1-13752

SMITH-MIDLAND CORPORATION

(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware
(State of Incorporation)

54-1727060
(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)

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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, and (2) has been subject to such filing requirements for the past 90 days. Yes No

As of March 31, 2004, the Company had outstanding 4,449,548 shares of Common Stock, \$.01 par value per share.

Transitional Small Business Disclosure Format: Yes No

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PART I - Financial Information

Item 1. Financial Statements

SMITH-MIDLAND CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

| | March 31 | December 31 |
|--|------------------|------------------|
| | 2004 | 2003 |
| | <u>Unaudited</u> | <u>Unaudited</u> |
| Assets | | |
| Current assets | | |
| Cash | \$ 1,456,309 | \$ 699,645 |
| Accounts receivable | | |
| Trade billed (less allowance for doubtful accounts of \$258,700 and \$231,600) | 4,427,084 | 4,201,835 |
| Trade unbilled | 384,051 | 22,812 |
| Inventories | | |
| Raw materials | 642,023 | 655,517 |
| Finished goods | 1,565,377 | 1,807,132 |
| Income tax receivable | 433,169 | 433,169 |
| Prepaid expenses and other assets | 414,281 | 242,607 |
| Total currents assets | 9,322,294 | 8,062,717 |
| Property and equipment, net | 3,196,498 | 3,258,083 |
| Other assets | | |
| Notes receivable, officer | 336,451 | 363,070 |
| Claims and accounts receivable | 696,822 | 676,203 |
| Other | 187,557 | 190,573 |
| Total other assets | 1,220,830 | 1,229,846 |
| Total assets | \$ 13,739,622 | \$ 12,550,646 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Line of credit | \$ 799,591 | \$ 600,000 |
| Accounts payable - trade | 2,728,923 | 2,568,012 |
| Accrued expenses and other liabilities | 719,926 | 498,921 |
| Current maturities of notes payable | 490,820 | 445,226 |
| Notes payable to related party | 22,185 | 26,668 |
| Customer deposits | 739,633 | 88,940 |
| Total current liabilities | 5,501,078 | 4,227,767 |
| Reserve for contract loss | 1,001,682 | 1,001,682 |
| Notes payable - less current maturities | 3,927,753 | 3,970,263 |
| Total liabilities | | 9,199,712 |

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| | | |
|--|---------------|---------------|
| | 10,430 | |
| | ,513 | |
| Stockholders' equity | | |
| Preferred stock, \$.01 par value; authorized 1,000,000 shares, none outstanding | | |
| Common stock, \$.01 par value; authorized 8,000,000 shares; 4,449,548 issued and outstanding | 44,495 | 44,495 |
| Additional paid-in capital | 4,189,388 | 4,189,388 |
| Retained earnings (deficit) | (822,474) | (780,649) |
| Treasury stock, at cost, 40,920 shares | (102,300) | (102,300) |
| Total stockholders' equity | 3,309,109 | 3,350,934 |
| Total liabilities and stockholders' equity | \$ 13,739,622 | \$ 12,550,646 |

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SMITH-MIDLAND CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

(Unaudited)

| | Three Months Ended March 31, | |
|---|---|--------------|
| | 2004 | 2003 |
| Revenue | | |
| Product sales and leasing | \$ 5,056,588 | \$ 4,358,538 |
| Royalties | 136,202 | 131,604 |
| Total Revenue | 5,192,790 | 4,490,142 |
| Cost of goods sold | 4,023,287 | 3,737,215 |
| Gross profit | 1,169,503 | 752,927 |
| Operating expenses: | | |
| General and administrative expenses | 737,757 | 793,538 |
| Selling expenses | 398,559 | 357,200 |
| Total operating expenses | 1,136,316 | 1,150,738 |
| Operating income (loss) | 33,187 | (397,811) |
| Other income (expense): | | |
| Interest expense | (76,233) | (64,366) |
| Interest income | 370 | 8,628 |
| Other, net | 851 | 4,702 |
| Total other income (expense) | (75,012) | (51,036) |
| Income (loss) before income taxes | (41,825) | (448,847) |
| Income tax expense (benefit) | | (170,562) |
| Net income (loss) | (41,825) | (278,285) |
| Basic and Diluted earnings (loss) per share | \$ (.01) | \$ (.06) |

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

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SMITH-MIDLAND CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|--------------|
| | 2004 | 2003 |
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 5,256,994 | \$ 4,967,554 |
| Cash paid to suppliers and employees | (4,520,720) | (4,664,624) |
| Income Taxes paid, net | (113,412) | (388,711) |
| Interest paid | (76,233) | (64,366) |
| Other | 121,957 | 153,323 |
| Net cash provided by operating activities | 781,998 | 3,176 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (59,149) | (205,639) |
| Proceeds from sale of fixed assets | | 11,151 |
| (Increase) decrease in officer note receivable | 26,619 | 6,000 |
| Net cash absorbed by investing activities | (32,530) | (188,488) |
| Cash flows from financing activities: | | |
| Proceeds from borrowings | 313,092 | |
| Repayments of borrowings | (301,413) | (81,806) |
| Repayments on borrowings related parties, net | (4,483) | (4,464) |
| Proceeds from options/warrants exercised | | |
| Net cash provided (absorbed) by financing activities | 7,196 | (86,270) |
| Net increase (decrease) in cash and cash equivalents | 756,664 | (271,582) |
| Cash and cash equivalents at beginning of period | 699,645 | 1,223,756 |
| Cash and cash equivalents at end of period | \$ 1,456,309 | \$ 952,174 |
| Reconciliation of net income (loss) to net cash provided (absorbed) by operating activities: | | |
| Net income (loss) | \$ 41,825 | \$ (278,285) |
| Adjustments to reconcile net income (loss) to net cash provided (absorbed) by operating activities: | | |
| Depreciation and amortization | 120,735 | 115,787 |
| Gain (Loss) on disposal of fixed assets | | (5,154) |
| Decrease (increase) in: | | |
| Accounts receivable billed | (225,249) | 198,467 |
| Accounts receivable unbilled | (361,239) | 278,945 |
| Inventories | 255,249 | (424,779) |
| Prepaid expenses and other assets | 1,720 | 46,287 |
| Increase (decrease) in: | | |
| Accounts payable trade | 160,911 | 717,769 |
| Accrued expenses and other liabilities | 221,004 | (87,147) |
| Accrued income taxes | | (559,273) |
| Customer deposits | 650,692 | 559 |
| Net cash provided (absorbed) by operating activities | \$ 781,998 | \$ 3,176 |

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SMITH-MIDLAND CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2004

(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 the Smith-Midland Corporation's Annual Report on Form 10-KSB for the year ended December 31, 2003.

In the opinion of the management of Smith-Midland Corporation (the Company), the accompanying 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 month periods ended March 31, 2004 and 2003.

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

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; 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 2004 presentation.

Inventories

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

Property and Equipment

Property and equipment, net is stated at depreciated cost. Expenditures for ordinary maintenance and repairs are charged to income 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.

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

| | <u>Years</u> |
|---------------------------------|--------------|
| 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.

No provision for federal income taxes was made for the three month period ending March 31, 2004. A tax benefit of \$170,562 was recorded for the three months ended March 31, 2003 due to the net operating loss available for carryback to recoup prior year's taxes paid.

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.

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Earnings Per Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects 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 | |
|---|--------------------------------|--------------|
| | 2004 | 2003 |
| Net income (loss) | \$ (41,825) | \$ (278,285) |
| Average shares outstanding for basic earnings per share | 4,449,548 | 4,432,928 |
| Dilutive effect of stock options and warrants | 0 | 0 |
| Average shares outstanding for diluted earnings per share | 4,449,548 | 4,484,582 |
| Basic earnings (loss) per share | \$ (.01) | \$ (.06) |
| Diluted earnings (loss) per share | \$ (.01) | \$ (.06) |

Stock Options

The Company has elected to use the intrinsic value method of accounting as prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, for stock options granted to the Company's employees. This method does not result in the recognition of compensation expense when employee stock options are granted if the exercise price of the option equals or exceeds the fair market value of the stock at the date of grant.

The following table summarizes options outstanding:

| | Three Months Ended March 31, 2004 | |
|--|--------------------------------------|---------------------------------------|
| | Shares | Weighted average exercise price |
| Options outstanding at beginning of period | 607,075 | \$.88 |
| Granted | | |
| Forfeited | | |
| Exercised | | |
| Options outstanding at end of period | 607,075 | \$.88 |
| Options exercisable at end of period | 365,742 | \$.86 |

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

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, also patented. 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 cattleguards, 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, 2004 are not necessarily indicative of the results for the Company's operations for the year ending December 31, 2004. 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.

Results of Operations

Three months ended March 31, 2004 compared to the three months ended March 31, 2003

For the three months ended March 31, 2004, the Company had total revenue of \$5,192,790 compared to total revenue of \$4,490,142 for the three months ended March 31, 2003, an increase of \$702,648, or 16%. Total product revenues were \$4,403,664 for the three months ended March 31, 2004 compared to \$3,286,741 for the same period in 2003, an increase of \$1,116,923, or 34%. The higher product sales were related to improved management of the production process, including streamlining production personnel responsibilities, which resulted in more efficient and increased production. Additionally, improved economic conditions resulted in increased sales of the Company's newer, innovative products such as Slenderwall, Easi-Set buildings, as well as, architectural and soundwall products. Barrier rental income was \$71,035 for the three months ended March 31, 2004 compared to \$67,333 for the same period in 2003. Shipping and installation revenue was \$652,924 for the three months ended March 31, 2004 and \$1,071,797 for the same period in 2003, a decrease of \$418,873, or 39%. The decrease was primarily attributable to the decreased need for installation of architectural products, due to normal fluctuations of the production versus the installation cycle.

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Total cost of goods sold for the three months ended March 31, 2004 was \$4,023,287, an increase of \$286,072, or 8%, from \$3,737,215 for the three months ended March 31, 2003. The majority of the increase was due to the increased sales volume. Cost of goods sold as a percentage of total revenue decreased from 83% for the three months ended March 31, 2003 to 77% for the three months ended March 31, 2004. Most of the decrease in the cost of goods sold as a percentage of sales was due to the better controls over production related costs, including reductions in overtime and benchmarking of critical labor ratios. Also, in 2003 the Company identified and implemented controls to reduce costs related to field repairs, resulting in reductions in field repairs costs of more than \$140,000 for the three months ended March 31, 2004 as compared to the 2003 period. The Company also incurred shipping and installation expense of \$853,793 for the three months ended March 31, 2004 and \$1,313,874 for the same period in 2003, a decrease of \$460,081 or 35% which is primarily related to the decrease in installations.

For the three months ended March 31, 2004, the Company's general and administrative expenses decreased \$55,781 to \$737,757 from \$793,538 during the same period in 2003. The 7% decrease is mainly due to spending controls in many areas company-wide, including, but not limited to, temporary salary cuts for senior management, manpower reductions and reductions in the use of contract labor personnel related expenses.

Selling expenses for the three months ended March 31, 2004 increased \$41,359, or 12%, to \$398,559 from \$357,200 for the same period in 2003, primarily due to higher marketing fees and sales commissions at Smith Midland Virginia and Easi-Set Industries, which is in line with the Company's strategy of growing these businesses for long-term success.

The Company's operating income for the three months ended March 31, 2004 was \$33,187 compared to an operating loss of \$397,811 for the three months ended March 31, 2003, an improvement of \$430,998. The improved operating income was the result of the implementation of the Company's turnaround plan developed in December 2003 and implemented in controlled stages during the three months ended March 31, 2004. For a more detailed description of the turnaround plan, see the paragraph at the end of Results of Operations.

Interest expense was \$76,233 for the three months ended March 31, 2004, compared to \$64,366 for the three months ended March 31, 2003. The increase of \$11,867, or 18%, was due to slightly increased interest rates during the three months ended March 31, 2004 with higher levels of average debt outstanding.

The net loss was \$41,825 for the three months ended March 31, 2004, compared to a net loss of \$278,285 for the same period in 2003. The basic and diluted net loss per share for the current three month period was \$(.01) compared to \$(.06) for the three months ended March 31, 2003.

Corporate Turnaround Plan

The Company, in December 2003, assembled a turnaround team made up of senior management and essential support staff to identify critical areas, develop a plan, and begin implementation to correct the problems that led to the poor financial performance in 2003. The following items were identified and plan implementation began on December 15, 2003.

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Reductions in labor costs, including reductions in contract labor and overtime and reductions resulting from normal attrition.

Better monitoring of quality controls to reduce expensive field repairs and remakes.

Improvements in accounting and billing for pass through of shipping and installation expenses.

Better monitoring and standardization of the estimating and bidding process to eliminate deep discounts on large projects.

Controls over corporate spending, including non-essential travel, conventions, dues and subscriptions, office supplies, and utilities.

Improved controls over billing and accounts receivable collection to reduce the amount of uncollectible accounts.

The Company expects to find other areas where improvements can be made. Likewise, more corrective actions will be implemented and additional cost reductions will be realized during 2004 as the turnaround team continues to analyze corporate operations.

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 \$5,294,403 of indebtedness at March 31 2004, of which \$1,344,918 was scheduled to mature within twelve months.

Schedule of Contractual Obligations:

Payments due by period

| | <u>Total</u> | <u>Less than 1 year</u> | <u>1-3 years</u> | <u>4-5 years</u> | <u>After 5 years</u> |
|---|---------------------|-----------------------------|-------------------|-------------------|--------------------------|
| Long-term debt and capital leases | \$ 5,218,162 | \$ 1,290,411 | \$ 670,633 | \$ 370,241 | \$ 2,886,877 |
| Debt to related parties | 22,185 | 22,185 | | | |
| Operating leases | 54,056 | 32,322 | 16,301 | 5,433 | |
| Total contractual cash obligations | \$ 5,294,403 | \$ 1,344,918 | \$ 690,236 | \$ 375,674 | \$ 2,886,877 |

The Company has a mortgage loan with a balance of \$3,548,332 at March 31, 2004. The loan had an original term of twenty three years beginning on June 25, 1998 with an interest rate of 1.5% above prime, secured by equipment and real estate. The loan is guaranteed in part by the U.S. Department of Agriculture Rural Business-Cooperative Service's loan guarantee. Under the terms of the loan, the lender will permit

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chattel mortgages on purchased equipment not to exceed \$200,000 on an annual basis so long as the Company is not in default. The Company also has a \$1,000,000 line of credit, under which there were \$799,591 in borrowings at March 31, 2004. This is evidenced by commercial revolving promissory note, which carries a variable interest rate of 1% above prime

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and had an original maturity date of April 1, 2004, which the bank extended to July 1, 2004. In view of conversations between the Company and the lender, the Company believes that the lender may not further extend the due date. The Company is in the process of seeking to secure new financing to replace this line of credit. However, the Company's poor performance in 2003 as well as changes in financial markets and increasing interest rates may negatively affect the Company's ability to secure a new line of credit at an interest rate comparable to the existing line of credit. If the line of credit is not extended and a new line of credit is not secured, the Company would be obligated to repay the line of credit in full, which would adversely effect the Company's liquidity position.

At March 31, 2004, the Company had cash totaling \$1,456,309 compared to cash totaling \$699,645 at December 31, 2003. During the period, the financing activities provided \$7,196 (net) in cash primarily from new borrowings; used \$32,530 (net) in its investing activities, \$59,149 for the purchase of new equipment and \$26,619 collected on a related party notes receivable. The Company's operating activities provided cash of \$781,998 (net) primarily due to a customer deposit of \$487,000 as prepayment for a large project anticipated to be completed in third quarter 2004.

Capital spending totaled \$59,149 in the three month period ended March 31, 2004, used mainly for routine equipment replacements and plant modernization, versus \$205,639 in the comparable period of the prior year. The Company plans to make additional capital expenditures for routine equipment replacement, productivity improvements and plant upgrades that are planned for 2004 based on the achievement of operating goals and the availability of funds.

As a result of the Company's substantial debt burden, the Company is especially sensitive to changes in the prevailing interest rates. Fluctuations 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, if interest rates should increase.

The Company's cash flow from operations is affected by production schedules set by contractors, which generally provide for payment 45 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 long before it receives payment. In the event cash flow from operations, collection of claims, and existing credit facilities are not adequate to support operations, the Company would be required to obtain alternative sources of both short-term and long-term financing, for which there can be no assurance of obtaining.

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

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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 estimates inventory markdowns based on customer orders sold below cost, to be shipped in the following period and on the amount of similar unsold inventory at period end. The Company analyzes recent sales and gross margins on unsold inventory in further estimating inventory markdowns. These specific markdowns are reflected in the cost of sales and the related gross margins at the conclusion of the appropriate sales period. This estimate involves significant judgment by the management of the Company. Actual gross margins on sales of excess inventory 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.

The Company has elected to use the intrinsic value method of accounting as prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, for stock options granted to the Company's employees. This method does not result in the recognition of compensation expense when employee stock options are granted if the exercise price of the option equals or exceeds the fair market value of the stock at the date of grant. Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), establishes alternative methods of accounting for stock options. The Company's Form 10-KSB for the period ended December 31, 2003 and the footnote entitled stock options in this Form 10-QSB shows the effect on earnings if the fair value method prescribed by SFAS 123 had been adopted.

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Other Comments

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

As of March 31, 2004, the Company's backlog was significantly higher than the same period in 2003. The projects relating to the backlog as of March 31, 2004 are scheduled to be constructed in 2004 and 2005. The increase in the Company's backlog from March 31, 2003 is due to improved economic conditions in the construction industry, which translates into more demand for our products. Also, the Company has seen significant increases in the sale of its Slenderwall product line, with two projects completed in the three months ended March 31, 2004 and two other large projects planned for production later in 2004. The risk still exist that these improved economic conditions may not continue and future sales levels may be adversely affected.

In April 2004, the Company experienced significant increases in the cost of steel, including rebar and wire mesh used to reinforce its concrete products. It is expected that these increased costs will affect the gross profit for projects that went under contract in the fourth quarter of 2003 and are scheduled for production in April 2004 or later.

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 has been no change in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended March 31, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - Other Information

Item 1. Legal Proceedings.

Reference is made to Item 3 of the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003 for information as to reported legal proceedings.

Item 2. Changes in 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.

On April 21, 2004, the Company appointed Lawrence R. Crews to the position of Chief Financial Officer. Previously, Mr. Crews was Chief Financial Officer from January 2003 to March 2004 for GPM Investments, LLC (GPM), in Richmond, Virginia, d.b.a. Fas Mart and Shore Stop Convenience Stores, with stores in Virginia, Delaware, and Maryland. From March 2001 to October 2002 Mr. Crews was Assistant Controller for Swifty Serve Convenience Stores in Durham, NC, which operated approximately 500 locations across the southeast. From June 1999 to March 2001 Mr. Crews was an auditor with Arthur Andersen, LLP in the Raleigh, NC. Mr. Crews earned a Master's of Accountancy degree from North Carolina State University and a Bachelor's degree in Communication in 1993 from North Carolina State University. He also served in the United States Air Force Reserves as a maintenance inspector for the KC-10 aircraft.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

(1) 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 |

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32.2 Section 906 Certification of Chief Financial Officer

(b) Reports on Form 8-K - None.

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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: May 25, 2004

By: /s/ Rodney I. Smith

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

Date: May 25, 2004

By: /s/ Lawrence R. Crews

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