

SMITH MIDLAND CORP  
Form 10-Q  
May 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 March 31, 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  No

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

Common Stock, \$.01 par value, outstanding as of May 7, 2013 : 4,785,262 shares, net of treasury shares

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SMITH-MIDLAND CORPORATION

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## PART I — FINANCIAL INFORMATION

## ITEM 1. Financial Statements

SMITH-MIDLAND CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

ASSETS	March 31, 2013	December 31, 2012
Current assets		
Cash and cash equivalents	\$1,914,566	\$4,367,474
Investment securities, available-for-sale, at fair value	1,998,922	—
Accounts receivable, net		
Trade - billed (less allowance for doubtful accounts of \$267,238 and \$233,851)	5,867,777	4,752,729
Trade - unbilled	340,777	356,525
Inventories		
Raw materials	635,925	472,149
Finished goods	1,342,759	1,631,957
Prepaid expenses and other assets	146,822	287,002
Refundable income taxes	—	173,155
Deferred taxes	400,000	438,000
Total current assets	12,647,548	12,478,991
Property and equipment, net	4,002,315	4,049,478
Other assets	304,899	289,335
Total assets	\$16,954,762	\$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	March 31, 2013	December 31, 2012
Current liabilities		
Accounts payable - trade	\$964,903	\$922,091
Accrued expenses and other liabilities	903,633	1,140,234
Income taxes payable	16,447	—
Current maturities of notes payable	335,199	329,529
Customer deposits	286,807	204,991
 Total current liabilities	 2,506,989	 2,596,845
Notes payable - less current maturities	2,612,350	2,661,228
Deferred tax liability	667,000	694,000
 Total liabilities	 5,786,339	 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; 4,826,182 issued and outstanding	48,262	48,262
Additional paid-in capital	4,995,278	4,995,278
Accumulated other comprehensive loss	(6,378	) —
Retained earnings	6,233,561	5,924,491
	11,270,723	10,968,031
 Treasury stock, at cost, 40,920 shares	 (102,300	 ) (102,300
 Total stockholders' equity	 11,168,423	 10,865,731
 Total liabilities and stockholders' equity	 \$16,954,762	 \$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 March 31,	
	2013	2012
Revenue		
Products sales and leasing	\$5,859,381	\$4,064,115
Shipping and installation revenue	706,804	1,542,738
Royalties	327,450	383,571
Total revenue	6,893,635	5,990,424
Cost of goods sold	5,077,872	4,974,567
Gross profit	1,815,763	1,015,857
Operating expenses		
General and administrative expenses	629,753	658,270
Selling expenses	660,899	617,106
Total operating expenses	1,290,652	1,275,376
Gain on sale of assets	7,157	58,255
Other	20,101	9,792
Operating income (loss)	552,369	(191,472 )
Other income (expense)		
Interest expense	(32,378 )	(35,251 )
Interest income	1,080	1,348
Total other expense	(31,298 )	(33,903 )
Income (loss) before income tax expense	521,071	(225,375 )
Income tax (benefit) expense	212,000	(98,000 )
Net income (loss)	\$309,071	\$(127,375 )
Basic earnings (loss) per share	\$0.06	\$(0.03 )
Diluted earnings (loss) per share	\$0.06	\$(0.03 )
Weighted average number of common shares outstanding:		
Basic	4,826,182	4,826,182
Diluted	4,898,348	4,826,182

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 March 31,	
	2013	2012
Net income (loss)	\$309,071	\$(127,375 )
Other comprehensive loss, net of tax:		
Net unrealized holding loss (1)	(6,378 )	—
Comprehensive income (loss)	\$302,693	\$(127,375 )

(1) Unrealized losses on available for sale securities is shown net of income tax benefits of \$5,000.

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)

	Three Months Ended March 31,	
	2013	2012
Reconciliation of net income (loss) to cash provided by operating activities		
Net income (loss)	\$ 309,071	\$(127,375 )
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	159,844	181,998
Gain on disposal of fixed assets	(7,157 )	(58,255 )
Deferred taxes	11,000	(64,000 )
(Increase) decrease in:		
Accounts receivable - billed	(1,115,048 )	1,430,654
Accounts receivable - unbilled	15,748	(291,024 )
Inventories	125,422	219,934
Prepaid taxes and other assets	124,617	85,062
Increase (decrease) in:		
Accounts payable - trade	42,813	211,875
Accrued expenses and other	(242,980 )	46,281
Income taxes payable	189,602	—
Customer deposits	81,815	(809,234 )
Net cash provided (absorbed) by operating activities	(305,253 )	825,916
Cash flows from investing activities:		
Purchase of investment securities	(1,998,922 )	—
Purchases of property and equipment	(112,668 )	(7,269 )
Proceeds from sale of fixed assets	7,144	58,279
Net cash provided (absorbed) by investing activities	(2,104,446 )	51,010
Cash flows from financing activities:		
Proceeds from long-term borrowings	42,814	—
Repayments of long-term borrowings	(86,023 )	(108,701 )
Net cash absorbed by financing activities	(43,209 )	(108,701 )
Net increase (decrease) in cash and cash equivalents	(2,452,908 )	768,225
Cash and cash equivalents		
Beginning of period	4,367,474	2,130,686
End of period	\$1,914,566	\$2,898,911

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 three ended March 31, 2013 and 465,965 for the three months ended March 31, 2012.

	Three Months Ended March 31,	
	2013	2012
Basic earnings (loss) per share		
Income (loss) available to common shareholders	\$ 309,071	\$(127,375 )
Weighted average shares outstanding	4,826,182	4,826,182
Basic earnings (loss) per share	\$0.06	\$(0.03 )
Diluted earnings (loss) per share		
Income (loss) available to common shareholders	\$ 309,071	\$(127,375 )
Weighted average shares outstanding	4,826,182	4,826,182
Dilutive effect of stock options	72,166	—
Total weighted average shares outstanding	4,898,348	4,826,182
Diluted earnings (loss) per share	\$0.06	\$(0.03 )

## NOTE 4. – STOCK OPTIONS

In accordance with ASC 718, the Company had no stock option expense for the three months ended March 31, 2013 and March 31, 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 three months ended March 31, 2013.

The following table summarized options outstanding at March 31, 2013

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

The intrinsic value of outstanding and exercisable options at March 31, 2013 was approximately \$124,000.

## 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 March 31, 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 a significant loss for the fourth quarter of 2012; it also incurred a loss for the year ended December 31, 2011,

- while our debt level is decreasing, the ability to satisfy the same cannot be assured,

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

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

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

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

- adverse weather 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.

The Company's revenue and net income for the three months ended March 31, 2013 were considerably above that of the same period in 2012. While the Company continues to see intense competition for architectural and Soundwall contracts in the geographical areas serviced by the Company, it has been able to increase both its gross profit and net income during the current quarter. These increases are a result of management's continued emphasis on process controls, cost cutting and finding new, higher gross margin, revenue streams. The Company has been able to increase its sales of its innovative products including its J-J Hooks Highway Safety Barrier and its Easi-Set®/Easi-Span® utility buildings. In addition, first quarter revenues and gross profit were substantially affected by virtue of the Company providing rental barrier for the President Inauguration held in Washington, D.C. in January 2013. The Company will continue to seek to make sales inroads in its new product development and its special projects revenue activities, although, because of the current weakened economic conditions, no assurance can be given regarding the results of future periods.

## Results of Operations

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

## Revenue By Type

	Three Months Ended March 31,			
	2013	2012	Change	% of Change
Product Sales:				
Soundwall Panel Sales	\$426,678	\$285,945	\$140,733	49%
Architectural Panel Sales	112,969	688,398	(575,429)	(84)%
Slenderwall Panel Sales	1,097,360	360,776	736,584	204%
Miscellaneous Wall Sales	158,248	77,517	80,731	104%
Total Wall Panel Sales	1,795,255	1,412,636	382,619	27%
Barrier Sales	1,026,065	743,923	282,142	38%
Easi-Set and Easi-Span Building Sales	811,701	462,011	349,690	76%
Utility and Farm Product Sales	410,997	377,460	33,537	9%
Miscellaneous Product Sales	266,607	989,054	(722,447)	(73)%
Total Product Sales	4,310,625	3,985,084	325,541	8%
Royalty Income	327,450	383,571	(56,121)	(15)%
Barrier Rentals	1,548,756	79,031	1,469,725	1,860%
Shipping and Installation Revenue	706,804	1,542,738	(835,934)	(54)%
Total Service Revenue	2,583,010	2,005,340	577,670	29%
Total Revenue	\$6,893,635	\$5,990,424	\$903,211	15%

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 considerably during the three month periods ended March 31, 2013 compared to the same period in 2012, Slenderwall™ panel sales increased significantly during the period due to two small jobs awarded in the fourth quarter of 2012 and a large job awarded in January of 2013 which was in full production in March 2013. Since Slenderwall™ is a proprietary product owned by the Company, these jobs tend to be more profitable than other wall panel sales, consequently strengthening gross margins. Architectural panel sales decreased significantly during the period as the pricing of these jobs continues to be competitive and the Company is being more aggressive in obtaining Slenderwall™ contracts.

Barrier Sales – Barrier sales increased significantly during the three months ended of March 31, 2013 compared to the same period in 2012. The increase in sales is the result of several recent federal and state government contracts for interstate and state highway enhancement projects in the local area. While the overall barrier market has slowed over the last several years, management has been successful in negotiating several contracts which will keep barrier production and sales relatively constant during the first and second quarters of 2013.

Easi-Set® and Easi-Span® Building Sales – Building sales increased greatly during the three months ended March 31, 2013, compared to the same period in 2012. With the help of our new buildings and restrooms sales team, the Company received several large building orders that will be produced and delivered throughout the year. These contracts and 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 increase in sales during the three months ended March 31, 2013 compared to the same period 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. As stated in the latest Form 10-K, the Company is seeing more bidding opportunities for utility products and believes this may result in modest gains over 2013.

Miscellaneous Product Sales – Miscellaneous products are products produced and sold that do not meet the criteria defined for other revenue categories. Miscellaneous product sales decreased significantly for three month period ended March 31, 2013, compared to the same period in 2012. Miscellaneous product sales depends in part on the continued availability of these type of jobs and improvement in the construction industry overall.

Royalty Income – Royalty revenue decreased by 15% for the three months ended March 31, 2013, 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 the North America as highway stimulus money starts drying up. A Canadian licensee recently began a relatively large Slenderwall™ project and we will begin reporting royalties therefrom in the second quarter of 2013.

Barrier Rentals – Barrier rentals increased significantly for the three months ended March 31, 2013 compared to the same periods in 2012. The increase in barrier rentals 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 will remain substantially consistent with the comparable period of the prior year.

Shipping and Installation – Shipping and installation revenue decreased by 54% during or the three months ended March 31, 2013, compared to the same period in 2012, as the Company was in the midsts of installing several large architectural and Slenderwall™ jobs during the first quarter of 2012. The Company is expected to begin installation of several architectural and Slenderwall™ now in production later in the year. Management believes that shipping and installation revenue will be consistent with that of 2012 at years end.

Cost of Goods Sold – Total cost of goods sold for the three month period ended March 31, 2013 increased by \$103,305, or 2%, from the same period in 2012. Total cost of goods sold, as a percentage of total revenue, not including royalties, was 77% and 89% for the three months ended March 31, 2013 and March 31, 2012, respectively. The decrease in cost of goods sold as a percentage of total revenue, not including royalties, for the three months ended March 31, 2013 compared to the same period in 2012 was primarily due to reduced employee staffing levels, better utilization of Company assets and a higher than expected gross margin on the rental of barrier for the Presidential Inauguration. 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 March 31, 2013, the Company's general and administrative expenses decreased \$28,517, or 4%, to \$629,753 from \$658,270 during the same period in 2012. The decrease was primarily due a reduction in state use tax assessed on installation projects. General and administrative expense as a percentage of total revenue was 9% and 11% for the three months ended March 31, 2013 and 2012, respectively.

Selling Expenses – Selling expenses for the three months ended March 31, 2013 increased to \$660,899 from \$617,106 for the same period in 2012, or 7%. The increase for the three months ended March 31, 2013 resulted primarily from higher advertising expenses when compared to the same period in 2012.

Operating Income (Loss) – The Company had operating income for the three months ended March 31, 2013 of \$552,369 compared to an operating loss of \$191,472 for the same period in 2012. The increase in operating income for the three month comparison of March 31, 2013 and 2012 was primarily the result of a decrease in cost of goods sold for the period as a percentage of total revenue, not including royalties and an increase in barrier rental income.

Interest Expense – Interest expense was slightly lower for the three month period ended March 31, 2013 compared to the same period in 2012. The decrease was due primarily to payment of notes payable during the prior year.

Income Tax Expense – The Company had tax expense of \$212,000 for the three months ended March 31, 2013 compared to a tax benefit of \$98,000 for the same period in 2012. The changes in the tax expense for the periods correlated to the change in pre-tax income.



Net Income (Loss) – The Company had net income of \$309,071 for the three months ended March 31, 2013, compared to a net loss of \$127,375 for the same period in 2012.

#### Liquidity and Capital Resources

The Company has financed its capital expenditures and its operating requirements for the first three months of 2013 primarily from cash balances and borrowings from a bank in the amount of \$42,814. The Company had \$2,947,549 of debt obligations at March 31, 2013, of which \$335,199 was scheduled to mature within twelve months. During the three months ended March 31, 2013, the Company made repayments of outstanding debt in the amount \$86,023. The Company has a \$2,000,000 line of credit, of which none was outstanding at March 31, 2013. The line of credit is evidenced by a commercial revolving promissory note, which carries a variable interest rate of prime and matures on May 10, 2013. In addition, the Company has a commitment from Summit Community Bank in the amount of \$1,000,000 for an equipment line of credit which expired on May 9, 2013.

At March 31, 2013, the Company had cash totaling \$1,914,566 and \$1,998,922 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 \$112,668 for the three months ended March 31, 2013, as compared to \$7,269 for the same period in 2012. The 2013 expenditures were primarily for new trucks and land improvements. The Company plans to limit the purchases of property and equipment for the remainder of the year, based solely on production needs only, although several plant and equipment upgrades are planned at 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 \$30,000 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, decreased from 80 days for the year ended December 31, 2012 to 74 days for the three months ended March 31, 2013. The decrease in days sales outstanding is attributable to increased collections efforts. Although no assurances can be given, the Company believes that anticipated cash flow from operations and the availability under the lines of credits will be sufficient to finance the Company's operations for at least the next twelve months.

The Company's inventory was \$1,978,684 at March 31, 2013 and at December 31, 2012 was \$2,104,106 or a decrease of \$125,422. Inventory turnover was 2.5 for the three months ended March 31, 2013 and 2.1 for the three months ended March 31, 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, 2011. 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 three months of 2013 and the Company anticipates prices will remain relatively stable over the remainder of 2013.

#### Sales Backlog

As of May 7, 2013, the Company's sales backlog was approximately \$6.2 million, as compared to approximately \$8.1 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 decrease in the backlog at May 7, 2013 from that of May 7, 2012 is attributable to the timing of recognizing long-term contracts in the backlog and, to a lesser extent, the weakened current economy. The Company also maintains a regularly occurring repeat customer business, which should be considered in addition to the ordered production backlog described above. These orders typically have a quick turn around and represent purchases of a significant portion of the Company's inventoried standard products, such as highway safety barrier, utility and Easi-Set® and Easi-Span® building products. Historically, this regularly occurring repeat customer business has ranged from \$5.0 million to \$7.0 million annually.

#### ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

#### ITEM 4. Controls and Procedures

(a) Disclosure controls and procedures

The Company carried out our evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, the chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures were effective at March 31, 2013.

(b) Changes in Internal Control over Financial Reporting

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There has been no change in the Company's internal control over financial reporting during the three months ended March 31, 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: May 15, 2013

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

Date: May 15, 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 March 31, 2013

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