

KEWAUNEE SCIENTIFIC CORP /DE/

Form 10-Q

September 14, 2010

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

FORM 10-Q

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

For the quarterly period ended July 31, 2010

or

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

For the transition period from _____ to _____

Commission file number 0-5286

KEWAUNEE SCIENTIFIC CORPORATION

(Exact name of registrant as specified in its charter)

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| | |
|--|---|
| Delaware (State or other jurisdiction of incorporation or organization) | 38-0715562 (IRS Employer Identification No.) |
| 2700 West Front Street | |
| Statesville, North Carolina (Address of principal executive offices) | 28677-2927 (Zip Code) |
| Registrant's telephone number, including area code: (704) 873-7202 | |

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 ☒ No ☐

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 ☐ No ☐

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 definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|--|---|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input checked="" type="checkbox"/> |

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

As of September 7, 2010, the registrant had outstanding 2,573,100 shares of Common Stock.

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KEWAUNEE SCIENTIFIC CORPORATION

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Part 1. Financial Information

Item 1. Financial Statements

Kewaunee Scientific Corporation

Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share data)

| | Three months ended July 31, | |
|---|--------------------------------|-----------|
| | 2010 | 2009 |
| Net sales | \$ 24,858 | \$ 26,249 |
| Costs of products sold | 19,859 | 20,485 |
| Gross profit | 4,999 | 5,764 |
| Operating expenses | 3,901 | 3,966 |
| Operating earnings | 1,098 | 1,798 |
| Interest expense | (45) | (41) |
| Earnings before income taxes | 1,053 | 1,757 |
| Income tax expense | 329 | 589 |
| Net earnings | 724 | 1,168 |
| Less: net earnings attributable to the noncontrolling interest | (67) | (97) |
| Net earnings attributable to Kewaunee Scientific Corporation | \$ 657 | \$ 1,071 |
| Net earnings per share attributable to Kewaunee Scientific Corporation stockholders | | |
| Basic | \$ 0.26 | \$ 0.42 |
| Diluted | \$ 0.25 | \$ 0.42 |
| Weighted average number of common shares outstanding (in thousands) | | |
| Basic | 2,573 | 2,556 |
| Diluted | 2,578 | 2,558 |

See accompanying notes to consolidated financial statements.

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Consolidated Balance Sheets

(in thousands)

| | July 31, 2010 (Unaudited) | April 30, 2010 |
|--|---------------------------------|-------------------|
| <u>Assets</u> | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 1,812 | \$ 1,722 |
| Restricted cash | 521 | 544 |
| Receivables, less allowance | 27,425 | 26,169 |
| Inventories | 8,226 | 8,350 |
| Deferred income taxes | 392 | 390 |
| Prepaid expenses and other current assets | 1,369 | 1,407 |
| Total Current Assets | 39,745 | 38,582 |
| Property, plant and equipment, at cost | 45,352 | 43,200 |
| Accumulated depreciation | (29,947) | (29,385) |
| Net Property, Plant and Equipment | 15,405 | 13,815 |
| Deferred income taxes | 690 | 663 |
| Other | 3,540 | 3,561 |
| Total Other Assets | 4,230 | 4,224 |
| Total Assets | \$ 59,380 | \$ 56,621 |
| <u>Liabilities and Stockholders' Equity</u> | | |
| Current Liabilities: | | |
| Short-term borrowings | \$ 7,496 | \$ 4,872 |
| Current obligations under capital leases | 78 | 82 |
| Accounts payable | 9,046 | 9,540 |
| Employee compensation and amounts withheld | 1,514 | 1,358 |
| Deferred revenue | 714 | 586 |
| Other accrued expenses | 1,956 | 2,059 |
| Total Current Liabilities | 20,804 | 18,497 |
| Obligations under capital leases | 99 | 119 |
| Accrued employee benefit plan costs | 6,464 | 6,333 |
| Total Liabilities | 27,367 | 24,949 |
| Equity: | | |
| Common stock | 6,550 | 6,550 |
| Additional paid-in-capital | 890 | 855 |
| Retained earnings | 28,798 | 28,398 |
| Accumulated other comprehensive loss | (5,025) | (4,898) |
| Common stock in treasury, at cost | (473) | (472) |

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| | | |
|--|-----------|-----------|
| Total Kewaunee Scientific Corporation Stockholders' Equity | 30,740 | 30,433 |
| Noncontrolling interest | 1,273 | 1,239 |
| Total Equity | 32,013 | 31,672 |
| Total Liabilities and Equity | \$ 59,380 | \$ 56,621 |

See accompanying notes to consolidated financial statements.

Table of Contents*Kewaunee Scientific Corporation*

Consolidated Statements of Cash Flows

*(Unaudited)**(in thousands)*

| | Three months ended July 31, | |
|---|--------------------------------|-----------------|
| | 2010 | 2009 |
| <i>Cash flows from operating activities:</i> | | |
| Net earnings | \$ 724 | \$ 1,168 |
| Adjustments to reconcile net earnings to net cash (used in) provided by operating activities: | | |
| Depreciation | 589 | 615 |
| Bad debt provision | 43 | 36 |
| Provision for deferred income tax expense | (29) | 17 |
| Decrease in prepaid income taxes | | 9 |
| (Increase) decrease in receivables | (1,299) | 616 |
| Decrease (increase) in inventories | 124 | (1,509) |
| (Decrease) increase in accounts payable and other accrued expenses | (441) | 651 |
| Increase (decrease) in deferred revenue | 128 | (339) |
| Other, net | 73 | (18) |
| Net cash (used in) provided by operating activities | (88) | 1,246 |
| <i>Cash flows from investing activities:</i> | | |
| Capital expenditures | (2,179) | (2,011) |
| Decrease (increase) in restricted cash | 23 | (11) |
| Net cash used in investing activities | (2,156) | (2,022) |
| <i>Cash flows from financing activities:</i> | | |
| Dividends paid | (257) | (205) |
| Increase in short-term borrowings | 2,624 | 509 |
| Payments on capital leases | (24) | (81) |
| Purchase of Treasury Stock | (36) | |
| Proceeds from exercise of stock options (including tax benefit) | 35 | |
| Net cash provided by financing activities | 2,342 | 223 |
| Effect of exchange rate changes on cash | (8) | 38 |
| <i>Increase (decrease) in cash and cash equivalents</i> | 90 | (515) |
| <i>Cash and cash equivalents, beginning of period</i> | 1,722 | 3,559 |
| <i>Cash and cash equivalents, end of period</i> | \$ 1,812 | \$ 3,044 |

See accompanying notes to consolidated financial statements.

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Kewaunee Scientific Corporation

Notes to Consolidated Financial Statements

(unaudited)

A. Financial Information

The unaudited interim consolidated financial statements of Kewaunee Scientific Corporation (the Company or Kewaunee) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the Commission). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's 2010 Annual Report to Stockholders. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year.

The preparation of the interim consolidated financial statements requires management to make certain estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

B. Inventories

Inventories consisted of the following (in thousands):

| | July 31, 2010 | April 30, 2010 |
|-------------------|---------------|----------------|
| Finished products | \$ 1,825 | \$ 2,199 |
| Work in process | 1,374 | 1,237 |
| Raw materials | 5,027 | 4,914 |
| | \$ 8,226 | \$ 8,350 |

For interim reporting, LIFO inventories are computed based on year-to-date quantities and interim changes in price levels. Changes in quantities and price levels are reflected in the interim consolidated financial statements in the period in which they occur.

C. Comprehensive Income

A reconciliation of net earnings and total comprehensive income for the three months ended July 31, 2010 and 2009 is as follows (in thousands):

| | Three months ended July 31, 2010 | Three months ended July 31, 2009 |
|---|-------------------------------------|-------------------------------------|
| Net earnings | \$ 657 | \$ 1,071 |
| Change in cumulative foreign currency translation adjustments | (116) | 104 |
| Change in fair value of cash flow hedge, net of tax | (11) | |
| Total comprehensive income | \$ 530 | \$ 1,175 |

Assets and liabilities for the Company's foreign subsidiaries are translated at exchange rates prevailing on the balance sheet date. Revenues and expenses are translated at weighted average exchange rates prevailing during the period and any resulting translation adjustments are reported

separately in stockholders' equity.

Table of Contents**D. Segment Information**

The following table provides financial information by business segments for the three months ended July 31, 2010 and 2009 (in thousands):

| | Domestic Operations | International Operations | Corporate | Total |
|---|------------------------|-----------------------------|-----------|-----------|
| Three months ended July 31, 2010 | | | | |
| Revenues from external customers \$ | | 20,948 | \$ 3,910 | \$ 24,858 |
| Intersegment revenues | | 663 | 644 | (1,307) |
| Operating earnings (loss) before income taxes | | 1,585 | 228 | (760) |
| Three months ended July 31, 2009 | | | | |
| Revenues from external customers \$ | | 23,358 | \$ 2,891 | \$ 26,249 |
| Intersegment revenues | | | | |

As a result of the recent resignation of Mr. Russell, the following Audit Committee Report is being given by the entire Board of Directors.

AUDIT COMMITTEE REPORT

The Board of Directors, in fulfilling its role as the Audit Committee, is responsible for overseeing the integrity of the Company's financial statements, the qualifications, independence, selection and compensation of the Company's registered independent public accounting firm, and the internal control functions as they relate to the preparation of the financial statements. Our Company currently does not have an Audit Committee Charter. Management is responsible for the preparation, presentation and correctness of the Company's financial statements, internal controls over financial reporting and procedures designed to assure compliance with generally accepted accounting procedures. The Company's independent registered public accounting firm, BDO USA, LLP, is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards in the United States of America and issuing a report thereon.

Management has represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed with management and BDO USA, LLP, the

Company's independent registered public accountants, the Company's audited financial statements as of and for the year ended December 31, 2013. The Audit Committee also discussed with BDO USA, LLP the matters required to be discussed by Statement on Auditing Standards No. 61 "Communications with Audit Committee", as amended (AICPA, Professional Standards, Vol. 1 AU, Section 380), as adopted by the Public Company Accounting Oversight Board (PCAOB) in Rule 3200T. The Audit Committee has received the written disclosures and the letter from BDO USA, LLP required by applicable requirements of the PCAOB regarding BDO USA, LLP's communications with the Audit Committee concerning independence, and the Audit Committee has discussed with BDO USA, LLP its independence. The Audit Committee has also discussed the compatibility of the provision of non-audit services with the independent auditor's independence.

Management has also represented to the Audit Committee that it has completed an assessment of the effectiveness of the Company's internal control over financial reporting, and the Audit Committee has reviewed and discussed with management and BDO USA, LLP the scope and results of their respective assessments of the Company's internal control over financial reporting.

Based on the reports and discussions described in this report, the Audit Committee recommended to the Board of Directors of the Company that the audited financial statements referred to above be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for filing with the Securities and Exchange Commission.

The Audit Committee

Rodney I. Smith

Ashley B. Smith

Wesley A. Taylor

G.E. "Nick" Borst

AUDIT AND RELATED FEES

The aggregate fees billed for each of the past two fiscal years for professional services rendered by BDO USA, LLP, the principal accountant for the audit of the Company, for assurance and related services related to the audit; for tax compliance, tax advice, and tax planning; and for all other fees for products and services are shown in the table below.

Audit Fees. Fees charged as audit fees are for the audit of the Company's annual financial statements and review of financial statements included in the Company's Forms 10-Q or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements.

Tax Fees. Tax fees are for professional services rendered by BDO USA, LLP for tax compliance, tax advice, and tax planning.

Audit-Related Fees. Fees paid to BDO USA, LLP for the audit of the Company's 401(k) benefit plan.

All Other Fees. There were no other fees paid to BDO USA, LLP for the two most recent fiscal years.

| | 2013 | 2012 |
|--------------------|------------|------------|
| Audit Fees | \$ 135,800 | \$ 139,650 |
| Tax Fees | 25,991 | 22,850 |
| Audit-Related Fees | 5,450 | 9,800 |
| All Other Fees | \$— | \$— |
| Total Fees | \$ 167,241 | \$ 172,300 |

BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table sets forth, as of July 1, 2014, certain information concerning ownership of the Company's Common Stock by (i) each person known by the Company, based solely on filings with the Securities and Exchange Commission, to own of record or be the beneficial owner of more than five percent (5%) of the Company's Common Stock, (ii) named executive officers and Directors, and (iii) all Directors, and executive officers as a group. Except as otherwise indicated, the stockholders listed in the table have sole voting and investment powers with respect to the shares indicated.

| Name and Address of Beneficial Owner (1) | Number of Shares Beneficially Owned (2) | Percentage of Class |
|---|---|------------------------|
| Rodney I. Smith (1)(3)(4)(5) | 773,398 | 15.7% |
| Ashley B. Smith (1)(3)(4)(6) | 153,417 | 3.1% |
| Wesley A. Taylor (1)(7) | 57,383 | 1.2% |
| G.E. Nick Borst (8) | 81,000 | 1.7% |
| William A. Kenter (1) | — | — |
| Tall Cotton Partners, LLC (9) | 567,363 | 11.7% |
| Henry Partners, L. P. (10) | 471,000 | 9.7% |
| Wax Asset Management, LLC (11) | 376,683 | 7.8% |
| All directors and executive officers as a group (5 persons)(2)(12) | 1,065,198 | 21.3% |

(1) The address for each of Messrs. Rodney I. Smith, Ashley B. Smith, Wesley A. Taylor and William A. Kenter is c/o Smith-Midland Corporation, P.O. Box 300, 5119 Catlett Road, Midland, Virginia 22728.

(2) Pursuant to the rules and regulations of the Securities and Exchange Commission, shares of Common Stock that an individual or group has a right to acquire within 60 days pursuant to the exercise of options or warrants are deemed to be outstanding for the purposes of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table.

(3) Ashley B. Smith is the son of Rodney I. Smith. Each of Rodney I. Smith and Ashley B. Smith disclaims beneficial ownership of the other's shares of Common Stock.

(4) Does not include options to purchase 16,000 shares held by Matthew Smith and Roderick Smith and an aggregate of 86,489 shares of Common Stock held by Matthew Smith and Roderick Smith. Matthew Smith and Roderick Smith are sons of Rodney I. Smith, and brothers of Ashley B. Smith. Also, does not include shares held by Merry Robin Bachetti,

sister of Rodney I. Smith and aunt of Ashley B. Smith, for which each of Rodney I. Smith and Ashley B. Smith disclaims beneficial ownership.

(5) Includes 50,000 shares of Common Stock held by Hazel Bowling, former wife of Rodney I. Smith, and mother of Mr. Smith's children. Mr. Smith disclaims beneficial ownership of the shares held by Hazel Bowling. Includes options to purchase 100,000 shares.

(6) Includes options to purchase 38,800 shares.

(7) Includes options to purchase 31,000 shares.

- (8) Address of holder is P.O. Box 351, Ophelia, VA 22530.
- (9) Address of holder is 1801 Libbie Avenue, Suite 201, Richmond, VA 23226.
- (10) Address of holder is 255 South 17th Street, Suite 2608, Philadelphia, PA 19103.
- (11) Address of holder is 45 Prospect Street, Greenwich, CT 06830.
- (12) Includes options to purchase 169,800 shares for all directors and executive officers as a group.

EQUITY COMPENSATION PLAN INFORMATION

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans |
|--|---|---|--|
| Equity compensation plans approved by security holders | 370,599 | 1.96 | 500,000 |
| Equity compensation plans not approved by security holders | — | — | — |
| Total | 370,599 | 1.96 | 500,000 |

Compensation of Executive Officers

The following table sets forth the compensation paid by the Company for services rendered for each of the last two completed fiscal years for the principal executive officer of the Company and the two most highly compensated executive officers other than the principal executive officer (the “named executive officers”) whose compensation exceeded \$100,000 during 2013:

Summary Compensation Table

| Name and Principal Position | Year | Salary (\$)(1) | Bonus (\$)(2) | Stock Award (\$) | Option Award (\$) | Non-Equity Incentive Compensation (\$) | Non-Qualified Deferred Compensation Earning (\$) | All Other Compensation (\$)(3)(4) | Total (\$) |
|-----------------------------|------|----------------|---------------|------------------|-------------------|--|--|-----------------------------------|------------|
| Rodney I. Smith | 2013 | 119,547 | 59,733 | — | — | — | 23,400 | 104,000 | 306,680 |
| Chief Executive Officer | 2012 | 92,348 | — | — | — | — | — | 100,000 | 192,348 |

and Chairman of
the
Board.

| | | | | | | | | | |
|--|------|---------|---|---|---|---|---|-------|---------|
| Ashley B. Smith President and Director | 2013 | 144,389 | — | — | — | — | — | 3,000 | 147,389 |
| | 2012 | 131,877 | — | — | — | — | — | 1,000 | 132,877 |
| William A. Kenter Chief Financial Officer | 2013 | 113,026 | — | — | — | — | — | — | 113,026 |
| | 2012 | 95,692 | — | — | — | — | — | — | 95,692 |

(1) Represents salaries and commissions paid in 2013 and 2012 for services provided by each named executive officer serving in the capacity listed.

(2) Represents amounts paid in 2013 for annual performance-based bonuses related to operations in 2013.

(3) Mr. Rodney Smith was paid \$99,000 in 2013 and 2012, which is included in the column titled “All Other Compensation”, for royalty payments due under his employment contract with the Company, which is more fully described in the following section titled “Employment Contracts and Termination of Employment and Change in Control Arrangements”. Mr. Rodney Smith received director’s compensation in the amount of \$4,000 for the year 2013 and \$1,000 for 2012.

(4) Mr. Ashley Smith received director’s compensation in the amount of \$3,000 for the year 2013 and \$1,000 for 2012.

Outstanding Equity Awards At Fiscal Year-End 2013

The following table sets forth information for the named executive officers regarding any common share purchase options, stock awards or equity incentive plan awards that were outstanding as of December 31, 2013.

| Name | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Option Exercise Price (\$/Sh) | Option Expiration Date |
|-----------------|---|---|-------------------------------|------------------------|
| Rodney I. Smith | 20,000 | — | 2.52 | 09/29/2015 |
| | 20,000 | — | 2.25 | 05/21/2016 |
| | 20,000 | — | 2.15 | 05/21/2017 |
| | 40,000 | — | 1.21 | 06/29/2018 |
| TOTAL | 100,000 | — | | |
| Ashley B. Smith | 10,000 | — | 2.52 | 09/29/2015 |
| | 7,000 | — | 2.25 | 05/21/2016 |
| | 7,000 | — | 2.15 | 05/21/2017 |
| | 14,800 | — | 1.21 | 06/29/2018 |
| TOTAL | 38,800 | — | | |
| TOTAL | 138,800 | — | | |

All stock options vest on a prorated basis annually over three years from the date of grant and generally expire ten years from the date of grant.

Employment Contracts and Termination of Employment and Change in Control Arrangements.

The Company entered into a four-year Employment Agreement with Rodney I. Smith, its current President and Chief Executive Officer, effective as of September 30, 2002. The term of employment automatically renews commencing on the date one year after the effective date, and on an annual basis thereafter, for an additional one year, unless earlier terminated or not renewed as provided for therein. The agreement provides for an annual base salary of \$99,000 (“Base Salary”), which will be reviewed at least annually and adjusted from time to time at the determination of the Board of Directors. It also provides for an annual royalty fee of \$99,000 payable as consideration for Mr. Smith’s assignment to the Company of all of his rights, title and interest in and to the Patents (as defined in the agreement). Payment of the royalty continues only for as long as the Company is using the inventions underlying the Patents. Mr. Smith is also entitled to performance-based bonus as determined by the Board each calendar year.

Mr. Smith's employment agreement provides further that if Mr. Smith (i) voluntarily leaves the employ of the Company within six months of his becoming aware of a Change of Control (as defined in the agreement) of the Company, then he shall be entitled to receive a lump sum amount equal to three times the five-year average of his combined total annual compensation, which includes the Base Salary and bonus, less one dollar (\$1.00), and certain other unpaid accrued amounts as of the date of his termination, or (ii) is terminated by the Company without Cause (as defined in the agreement) or leaves the Company with Good Reason (as defined in the agreement), Mr. Smith shall be entitled to a lump sum payment equal to three times the combined Base Salary and bonus paid during the immediately preceding calendar year, and such other unpaid accrued amounts. In any of such cases, the Company will provide Mr. Smith with certain Company fringe benefits for two years, subject to certain conditions as provided for in the agreement, and all of Mr. Smith's unvested options to purchase Company stock shall become fully vested and exercisable on the date of termination. Mr. Smith will be entitled to exercise all such options for three years from the date of termination. The Company will have no further obligations to Mr. Smith, other than with respect to the payment of royalties.

In the event Mr. Smith's employment by the Company is terminated as a result of Mr. Smith's (i) death, his estate shall be entitled to a lump sum payment of one times the combined Base Salary and bonus, and certain other accrued and unpaid amounts, or (ii) disability, Mr. Smith shall be entitled to Base Salary and bonus for a period of one year commencing with the date of termination, and all other unpaid accrued amounts.

In the event Mr. Smith's employment is terminated for cause or Mr. Smith voluntarily leaves the employ of the Company for no reason, Mr. Smith shall be entitled to accrued but unpaid Base Salary and Bonus up to the date of termination, and all other unpaid amounts.

The employment agreement also contains non-competition and non-solicitation covenants for one year following Mr. Smith's termination of employment for any reason.

On December 31, 2008, the board of directors approved an amendment to the Employment Agreement to include changes required to be in compliance with Section 409A of the Internal Revenue Code, nonqualified deferred compensation.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) ("Section 16(a)") of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires executive officers and Directors and persons who beneficially own more than ten percent (10%) of the Company's Common Stock to file initial reports of ownership on Form 3 and reports of changes in ownership on Form 4 with the Securities and Exchange Commission (the "Commission") and any national securities exchange on which the Corporation's securities are registered.

Based solely on a review of the copies of such forms furnished to the Company and written representations from the executive officers and Directors, the Company believes that all Section 16(a) filing requirements applicable to its executive officers, Directors and greater than ten per cent (10%) beneficial owners were satisfied during 2013, except that (i) Wesley A. Taylor filed a Form 4 (two transactions) one day late, (ii) Rodney I. Smith filed a Form 4 (two transactions) six days late, and (iii) G.E. "Nick" Borst is late in filing his Form 3.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

BDO USA, LLP acted as our independent registered public accounting firm for the fiscal year ended December 31, 2013. A representative of BDO USA, LLP plans to be present at the Annual Meeting with the opportunity to make a statement if he desires to do so, and will be available to respond to appropriate questions.

VOTING AT MEETING

The Board of Directors has fixed July 1, 2014 as the record date for the determination of Stockholders entitled to vote at this Annual Meeting. On or about that date, 4,840,628 shares of Common Stock were outstanding and entitled to vote.

SOLICITATION OF PROXIES

The cost of solicitation of proxies will be borne by the Company. In addition to the solicitation of proxies by mail, officers and employees of the Company may solicit in person or by telephone. The Company may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation materials to beneficial owners.

REVOCATION OF PROXY

Subject to the terms and conditions set forth herein, all proxies received by the Company will be effective, notwithstanding any transfer of the shares to which such proxies relate, unless prior to the Annual Meeting, the Company receives a written notice of revocation signed by the person who, as of the record date, was the registered holder of such shares. The Notice of Revocation must indicate the certificate number or numbers of the shares to which such revocation relates and the aggregate number of shares represented by such certificate(s).

DEADLINE FOR SUBMISSION OF STOCKHOLDER PROPOSALS FOR THE 2015 ANNUAL MEETING

Pursuant to SEC Rule 14a-8, in order to be included in proxy material for next year's annual meeting, Stockholders' proposed resolutions must be received by the Company no later than March 17, 2015. In addition, the by-laws of the Company require that we be given advance notice of stockholder nominations for election to the Board of Directors and of other matters which stockholders wish to present for action at an annual meeting of stockholders. The required notice must be delivered to the Secretary of the Company at our principal offices not less than 60 days and not more than 90 days prior to the anniversary date of the immediately preceding annual meeting of stockholders. These requirements are separate from and in addition to the SEC requirements that a stockholder must meet in order to have a stockholder proposal included in the Company's proxy statement.

Pursuant to our by-laws, if notice of any stockholder proposal is received earlier than May 23, 2015 or after June 22, 2015, then the notice will be considered untimely and we are not required to present such proposal at the Annual Meeting to be held in 2015. If the Board of Directors chooses to present a proposal submitted after June 22, 2015 at next year's Annual Meeting, then the persons named in proxies solicited by the Board of Directors for such Annual Meeting may exercise discretionary voting power with respect to such proposal.

HOUSEHOLDING OF PROXY MATERIAL

Some banks, brokers and other nominee record holders may have been sent to multiple stockholders in your household. If you would like to obtain another copy of the proxy statement, proxy card or annual report to stockholders, please contact by mail Secretary, Smith-Midland Corporation, 5119 Catlett Road, Midland, Virginia 22728. If you want to receive separate copies of our proxy statements, proxy card and annual reports in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker, or other nominee record holder.

ANNUAL REPORT ON FORM 10-K

An Annual Report on Form 10-K as filed with the SEC for the year ended December 31, 2013, containing financial and other information about the Company, is being mailed to all stockholders of record as of the Record Date, at the Company's cost.

MISCELLANEOUS

The management does not know of any other matter that may come before the Annual Meeting. However, if any other matters are properly presented to the Annual Meeting, it is the intention of the persons named in the accompanying proxy to vote, or otherwise act, in accordance with their judgment on such matters.

By Order of the Board of Directors:

/s/ Rodney I. Smith

Rodney I. Smith
Chairman and Chief Executive Officer
Midland, Virginia

Dated: July 15, 2014

THE MANAGEMENT HOPES THAT STOCKHOLDERS WILL ATTEND THE ANNUAL MEETING. WHETHER OR NOT YOU PLAN TO ATTEND, YOU ARE URGED TO COMPLETE, DATE, SIGN, AND RETURN THE ENCLOSED PROXY IN THE ACCOMPANYING ENVELOPE. PROMPT RESPONSE WILL GREATLY FACILITATE ARRANGEMENTS FOR THE MEETING AND YOUR COOPERATION WILL BE APPRECIATED. STOCKHOLDERS WHO ATTEND THE MEETING MAY VOTE THEIR STOCK PERSONALLY EVEN THOUGH THEY HAVE SENT IN THEIR PROXIES.

