

SMITH MIDLAND CORP  
Form 10-Q  
August 15, 2013

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

FORM 10-Q

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

For the quarterly period ended June 30, 2013

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 1-13752

Smith-Midland Corporation

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
of incorporation or organization)

54-1727060

(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 ☒ 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 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 ☐ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☒

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

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 August 5, 2013 : 4,794,962 shares, net of treasury shares

1

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SMITH-MIDLAND CORPORATION

Form 10-Q Index

PART I. FINANCIAL INFORMATION		Page
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets (Unaudited), June 30, 2013 and December 31, 2012	<u>4</u>
	Condensed Consolidated Statements of Operations (Unaudited) for the three months ended June 30, 2013 and June 30, 2012	<u>6</u>
	Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the three months ended June 30, 2013 and June 30, 2012	<u>7</u>
	Condensed Consolidated Statements of Operations (Unaudited) for the six months ended June 30, 2013 and June 30, 2012	<u>8</u>
	Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the six months ended June 30, 2013 and June 30, 2012	<u>9</u>
	Condensed Consolidated Statements of Cash Flows (Unaudited) for the six months ended June 30, 2013 and June 30, 2012	<u>10</u>
	Notes to Condensed Consolidated Financial Statements (Unaudited)	<u>12</u>
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>15</u>
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	<u>21</u>
Item 4.	Controls and Procedures	<u>21</u>
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	<u>22</u>
Item 1A.	Risk Factors	<u>22</u>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	<u>22</u>
Item 3.	Defaults Upon Senior Securities	<u>22</u>
Item 4.	Mine Safety Disclosures	<u>22</u>
Item 5.	Other Information	<u>22</u>
Item 6	Exhibits	<u>22</u>

Signatures

23

2

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## PART I — FINANCIAL INFORMATION

## ITEM 1. Financial Statements

SMITH-MIDLAND CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

ASSETS	June 30, 2013	December 31, 2012
Current assets		
Cash and cash equivalents	\$1,292,784	\$4,367,474
Investment securities, available-for-sale, at fair value	1,932,751	—
Accounts receivable, net		
Trade - billed (less allowance for doubtful accounts of \$241,275 and \$230,749)	7,308,078	4,752,729
Trade - unbilled	—	356,525
Inventories		
Raw materials	887,794	472,149
Finished goods	1,092,536	1,631,957
Prepaid expenses and other assets	189,982	287,002
Refundable income taxes	91,405	173,155
Deferred taxes	461,000	438,000
Total current assets	13,256,330	12,478,991
Property and equipment, net	3,962,576	4,049,478
Other assets	293,488	289,335
Total assets	\$17,512,394	\$16,817,804

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

SMITH-MIDLAND CORPORATION  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 2013	December 31, 2012
Current liabilities		
Accounts payable - trade	\$ 1,195,632	\$ 922,091
Accrued expenses and other liabilities	1,153,429	1,140,234
Current maturities of notes payable	334,928	329,529
Customer deposits	746,408	204,991
Total current liabilities	3,430,397	2,596,845
Notes payable - less current maturities	2,526,341	2,661,228
Deferred tax liability	648,000	694,000
Total liabilities	6,604,738	5,952,073
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; 4,835,882 issued	48,359	48,262
Additional paid-in capital	5,003,612	4,995,278
Accumulated other comprehensive loss	(59,005	) —
Retained earnings	6,016,990	5,924,491
	11,009,956	10,968,031
Treasury stock, at cost, 40,920 shares	(102,300	) (102,300 )
Total stockholders' equity	10,907,656	10,865,731
Total liabilities and stockholders' equity	\$ 17,512,394	\$ 16,817,804

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

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

	Three Months Ended June 30,	
	2013	2012
Revenue		
Products sales and leasing	\$4,586,700	\$4,948,697
Shipping and installation revenue	1,116,264	1,258,657
Royalties	431,600	429,801
Total revenue	6,134,564	6,637,155
Cost of goods sold	5,082,325	4,720,545
Gross profit	1,052,239	1,916,610
Operating expenses		
General and administrative expenses	834,309	661,019
Selling expenses	605,162	514,590
Total operating expenses	1,439,471	1,175,609
Gain (loss) on sale of assets	11,349	(7,284 )
Other	25,380	(6,912 )
Operating income (loss)	(350,503 )	726,805
Other income (expense)		
Interest expense	(26,793 )	(32,800 )
Interest income	381	1,532
Total other expense	(26,412 )	(31,268 )
Income (loss) before income tax expense	(376,915 )	695,537
Income tax (benefit) expense	(154,000 )	272,000
Net income (loss)	\$(222,915 )	\$423,537
Basic earnings (loss) per share	\$(0.05 )	\$0.09
Diluted earnings (loss) per share	\$(0.05 )	\$0.09
Weighted average number of common shares outstanding:		
Basic	4,829,380	4,826,182
Diluted	4,829,380	4,850,569

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





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

	Three Months Ended June 30,	
	2013	2012
Net income (loss)	\$(222,915)	) \$423,537
Other comprehensive loss, net of tax:		
Net unrealized holding loss (1)	(52,627)	) —
Comprehensive income (loss)	\$(275,542)	) \$423,537

(1) Unrealized losses on available for sale securities is shown net of income tax benefits of \$33,000.

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

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

	Six Months Ended June 30,	
	2013	2012
Revenue		
Products sales and leasing	\$ 10,446,081	\$ 9,012,812
Shipping and installation revenue	1,823,068	2,801,395
Royalties	759,050	813,372
Total revenue	13,028,199	12,627,579
Cost of goods sold	10,160,197	9,750,349
Gross profit	2,868,002	2,877,230
Operating expenses		
General and administrative expenses	1,464,062	1,264,052
Selling expenses	1,266,061	1,131,696
Total operating expenses	2,730,123	2,395,748
Gain on sale of assets	18,506	50,971
Other	45,481	2,880
Operating income	201,866	535,333
Other income (expense)		
Interest expense	(59,171)	(68,051)
Interest income	1,461	2,880
Total other expense	(57,710)	(65,171)
Income before income tax expense	144,156	470,162
Income tax expense	58,000	174,000
Net income	\$ 86,156	\$ 296,162
Basic earnings per share	\$ 0.02	\$ 0.06
Diluted earnings per share	\$ 0.02	\$ 0.06
Weighted average number of common shares outstanding:		
Basic	4,827,790	4,826,182
Diluted	4,890,848	4,863,208

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



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

	Six Months Ended June 30,	
	2013	2012
Net income	\$86,156	\$296,162
Other comprehensive loss, net of tax:		
Net unrealized holding loss (1)	(59,005)	) —
Comprehensive income	\$27,151	\$296,162

(1) Unrealized losses on available for sale securities is shown net of income tax benefits of \$38,000.

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)

	Six Months Ended June 30,	
	2013	2012
Reconciliation of net income to cash provided by operating activities		
Net income	\$86,156	\$296,162
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	332,040	357,918
Gain on disposal of fixed assets	(18,282)	(50,971)
Deferred taxes	(69,000)	(24,000)
(Increase) decrease in:		
Accounts receivable - billed	(2,555,349)	770,527
Accounts receivable - unbilled	659,995	(390,600)
Inventories	123,776	225,205
Prepaid expenses and other assets	92,866	408,343
Prepaid income taxes	81,750	—
Increase (decrease) in:		
Accounts payable - trade	273,541	124,544
Accrued expenses and other	13,160	(32,791)
Customer deposits	237,947	(777,075)
Net cash provided (absorbed) by operating activities	(741,400)	907,262
Cash flows from investing activities:		
Purchase of available for sale securities	(1,985,377)	—
Purchases of property and equipment	(245,138)	(8,334)
Proceeds from sale of fixed assets	18,282	50,993
Net cash provided (absorbed) by investing activities	(2,212,233)	42,659
Cash flows from financing activities:		
Proceeds from long-term borrowings	39,898	—
Repayments of long-term borrowings	(169,386)	(220,024)
Proceeds from options exercised	8,431	—
Net cash absorbed by financing activities	(121,057)	(220,024)
Net increase (decrease) in cash and cash equivalents	(3,074,690)	729,897
Cash and cash equivalents		
Beginning of period	4,367,474	2,130,686
End of period	\$1,292,784	\$2,860,583



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, 2012. The December 31, 2012 balance sheet was derived from audited financial statements included in the Form 10-K.

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

Reclassifications

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Smith-Midland Corporation (the "Company") primarily recognizes revenue on the sale of its standard precast concrete products at shipment date, including revenue derived from any projects to be completed under short-term contracts. Installation of the Company's standard products is typically performed by the customer; however, in some circumstances, the Company will install certain products which are accomplished at the time of delivery. The installation activities of smaller buildings are usually performed at the Company's site and shipped completed to the customers site. In larger utility building sales, the buildings are erected on the customers site within one or two days, depending on style and size.

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

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

revenue from licensing agreements is recognized in the month earned.

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

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

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

#### Investments

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

#### NOTE 2. – RECENT ACCOUNTING PRONOUNCEMENTS

In December 2011, the FASB issued ASU No. 2011-11, “Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities”. This guidance eliminates offsetting of financial instruments disclosure differences between GAAP and IFRS. New

disclosures will be required for recognized financial instruments, such as derivatives, repurchase agreements, and reverse repurchase agreements, that are either (1) offset on the balance sheet in accordance with the FASB's offsetting guidance or (2) subject to an enforceable master netting arrangement or similar agreement, regardless of whether they are offset in accordance with the FASB's offsetting guidance. The objective of the new disclosure requirements is to enable users of the financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. This amended guidance will be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The adoption of this guidance, which involves disclosure only, did not impact the Corporation's consolidated financial position, results of operations, or cash flows.

In February 2013, the FASB issued ASU 2013-02, “Comprehensive Income: Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income”. ASU 2013-02 requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in financial statements. The provisions of ASU 2013-02 are effective for periods beginning after December 15, 2012, with prospective application to transactions or modifications of existing transactions that occur on or after the effective date. Upon adoption of the provisions of ASU 2013-02 on January 1, 2013, the Corporation revised its financial statements and disclosures accordingly.

#### NOTE 3. – NET INCOME PER COMMON SHARE

Basic earnings per common share exclude all dilutive stock options and are computed using the weighted average number of common shares outstanding during the period. The diluted earnings per common share calculation reflect the potential dilutive effect of securities that could share in earnings of an entity. Outstanding options were excluded

from the diluted earnings (loss) per share calculation because they would have an anti-dilutive effect were 254,166 for the six months ended June 30, 2013 and 2012.

	Three Months Ended June 30,	
	2013	2012
Basic earnings (loss) per share		
Income (loss) available to common shareholders	\$(222,915 )	423,537
Weighted average shares outstanding	4,829,380	4,826,182
Basic earnings (loss) per share	\$(0.05 )	\$0.09
Diluted earnings (loss) per share		
Income (loss) available to common shareholders	\$(222,915 )	423,537
Weighted average shares outstanding	4,829,380	4,826,182
Dilutive effect of stock options	—	24,387
Total weighted average shares outstanding	4,829,380	4,850,569
Diluted earnings (loss) per share	\$(0.05 )	\$0.09

	Six Months Ended June 30,	
	2013	2012
Basic earnings per share		
Income available to common shareholders	86,156	296,162
Weighted average shares outstanding	4,827,790	4,826,182
Basic earnings per share	\$0.02	\$0.06
Diluted earnings per share		
Income available to common shareholders	86,156	296,162
Weighted average shares outstanding	4,827,790	4,826,182
Dilutive effect of stock options	63,058	37,026
Total weighted average shares outstanding	4,890,848	4,863,208
Diluted earnings per share	\$0.02	\$0.06

## NOTE 4. – STOCK OPTIONS

In accordance with ASC 718, the Company had no stock option expense for the three and six months ended June 30, 2013 and June 30, 2012. The Company uses the Black-Scholes option-pricing model to measure the fair value of stock options granted to employees. The Company did not issue any stock options for the six months ended June 30, 2013.

The following table summarized options outstanding at June 30, 2013

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2012	425,965	\$1.82
Granted	—	—
Forfeited	—	—
Exercised	9,700	0.86
Outstanding options at end of quarter	416,265	\$1.84
Outstanding exercisable options at end of quarter	416,265	\$1.84

The intrinsic value of outstanding and exercisable options at June 30, 2013 was approximately 138,000.

## NOTE 5. – SUBSEQUENT EVENTS

Through the date of the filing of this Form 10-Q, the Company has evaluated events and transactions occurring subsequent to June 30, 2013 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 those terms. Potential risks and uncertainties include, among other things, such factors as:

- no assurance of profitable operations; in this respect, while the Company reported net income for the first quarter of 2013 and was profitable for 2012, it incurred losses for the second quarter of 2013 and the fourth quarter of 2012,
- while our debt level is decreasing, the ability to satisfy the same cannot be assured,

the continued availability of financing in the amounts, at the times, and on the terms required, to support our future business and capital projects,

the extent to which we are successful in developing, acquiring, licensing or securing patents for proprietary products,

• changes in economic conditions specific to any one or more of our markets (including the availability of public funds and grants for construction),

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

• adverse weather which inhibits the demand for our products,

• our compliance with governmental regulations,

• the outcome of future litigation,

• on material construction projects, our ability to produce and install product that conforms to contract specifications and in a time frame that meets the contract requirements,

• the cyclical nature of the construction industry,

• our exposure to increased interest expense payments should interest rates change,

• the Company's Board of Directors, which is composed of five members, has only two outside, independent directors, and

• the other factors and information disclosed and discussed in other sections of this Report, and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

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 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.

Sales decreased by \$502,591 during the three month period ended June 30, 2013 when compared to the same period in 2012. For the three months ended June 30, 2013, the Company incurred a net loss of \$222,915, as compared to net income of \$423,537 for the same period in 2012. The decrease in sales results from the continued weak construction economy in the geographical area served by the Company. In addition, the Company has been more selective in bidding on jobs with less than normal gross profits and has focused more on sales and marketing of its proprietary Slenderwall product which provides higher than normal gross profits as an equivalent product is not available elsewhere. In respect of expenses, higher fixed overhead costs included in cost of goods sold and higher sales, general and administrative expenses also negatively affected operating results for the quarter ended June 30, 2013. Included in the higher costs were increased salaries, which salaries were temporarily reduced in February 2012 and reinstated in the later months of 2012. Sales for the six month period ended June 30,

2013 were \$13,028,199 or 3.2% higher when compared to the period in 2012, however, sales and net income in the first quarter of 2013 were substantially affected in a positive manner by virtue of the contract to provide rental barrier for the Presidential Inauguration held in Washington, D.C. during January 2013. Management believes that both sales and gross profits will increase during the second half of 2013 as evidenced by the higher sales backlog going into the period, which include two new large contracts for the production of Slenderwall™ and soundwall.

## Results of Operations

Three and six months ended June 30, 2013 compared to the three and six months ended June 30, 2012

### Revenue By Type

	Three Months Ended June 30,					Six Months Ended June 30,				
	2013	2012	Change	% of Change		2013	2012	Change	% of Change	
Product Sales:										
Soundwall Sales	252,548	260,635	(8,087)	(3)%		679,226	546,580	132,646	24%	
Architectural Panel Sales	90,749	687,631	(596,882)	(87)%		203,718	1,376,029	(1,172,311)	(85)%	
Slenderwall Sales	1,121,012	34,394	1,086,618	3,159%		2,218,372	395,170	1,823,202	461%	
Miscellaneous Wall Sales	298,054	123,834	174,220	141%		456,302	201,351	254,951	127%	
Total Wall Sales	1,762,363	1,106,494	655,869	59%		3,557,618	2,519,130	1,038,488	41%	
Barrier Sales	1,167,889	1,246,659	(78,770)	(6)%		2,193,954	1,990,582	203,372	10%	
Easi-Set and Easi-Span Building Sales	712,724	936,284	(223,560)	(24)%		1,524,425	1,398,295	126,130	9%	
Utility and Farm Product Sales	343,146	409,291	(66,145)	(16)%		754,143	786,751	(32,608)	(4)%	
Miscellaneous Product Sales	411,449	442,677	(31,228)	(7)%		678,056	1,431,731	(753,675)	(53)%	
Total Product Sales	4,397,571	4,141,405	256,166	6%		8,708,196	8,126,489	581,707	7%	
Royalty Income	431,600	429,801	1,799	—%		759,050	813,372	(54,322)	(7)%	
Barrier Rentals	189,129	807,292	(618,163)	(77)%		1,737,885	886,323	851,562	96%	
Shipping and Installation Revenue	1,116,264	1,258,657	(142,393)	(11)%		1,823,068	2,801,395	(978,327)	(35)%	
Total Service Revenue	1,736,993	2,495,750	(758,757)	(30)%		4,320,003	4,501,090	(181,087)	(4)%	
Total Revenue	6,134,564	6,637,155	(502,591)	(8)%		13,028,199	12,627,579	400,620	3%	

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 in production during the period. Overall wall sales increased significantly during the three and six month periods ended June 30, 2013 compared to the same periods in 2012. Soundwall sales remained constant when compared to the three months ended June 30, 2013 and 2012, however, soundwall sales increased by 24% for the six month periods

ended June 30, 2013 over the comparable period in 2012. Architectural panel sales decreased significantly during the three and six month periods ended June 30, 2013 as the pricing of these jobs continues to be competitive and the Company is being more selective in bidding these low margin projects. Because of the low margins in architectural projects, the Company is putting more emphasis on its proprietary Slenderwall™ product which tends to have higher gross margins. Consequently, Slenderwall™ panel sales increased significantly during the three and six month periods ending June 30, 2013 and 2012. There were two large Slenderwall™ jobs in production during the first six months of the year as well as three smaller jobs. Management believes the

Slenderwall™ projects now in production will help offset some of the lower margin sales also in production. The Company expects the trend toward increased Slenderwall™ sales will continue through the remainder of the year. Miscellaneous wall panels increased moderately during the three and six month periods ended June 30, 2013, due mainly to the continued availability of contracts for the Company to bid.

**Barrier Sales** – Barrier sales remained relatively flat during the three and six months ended of June 30, 2013 compared to the same periods in 2012. Sales dipped slightly during the three month period but increased slightly during the six month period. The increase in sales is the result of a large contract for the sale of barrier to a private contractor in North Carolina. While the overall barrier market has slowed over the last several years, management has been successful in maintaining a smaller but constant level of sales during the year.

**Easi-Set® and Easi-Span® Building Sales** – Building sales decreased moderately during the three months ended June 30, 2013, compared to the same period in 2012. Due to the sale of several restrooms to the government during the first quarter of 2013 buildings sales during the six month period were up 9% over the same period in 2012.

Continued bidding activities lead management to believe that building sales will continue to improve during 2013.

**Utility and Farm Product Sales** – Utility and farm product recorded a slight decrease in sales during the three and six month periods ended June 30, 2013 compared to the same periods in 2012. The sales of utility products, mainly manholes, is directly related to infrastructure building and improvements in the local economy, which continues to be relatively flat because of market conditions. The Company believes utility and farm product sales will remain flat over the remainder of the year.

**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 slightly for three month period ended June 30, 2013, compared to the same period in 2012. Miscellaneous products decreased significantly for the the six month periods ended June 30, 2013 as compared to the period in 2012 and management believes that this decrease will continue over the remainder of the year as miscellaneous product sales depend in part on the continued availability of these type of jobs and improvement in the construction industry overall.

**Royalty Income** – Royalty revenue remained constant the three months ended June 30, 2013, compared to the same period in 2012, while such revenues decreased by 7% for the for the six months ended June 30, 2013 as compared to the same period in 2012. The decrease was due in part to a large Slenderwall™ royalty paid by a Canadian licensee in the first quarter of 2012. Since then, there has been little Slenderwall™ activity by our licensees. In addition, states continue spending very little on highway projects throughout North America as highway stimulus money remains tight. A Canadian licensee recently began a relatively large Slenderwall™ project and we anticipated royalties beginning in the second quarter of 2013 but they will most likely begin in the last six months of the year.

**Barrier Rentals** – Barrier rentals were significantly lower for the three months ended June 30, 2013 compared to the same periods in 2012, while for the six month periods ending June 30, 2013 and 2012 rentals were up significantly. The decrease for the three month period was the result of a one-time large rental for the NATO Conference held in Chicago during May 2012. The increase in barrier rental for the six month period is a result of the Company providing rental barrier for the Presidential Inauguration held in Washington, D.C. in January 2013. Management believes that over the remainder of the year, its core barrier rentals, rentals other than those special projects described above, will remain constant during the remainder of 2013.

**Shipping and Installation** – Shipping revenue results from shipping our products to the customers' final destination and is recognized when the shipping services take place. Installation revenue results from installation of our products at the customers construction site. Installation revenue would result in 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. In total, our shipping and installation revenue decreased by 11% for the three month periods ended June 30, 2013 from the three months ended June 30, 2012 and decreased by 35% for the six month periods ending June 30, 2013 as compared to the same period in 2012. During the first six months 2012, the Company was in the process of installing a large Slenderwall™ project and several small architectural projects while in 2013 the Company was not involved in any large installation projects. As for shipping, very few of our larger projects are currently shipping, however, they will begin shipping in the second half of year and, consequently, we will see an

increase in shipping revenue during this period. Management believes that shipping and installation revenues will increase from current levels over the remainder of the year.

**Cost of Goods Sold** – Total cost of goods sold for the three month period ended June 30, 2013 increased by \$361,780, or 8%, from the same period in 2012. Total cost of goods sold, as a percentage of total revenue, not including royalties, was 89% and 76% for the three months ended June 30, 2013 and June 30, 2012, respectively. Total cost of goods sold for the six month period ended June 30, 2013 increased by \$409,848, or 4%, from the same period in 2012. Total cost of goods sold, as a percentage of total revenue, not including royalties, was 83% for the six months ended June 30, 2013 and 2012. The increase in cost of goods sold as a percentage of total revenue, not including royalties, for the three months ended June 30, 2013 compared to the same period in 2012 was primarily due to jobs in production that were bid with lower than normal profit margins and a lower production level to fully absorb fixed overhead costs. Inflation remains relatively low for raw materials used in production of the Company's precast products and management believes inflation will continue to remain low for the remainder of the year.

**General and Administrative Expenses** – For the three months ended June 30, 2013, the Company's general and administrative expenses increased \$173,290, or 26%, to \$834,309 from \$661,019 during the same period in 2012. For the six months ended June 30, 2013, the Company's general and administrative expenses increased \$200,010, or 16%, to \$1,464,062 from \$1,264,052 during the same period in 2012. The increase for the three month comparative period was primarily due to increased salary expense, a small increase in bad debts and an increase in state use tax assessed on installation projects. The increase for the six month comparative period was primarily due to increased salary expense, a small increase in bad debts and a small increase in expenses related to SEC filings. General and administrative expense as a percentage of total revenue was 14% and 10% for the three months ended June 30, 2013 and 2012, respectively.

**Selling Expenses** – Selling expenses for the three month period ended June 30, 2013 increased to \$605,162 from \$514,590 for the same period in 2012, or 18%, and for the six month period ended June 30, 2013 increased to \$1,266,061 from \$1,131,696 for the same period 2012, or 12%. The increase for the three and six month period ended June 30, 2013 and 2012 resulted primarily from higher advertising expenses and higher salaries for added salespersons when compared to the same period in 2012.

**Operating Income (Loss)** – The Company had an operating loss for the three months ended June 30, 2013 of \$350,503 compared to operating income of \$726,805 for the same period in 2012. The Company had operating income for the six months ended June 30, 2013 of \$201,866 compared to operating income of \$535,333 for the same period in 2012. The decrease in operating income for the three and six month comparison of June 30, 2013 and 2012 was primarily the result of an increase in cost of goods sold for the period as a percentage of total revenue, not including royalties, due to several new projects that were bid with less than the normal amount of gross margins normally associated with these types of projects as well as increases in selling, general and administrative expenses.

**Interest Expense** – Interest expense was slightly lower for the three and six month periods ended June 30, 2013 compared to the same period in 2012. The decrease was due primarily to payment of notes payable during the current periods.

**Income Tax Expense** – The Company had a tax benefit of \$154,000 for the three months ended June 30, 2013 compared to tax expense of \$272,000 for the same period in 2012. The Company had a tax expense of \$58,000 for the six months ended June 30, 2013 compared to tax expense of \$174,000 for the same period in 2012. The changes in the tax benefit or expense for the periods correlated to the change in pre-tax income.

**Net Income (Loss)** – The Company had a net loss of \$222,915 for the three months ended June 30, 2013, compared to net income of \$423,537 for the same period in 2012. The Company had net income of \$86,156 for the six months ended June 30, 2013, compared to net income of \$296,162 for the same period in 2012.

#### Liquidity and Capital Resources

The Company has financed its capital expenditures and its operating requirements for the first six months of 2013 primarily from cash balances and borrowings from a bank in the amount of \$39,898. The Company had \$2,861,269 of debt obligations at June 30, 2013, of which \$334,928 was scheduled to mature within twelve months. During the six months ended June 30, 2013, the Company made repayments of outstanding debt in the amount \$169,386. The Company's \$2,000,000 line of credit with a bank expired in May 2013, however, the renewal has been approved by

the bank and is in the process of closing. The line of credit will be evidenced by a commercial revolving promissory note, which carries a variable interest rate of prime and mature one year from closing. In addition, the Company has a commitment from bank to renew its \$1,000,000 equipment line of credit which expired in May 2013 and is in the process of closing.

At June 30, 2013, the Company had cash totaling \$1,292,784 and \$1,932,751 of investment securities available for sale compared to cash totaling \$4,367,474 and no investment securities available for sale on December 31, 2012. Investment securities available for sale consists of 171,380 shares of USVAX (a Virginia Bond Fund). The decrease in aggregate cash and investment securities available for sale is primarily the result of cash used by operations, cash payments on outstanding debt and purchases of capital equipment.

Capital spending totaled \$245,138 for the six months ended June 30, 2013, as compared to \$8,334 for the same period in 2012. The 2013 expenditures were primarily for new trucks, manufacturing equipment and land improvements. The Company plans to continue monitoring its purchases of property and equipment for the remainder of the year, however, several upgrades to plant and equipment are planned in the second half of the year totaling approximately \$500,000.

As a result of the Company's existing variable rate debt burden, the Company is sensitive to changes in the prevailing interest rates. Increases in such 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. Each 1% increase in interest rates affecting the Company's outstanding debt will reduce income by approximately \$29,000 annually.

The Company's cash flow from operations is affected by production schedules set by contractors, which generally provide for payment 35 to 75 days after the products are produced. This payment schedule 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 80 days for the year ended December 31, 2012 to 88 days for the six months ended June 30, 2013. The increase in days sales outstanding is attributable to increased retainage held on accounts receivable by customers. Although no assurances can be given, the Company believes that anticipated cash flow from operations and the availability under the renewing lines of credits will be sufficient to finance the Company's operations for at least the next twelve months. The Company's inventory was \$1,980,330 at June 30, 2013 and at December 31, 2012 was \$2,104,106 or a decrease of \$123,776. Inventory turnover was 5.1 for the six months ended June 30, 2013 and 4.3 for the six months ended June 30, 2012.

#### 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, 2012. The preparation of financial statements in conformity with accounting principles generally accepted within the United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying financial statements and related notes. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Company does not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below, however, application of these accounting policies involves the exercise of judgment and the use of assumptions as to future uncertainties and as a result, actual results could differ from these estimates.

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

The Company recognizes revenue on the sale of its standard precast concrete products at shipment date, including revenue derived from any projects to be completed under short-term contracts. Installation services for precast



concrete products, leasing and royalties are recognized as revenue as they are earned on an accrual basis. Licensing fees are recognized under the accrual method unless collectability is in doubt, in which event revenue is recognized as cash is received. Certain sales of Soundwall, Slenderwall™, and other architectural concrete products are recognized upon completion of units produced under long-term contracts. When necessary, provisions for estimated losses on these contracts are made in the period in which

such losses are determined. Changes in job performance, conditions and contract settlements that affect profit are recognized in the period in which the changes occur. Unbilled trade accounts receivable represents revenue earned on units produced for a specific customer contract and not yet billed.

#### Seasonality

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

#### Inflation

Raw material costs for the Company, steel, cement, aggregates and other direct materials used in production increased only slightly in 2012 and the first six months of 2013 and the Company anticipates prices will remain relatively stable over the remainder of 2013.

#### Sales Backlog

As of August 6, 2013, the Company's sales backlog was approximately \$13.7 million, as compared to approximately \$8.4 million at approximately the same date in 2012. It is estimated that substantially all of the projects in the sales backlog will be produced within 12 months. The increase in the backlog at August 7, 2013 from that of August 6, 2012 is attributable to two new large contracts received for the production of Slenderwall™ and soundwall. 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 June 30, 2013.

#### (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 June 30, 2013 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.*

\* The XBRL-related information in Exhibit 101 to this quarterly report on Form 10-Q shall be deemed to be "furnished" and not "filed"

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: August 14, 2013

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

Date: August 14, 2013

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 June 30, 2013

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