

SMITH MIDLAND CORP  
Form 10-Q  
August 02, 2018

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  
p 1934

For the quarterly period ended June 30, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-13752

Smith-Midland Corporation  
(Exact name of Registrant as specified in its charter)  
Delaware 54-1727060  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Emerging growth company ☐

Non-accelerated filer ☐ Smaller reporting company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 August 1, 2018 : 5,080,395 shares, net of treasury shares

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## PART I — FINANCIAL INFORMATION

## ITEM 1. Financial Statements

SMITH-MIDLAND CORPORATION  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (in thousands, except share and per share data)

| ASSETS                                                                   | June 30,<br>2018<br>(Unaudited) | December 31,<br>2017 |
|--------------------------------------------------------------------------|---------------------------------|----------------------|
| Current assets                                                           |                                 |                      |
| Cash and cash equivalents                                                | \$ 839                          | \$ 3,390             |
| Investment securities, available-for-sale, at fair value                 | 1,097                           | 1,098                |
| Accounts receivable, net                                                 |                                 |                      |
| Trade - billed (less allowance for doubtful accounts of \$211 and \$208) | 11,262                          | 8,967                |
| Trade - unbilled                                                         | 1,272                           | 251                  |
| Inventories, net                                                         |                                 |                      |
| Raw materials                                                            | 904                             | 819                  |
| Finished goods (less reserves of \$39)                                   | 2,188                           | 2,696                |
| Prepaid expenses and other assets                                        | 441                             | 452                  |
| Refundable income taxes                                                  | 1,325                           | 1,359                |
| Total current assets                                                     | 19,328                          | 19,032               |
| Property and equipment, net                                              | 10,434                          | 9,867                |
| Deferred buy-back lease asset, net                                       | 2,986                           | —                    |
| Other assets                                                             | 269                             | 326                  |
| Total assets                                                             | \$ 33,017                       | \$ 29,225            |

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

SMITH-MIDLAND CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands, except share and per share data)

| LIABILITIES AND STOCKHOLDERS' EQUITY                                                                                                             | June 30,<br>2018<br>(Unaudited) | December 31,<br>2017 |
|--------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------|
| Current liabilities                                                                                                                              |                                 |                      |
| Accounts payable - trade                                                                                                                         | \$ 2,986                        | \$ 3,059             |
| Accrued expenses and other liabilities                                                                                                           | 588                             | 588                  |
| Deferred revenue                                                                                                                                 | 1,198                           | 1,144                |
| Accrued compensation                                                                                                                             | 687                             | 1,231                |
| Income taxes payable                                                                                                                             | 80                              | —                    |
| Dividend payable                                                                                                                                 | —                               | 256                  |
| Current maturities of notes payable                                                                                                              | 693                             | 637                  |
| Customer deposits                                                                                                                                | 1,227                           | 919                  |
| Total current liabilities                                                                                                                        | 7,459                           | 7,834                |
| Deferred buy-back lease obligation                                                                                                               | 3,733                           | —                    |
| Notes payable - less current maturities                                                                                                          | 2,878                           | 2,896                |
| Deferred tax liability                                                                                                                           | 1,287                           | 1,290                |
| Total liabilities                                                                                                                                | 15,357                          | 12,020               |
| Stockholders' equity                                                                                                                             |                                 |                      |
| Preferred stock, \$.01 par value; authorized 1,000,000 shares, none issued and outstanding                                                       | —                               | —                    |
| Common stock, \$.01 par value; authorized 8,000,000 shares; 5,225,648 and 5,214,148 issued and 5,080,395 and 5,047,895 outstanding, respectively | 51                              | 51                   |
| Additional paid-in capital                                                                                                                       | 5,917                           | 5,719                |
| Treasury stock, at cost, 40,920 shares                                                                                                           | (102)                           | (102)                |
| Accumulated other comprehensive loss                                                                                                             | (32)                            | (19)                 |
| Retained earnings                                                                                                                                | 11,826                          | 11,556               |
| Total stockholders' equity                                                                                                                       | 17,660                          | 17,205               |
| Total liabilities and stockholders' equity                                                                                                       | \$ 33,017                       | \$ 29,225            |

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

SMITH-MIDLAND CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

|                                                       | Three Months<br>Ended<br>June 30, |         |
|-------------------------------------------------------|-----------------------------------|---------|
|                                                       | 2018                              | 2017    |
| Revenue                                               |                                   |         |
| Product sales                                         | \$6,943                           | \$7,611 |
| Barrier rentals                                       | 340                               | 302     |
| Royalty income                                        | 506                               | 473     |
| Shipping and installation revenue                     | 2,044                             | 2,342   |
| Total revenue                                         | 9,833                             | 10,728  |
| Cost of goods sold                                    | 6,857                             | 7,851   |
| Gross profit                                          | 2,976                             | 2,877   |
| Operating expenses                                    |                                   |         |
| General and administrative expenses                   | 1,452                             | 1,133   |
| Selling expenses                                      | 613                               | 651     |
| Total operating expenses                              | 2,065                             | 1,784   |
| Operating income                                      | 911                               | 1,093   |
| Other income (expense)                                |                                   |         |
| Interest expense                                      | (44)                              | (45)    |
| Interest income                                       | 9                                 | 9       |
| Gain on sale of assets                                | 31                                | 4       |
| Other income                                          | 9                                 | 13      |
| Total other income (expense)                          | 5                                 | (19)    |
| Income before income tax expense                      | 916                               | 1,074   |
| Income tax expense                                    | 225                               | 363     |
| Net income                                            | \$691                             | \$711   |
| Basic and diluted earnings per share                  | \$0.14                            | \$0.14  |
| Weighted average number of common shares outstanding: |                                   |         |
| Basic                                                 | 5,080                             | 5,045   |
| Diluted                                               | 5,104                             | 5,095   |

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



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

|                                         | Three<br>Months<br>Ended<br>June 30,<br>2018 | 2017  |
|-----------------------------------------|----------------------------------------------|-------|
| Net income                              | \$691                                        | \$711 |
| Other comprehensive income, net of tax: |                                              |       |
| Net unrealized holding gain (1)         | 1                                            | 7     |
| Comprehensive income                    | \$692                                        | \$718 |

(1) Unrealized gains on available-for-sale securities are shown net of income tax expense of \$1 and \$3 for June 30, 2018 and 2017, respectively.

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

SMITH-MIDLAND CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

|                                                       | Six Months Ended<br>June 30, |          |
|-------------------------------------------------------|------------------------------|----------|
|                                                       | 2018                         | 2017     |
| Revenue                                               |                              |          |
| Products sales                                        | \$14,396                     | \$12,559 |
| Barrier rentals                                       | 649                          | 2,825    |
| Royalty income                                        | 727                          | 904      |
| Shipping and installation revenue                     | 3,186                        | 3,937    |
| Total revenue                                         | 18,958                       | 20,225   |
| Cost of goods sold                                    | 14,391                       | 14,031   |
| Gross profit                                          | 4,567                        | 6,194    |
| Operating expenses                                    |                              |          |
| General and administrative expenses                   | 2,919                        | 2,483    |
| Selling expenses                                      | 1,290                        | 1,261    |
| Total operating expenses                              | 4,209                        | 3,744    |
| Operating income                                      | 358                          | 2,450    |
| Other income (expense)                                |                              |          |
| Interest expense                                      | (90                          | ) (91    |
| Interest income                                       | 19                           | 19       |
| Gain on sale of assets                                | 55                           | 16       |
| Other income                                          | 18                           | 24       |
| Total other income (expense)                          | 2                            | (32      |
| Income before income tax expense                      | 360                          | 2,418    |
| Income tax expense                                    | 90                           | 849      |
| Net income                                            | \$270                        | \$1,569  |
| Basic and diluted income per share                    | \$0.05                       | \$0.31   |
| Weighted average number of common shares outstanding: |                              |          |
| Basic                                                 | 5,076                        | 5,026    |
| Diluted                                               | 5,101                        | 5,065    |

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



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

|                                                | Six Months<br>Ended<br>June 30, |         |
|------------------------------------------------|---------------------------------|---------|
|                                                | 2018                            | 2017    |
| Net income                                     | \$270                           | \$1,569 |
| Other comprehensive income (loss), net of tax: |                                 |         |
| Net unrealized holding gain (loss)(1)          | (13                             | ) 7     |
| Comprehensive income                           | \$257                           | \$1,576 |

(1) Unrealized gains (losses) on available for sale securities are shown net of income tax expense (benefit) of \$(4) and \$1 for June 30, 2018 and 2017, respectively.

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)  
 (in thousands)

|                                                                                             | Six Months<br>Ended<br>June 30,<br>2018 2017 |          |
|---------------------------------------------------------------------------------------------|----------------------------------------------|----------|
| Cash flows from operating activities:                                                       |                                              |          |
| Net income                                                                                  | \$270                                        | \$1,569  |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                              |          |
| Depreciation and amortization                                                               | 504                                          | 460      |
| Gain on sale of assets                                                                      | (55 )                                        | (16 )    |
| Allowance for doubtful accounts                                                             | 3                                            | (150 )   |
| Stock compensation                                                                          | 186                                          | 220      |
| Deferred taxes                                                                              | (3 )                                         | 29       |
| (Increase) decrease in                                                                      |                                              |          |
| Accounts receivable - billed                                                                | (2,298                                       | (1,915 ) |
| Accounts receivable - unbilled                                                              | (1,021                                       | 32       |
| Inventories                                                                                 | 424                                          | (865 )   |
| Prepaid expenses and other assets                                                           | 45                                           | (213 )   |
| Deferred buy-back lease asset, net                                                          | (2,986                                       | —        |
| Refundable income taxes                                                                     | 33                                           | 168      |
| Increase (decrease) in                                                                      |                                              |          |
| Accounts payable - trade                                                                    | (73 )                                        | 390      |
| Accrued expenses and other liabilities                                                      | —                                            | 400      |
| Deferred revenue                                                                            | 54                                           | 672      |
| Accrued compensation                                                                        | (543 )                                       | (301 )   |
| Accrued income taxes payable                                                                | 80                                           | —        |
| Deferred buy-back lease obligation                                                          | 3,733                                        | —        |
| Customer deposits                                                                           | 308                                          | 790      |
| Net cash provided by (used in) operating activities                                         | (1,339                                       | 1,270    |
| Cash flows from investing activities:                                                       |                                              |          |
| Purchases of investment securities available-for-sale                                       | (16 )                                        | (21 )    |
| Purchases of property and equipment                                                         | (1,057                                       | (2,159 ) |
| Proceeds from sale of fixed assets                                                          | 67                                           | 22       |
| Net cash used in investing activities                                                       | (1,006                                       | (2,158 ) |
| Cash flows from financing activities:                                                       |                                              |          |
| Proceeds from long-term borrowings                                                          | 350                                          | 183      |
| Repayments of long-term borrowings                                                          | (312 )                                       | (287 )   |
| Dividends paid on common stock                                                              | (256 )                                       | (49 )    |
| Proceeds from options exercised                                                             | 12                                           | 117      |
| Net cash used in financing activities                                                       | (206 )                                       | (36 )    |
| Net decrease in cash and cash equivalents                                                   | (2,551                                       | (924 )   |
| Cash and cash equivalents                                                                   |                                              |          |
| Beginning of period                                                                         | 3,390                                        | 3,523    |
| End of period                                                                               | \$839                                        | \$2,599  |

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 unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information, and with the instructions to Form 10-Q and Article 10 and 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, 2017. The condensed consolidated December 31, 2017 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.

Recent Accounting Pronouncements

On February 25, 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Adoption of this ASU requires lessees to recognize assets and liabilities for most leases. For public business entities the guidance is effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within those annual periods and early adoption is permitted. The Company is currently evaluating the impact of adoption on the Company's financial position, results of operations and cash flows.

Recently Adopted Accounting Pronouncements

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). Adoption of this ASU requires that an entity recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaced most existing revenue recognition guidance in U.S. GAAP when it became effective. The standard allowed for application retrospectively to each prior period presented (full retrospective method) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective method). The Company adopted the new revenue guidance effective January 1, 2018 using the modified retrospective method to all contracts that were not substantially complete at the date of adoption. The adoption of Topic 606 did not have, and is not expected to have, a material impact on the timing or amount of revenue recognized as compared to the Company's previous revenue recognition policies. Accordingly, there was no adjustment recorded to beginning retained earnings for cumulative impact of adoption on January 1, 2018.

Revenue Recognition

Product Sales - Over Time

Under Topic 606, the Company recognizes revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for goods or services

provided. Revenue associated with contracts with customers is recognized over time as the Company's performance creates or enhances customer controlled assets or creates or enhances an asset with no alternative use, which the Company has an enforceable right to receive compensation as defined under the contract for performance completed. To determine the amount of revenue to recognize over time, the Company recognizes revenue over the contract terms based on the output method. The Company applied the "as-invoiced" practical expedient as the amount of consideration the Company has the right to invoice corresponds directly with the value of the Company's performance to date.

As the output method is driven by units produced, the Company recognizes revenues based on the value transferred to the customer relative to the remaining value to be transferred. The Company also matches the costs associated with the units produced. If a contract is projected to result in a loss, the entire contract loss is recognized in the period when the loss was first determined and the amount of the loss updated in subsequent reporting periods. Revenue recognition also includes an amount related to a contract asset or contract liability. If the recognized revenue is greater than the amount billed to the customer, a contract asset is recorded in accounts receivable - unbilled. Conversely, if the amount billed to the customer is greater than the recognized revenue, a contract liability is recorded in customer deposits on uncompleted contracts. Changes in the job performance, job conditions and final contract settlements are factors that influence management's assessment of total contract value and therefore, profit and revenue recognition.

A portion of the work the Company performs requires financial assurances in the form of performance and payment bonds or letters of credit at the time of execution of the contract. Some contracts include retention provisions of up to 10% which are generally withheld from each progress payment as retainage until the contract work has been completed and approved.

#### Product Sales - Point in Time

For certain product sales that do not meet the over time criteria, under Topic 606 the Company recognizes revenue when the product has been shipped to the destination in accordance with the terms outlined in the contract where a present obligation to pay exists as they have gained physical possession of the product.

#### Accounts Receivable and Contract Balances

The timing of when we bill our customers is generally dependent upon advance billing terms, milestone billings based on the completion of certain phases of the work, or when services are provided or products are shipped. Projects with performance obligations recognized over time that have costs and estimated earnings recognized to date in excess of cumulative billings, are reported on our Condensed Consolidated Balance Sheets as "Accounts receivable - unbilled". Projects with performance obligations recognized over time that have cumulative billings in excess of costs and estimate earnings recognized to date, are reported on our Condensed Consolidated Balance Sheets as customer deposits (i.e. contract liabilities).

Any uncollected billed amounts for our performance obligations recognized over time, including contract retentions, are recorded within accounts receivable. At June 30, 2018 and December 31, 2017, accounts receivable included contract retentions (in thousands) of approximately \$1,381 and \$1,065, respectively.

Our billed and unbilled revenue may be exposed to potential credit risk if our customers should encounter financial difficulties, and we maintain reserves for specifically-identified potential uncollectible receivables. At June 30, 2018 and December 31, 2017, our allowances for doubtful accounts (in thousands) were \$211 and \$208, respectively.

#### Effect of Adopting ASC Topic 606

As discussed in Recently Adopted Accounting Pronouncements, no adjustment to beginning 2018 retained earnings was recorded as a result of our adoption of Topic 606 due to no changes in the methods and/or timing of our revenue recognition for our uncompleted contracts. Further, the difference in our results of the first and second quarter 2018 between application of the new standard on our contracts and what results would have been if such contracts had been reported using the accounting standards previously in effect, for such contracts, did not change.

#### Sales to Customers with a Buy-Back Guarantee

The Company entered into a buy-back agreement with one specific customer. Under this agreement, the Company guaranteed to buy-back product at a predetermined price at the end of the long-term project, subject to condition of the product. Although the Company receives payment in full as the product is produced, we are required to account for these transactions as operating leases. The amount of sale proceeds equal to the buy-back obligation is deferred until the buy-back is exercised. The remaining sale proceeds are deferred and recognized on a straight-line basis over the usage period, when delivered to the job-site until the buy-back is exercised. The Company capitalizes the cost of the product on the consolidated balance sheet as a deferred buy-back lease asset, net, and depreciates the value, less salvage value, to cost of leasing revenue over the estimated economic life of the asset.

In the case the customer retains ownership of the product at the end of the usage period, the guarantee buy-back liability and any deferred revenue balances related to the product are settled to revenue, and the net book value of the asset is expensed to cost of leasing revenue. If the Company purchases the product back in the amount equal to the buy-back guarantee, we settle any remaining deferred balances, in excess of the buy-back payment, to leasing revenue, and we reclassify the net book value of the product on the consolidated balance sheet to property and equipment. The revenue is being recognized in accordance with Topic 840, Leases.

#### Barrier Rentals - Leasing Fees

Leasing fees are paid by customers at the beginning of the lease agreement and are recorded as deferred revenue. The deferred revenue is then recognized each month as lease income for the duration of the lease, in accordance with Topic 840, Leases. Topic 840 is applied, as Topic 606-10-15-2 provides a scope exception for lease contracts.

#### Royalty Income

The Company licenses certain products to other precast companies to produce the Company's products to engineering specifications under the licensing agreements. The agreements are typically for five year terms and require royalty payments from 4% to 6% of total sales of licensed products, which are paid on a monthly basis. The revenues from licensing agreements are recognized in the month earned, in accordance with Topic 606-10-55-65.

#### Shipping and Installation

Shipping and installation revenues are recognized as a distinct performance obligation in the period the shipping and installation services are provided to the customer, in accordance with Topic 606.

## Disaggregation of Revenue

In the following table, revenue is disaggregated by primary sources of revenue (in thousands):

|                                       | Three Months Ended June 30, |          |         |             | Six Months Ended June 30, |          |           |             |
|---------------------------------------|-----------------------------|----------|---------|-------------|---------------------------|----------|-----------|-------------|
|                                       | 2018                        | 2017     | Change  | % of Change | 2018                      | 2017     | Change    | % of Change |
| Product Sales:                        |                             |          |         |             |                           |          |           |             |
| Soundwall Sales                       | \$2,525                     | \$1,429  | \$1,096 | 77%         | \$5,005                   | \$2,656  | \$2,349   | 88%         |
| Architectural Panel Sales             | 245                         | —        | 245     | 100%        | 457                       | 18       | 439       | 2,439%      |
| SlenderWall Sales                     | 1,422                       | —        | 1,422   | 100%        | 2,565                     | —        | 2,565     | 100%        |
| Miscellaneous Wall Sales              | 267                         | 709      | (442)   | (62)%       | 759                       | 1,372    | (613)     | (45)%       |
| Barrier Sales                         | 1,590                       | 3,912    | (2,322) | (59)%       | 3,875                     | 6,069    | (2,194)   | (36)%       |
| Easi-Set and Easi-Span Building Sales | 560                         | 1,061    | (501)   | (47)%       | 1,062                     | 1,397    | (335)     | (24)%       |
| Utility and Farm Product Sales        | 246                         | 350      | (104)   | (30)%       | 460                       | 808      | (348)     | (43)%       |
| Miscellaneous Product Sales           | 88                          | 150      | (62)    | (41)%       | 213                       | 239      | (26)      | (11)%       |
| Total Product Sales                   | 6,943                       | 7,611    | (668)   | (9)%        | 14,396                    | 12,559   | 1,837     | 15%         |
| Barrier Rentals                       | 340                         | 302      | 38      | 13%         | 649                       | 2,825    | (2,176)   | (77)%       |
| Royalty Income                        | 506                         | 473      | 33      | 7%          | 727                       | 904      | (177)     | (20)%       |
| Shipping and Installation Revenue     | 2,044                       | 2,342    | (298)   | (13)%       | 3,186                     | 3,937    | (751)     | (19)%       |
| Total Service Revenue                 | 2,890                       | 3,117    | (227)   | (7)%        | 4,562                     | 7,666    | (3,104)   | (40)%       |
| Total Revenue                         | \$9,833                     | \$10,728 | \$(895) | (8)%        | \$18,958                  | \$20,225 | \$(1,267) | (6)%        |

## Warranties

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 minimal.

## Use of Estimates

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

## Segment Reporting

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and assess performance. The Company currently operates in one operating and reportable business segment for financial reporting purposes.

## Reclassifications

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

## NOTE 2. – NET INCOME PER SHARE

Basic earnings per common share exclude all common stock equivalents, primarily restricted stock awards, and is computed using the weighted average number of common shares outstanding during the period. The diluted earnings per common share calculation reflects the potential dilutive effect of securities that could share in earnings of the Company. As of June 30, 2018, there are no outstanding stock options. For periods prior to June 30, 2018 outstanding options were excluded from the diluted earnings per share calculation when they would have an anti-dilutive effect. Earnings per share are calculated as follows (in thousands, except earnings per share):

|                                                       | Three<br>Months<br>Ended<br>June 30,<br>2018 2017 |        |
|-------------------------------------------------------|---------------------------------------------------|--------|
| Basic income per share                                |                                                   |        |
| Net income                                            | \$691                                             | \$711  |
| Weighted average shares outstanding                   | 5,080                                             | 5,045  |
| Basic income per share                                | \$0.14                                            | \$0.14 |
| Diluted income per share                              |                                                   |        |
| Net income                                            | \$691                                             | \$711  |
| Weighted average shares outstanding                   | 5,080                                             | 5,045  |
| Dilutive effect of stock options and restricted stock | 24                                                | 50     |
| Total weighted average shares outstanding             | 5,104                                             | 5,095  |
| Diluted income per share                              | \$0.14                                            | \$0.14 |

|                                                       | Six Months<br>Ended<br>June 30,<br>2018 | 2017    |
|-------------------------------------------------------|-----------------------------------------|---------|
| Basic income per share                                |                                         |         |
| Net income                                            | \$270                                   | \$1,569 |
| Weighted average shares outstanding                   | 5,076                                   | 5,026   |
| Basic income per share                                | \$0.05                                  | \$0.31  |
| Diluted income per share                              |                                         |         |
| Net income                                            | \$270                                   | \$1,569 |
| Weighted average shares outstanding                   | 5,076                                   | 5,026   |
| Dilutive effect of stock options and restricted stock | 25                                      | 39      |
| Total weighted average shares outstanding             | 5,101                                   | 5,065   |
| Diluted income per share                              | \$0.05                                  | \$0.31  |

**NOTE 3. – NOTES PAYABLE (dollar amounts in thousands)**

The Company has a mortgage note payable to Summit Community Bank (the “Bank”), with a balance of \$937 as of June 30, 2018. The note has a maturity date of September 20, 2021 and a fixed interest rate of 3.99% annually with monthly payments of \$26 and is secured by principally all of the assets of the Company. Under the terms of the note, the Bank will permit chattel mortgages on purchased equipment not to exceed \$250 for any one individual loan so long as the Company is not in default.

The Company has a mortgage note payable to the Bank for the purchase of the Columbia, South Carolina facility. Such loan is evidenced by a promissory note dated July 19, 2016. The note provides for a 15 year term, a fixed annual interest rate of 5.29%, monthly fixed payments of \$11 and a security interest in favor of the Bank in respect of the land, building and fixtures purchased with the proceeds of the loan. The balance of the loan at June 30, 2018 was \$1,203.

The Company additionally has 15 smaller installment loans with annual interest rates between 2.94% and 5.29% and varying balances totaling \$1,431.

Under the loan agreement with the Bank, the Company is limited to annual capital expenditures of \$1,500. The Company is in compliance with all covenants pursuant to the loan agreement as of June 30, 2018.

The Company also has a \$2,000 line of credit, secured by accounts receivable and inventory, of which none was outstanding at June 30, 2018. The line is evidenced by a commercial revolving promissory note with the Bank, which carries a variable interest rate equal to the Wall Street Journal's prime rate. In addition, the Company has a commitment from the Bank in the amount of \$1,500 for an equipment line of credit. Neither line of credit carried a balance at June 30, 2018.

**NOTE 4. – STOCK COMPENSATION**

In accordance with ASC 718, the Company had no stock option expense for the three and six months ended June 30, 2018 and June 30, 2017. The Company uses the Black-Scholes option-pricing model to measure the fair value of stock options granted to employees. In 2016, the Company's Board of Directors replaced the 2008 Stock Option Plan with the 2016 Equity Incentive Plan, which does not provide for the issuance of options. Consequently, the Company cannot issue any additional options, if, and until, a new stock option plan is approved by the Board of Directors.

The following table summarizes options outstanding at June 30, 2018:

|                                                  | Number<br>of<br>Shares | Weighted<br>Average<br>Exercise<br>Price |
|--------------------------------------------------|------------------------|------------------------------------------|
| Balance, December 31, 2017                       | 10,333                 | \$ 1.21                                  |
| Granted                                          | —                      | —                                        |
| Forfeited                                        | —                      | —                                        |
| Exercised                                        | (10,333)               | (1.21 )                                  |
| Outstanding options at June 30, 2018             | —                      | \$ —                                     |
| Outstanding exercisable options at June 30, 2018 | —                      | \$ —                                     |

The fair value of restricted stock awards is estimated to be the market price of the Company's common stock at the close of the date of grant. Restricted stock activity during the six months ended June 30, 2018 is as follows:

|                            | Number of Shares | Weighted Average Grant Date Fair Value per Share |
|----------------------------|------------------|--------------------------------------------------|
| Balance, December 31, 2017 | 125,333          | \$ 5.13                                          |
| Granted                    | 2,500            | 7.00                                             |
| Vested                     | (22,167)         | (5.62 )                                          |
| Forfeited                  | (1,333)          | (4.95 )                                          |
| Non-vested, end of period  | 104,333          | \$ 5.14                                          |

Awards are being amortized to expense ratably, on an annual basis, over a three year vesting term, except one grant in January 2018 for 2,500 shares of restricted stock, and one grant in January 2017 for 15,000 shares of restricted stock, which vested upon grant. There was stock compensation expense of approximately \$186,000 for the six months ended June 30, 2018 and \$220,000 for the six months ended June 30, 2017. The total unrecognized compensation cost as of June 30, 2018 related to the non-vested restricted stock is approximately \$535,000.

## 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 on profitable operations; in this respect, while the Company was profitable for the years ended December 31, 2017 and 2016, and the second quarter of 2018, it reported a net loss for the three months ended March 31, 2018.

- our debt level decreased in 2017, and increased during the first six months of 2018, and our 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 in the Company's primary service areas,

• adverse weather, which inhibits the demand for our products,

• our compliance with governmental regulations,

• the outcome of future litigation, if any,

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

the cyclical nature of the construction industry,

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

the Company's Board of Directors, which is composed of 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, 2017.

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, highway, 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, Midwestern regions and parts of the Southeastern region of the United States. The Company's operating strategy has involved producing innovative and proprietary products, including SlenderWall™, a patented, lightweight, energy efficient concrete and steel exterior insulated wall panel for use in building construction; J-J Hooks® Highway Safety Barrier, a positive-connected highway safety barrier; Sierra Wall, a sound barrier primarily for roadside use; and Easi-Set® transportable concrete buildings, also patented. In addition, the Company produces custom order precast concrete products with various architectural surfaces, as well as generic highway sound barriers, utility vaults, and farm products such as cattleguards.

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 had (in thousands) a net loss of \$421 for the first quarter 2018 and net income of \$691 for the second quarter of 2018, resulting in net income of \$270 for the six months ended June 30, 2018. The cost of goods sold as a percent of revenue, not including royalties, for the three and six months ended June 30, 2018 was 74% and 79%, respectively, as compared to 77% and 73% for the three and six months ended June 30, 2017, respectively. The decrease in cost of goods sold as a percentage of revenue, not including royalties, for the second quarter of 2018, compared to the second quarter of 2017, is mainly due to a decrease in direct labor costs. The increase in cost of goods sold as a percentage of revenue, not including royalties, for the six months ended June 30, 2018, compared to the same period in 2017, is mainly due to a short-term, high risk special project which occurred in the first quarter 2017 that had higher margins than typical manufacturing. Total sales for the three and six months ended June 30, 2018 are lower than the same period in 2017 mainly due to the deferred revenue associated with the guaranteed buy-back agreement for barrier of \$3,733. Although the barrier revenue is not currently being recognized, the Company will recognize the

barrier rental revenue over the life of the project. Production at each manufacturing plant continues to be strong, rental orders continue to increase, and royalties show a positive trend. The current backlog of \$35.3 million supports revenues into 2019. Management anticipates continued profit for the remainder of 2018, although no assurance can be given.

# Results of Operations (dollar amounts in thousands, except per share data)

Three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017

Sales include revenues from product sales, royalty income, barrier rental income and shipping and installation income. Product sales are further divided into soundwall, architectural and SlenderWall™ panels, miscellaneous wall panels, highway barrier, Easi-Set® and Easi-Span® buildings, utility and farm products and miscellaneous precast products. The following table summarizes the sales by product type and comparison for the three and six month periods ended June 30, 2018, and 2017.

## Revenue By Type (Disaggregated Revenue)

|                                       | Three Months Ended June 30, |          |         |             | Six Months Ended June 30, |          |           |             |
|---------------------------------------|-----------------------------|----------|---------|-------------|---------------------------|----------|-----------|-------------|
|                                       | 2018                        | 2017     | Change  | % of Change | 2018                      | 2017     | Change    | % of Change |
| Product Sales:                        |                             |          |         |             |                           |          |           |             |
| Soundwall Sales                       | \$2,525                     | \$1,429  | \$1,096 | 77%         | \$5,005                   | \$2,656  | \$2,349   | 88%         |
| Architectural Panel Sales             | 245                         | —        | 245     | 100%        | 457                       | 18       | 439       | 2,439%      |
| SlenderWall Sales                     | 1,422                       | —        | 1,422   | 100%        | 2,565                     | —        | 2,565     | 100%        |
| Miscellaneous Wall Sales              | 267                         | 709      | (442)   | (62)%       | 759                       | 1,372    | (613)     | (45)%       |
| Barrier Sales                         | 1,590                       | 3,912    | (2,322) | (59)%       | 3,875                     | 6,069    | (2,194)   | (36)%       |
| Easi-Set and Easi-Span Building Sales | 560                         | 1,061    | (501)   | (47)%       | 1,062                     | 1,397    | (335)     | (24)%       |
| Utility and Farm Product Sales        | 246                         | 350      | (104)   | (30)%       | 460                       | 808      | (348)     | (43)%       |
| Miscellaneous Product Sales           | 88                          | 150      | (62)    | (41)%       | 213                       | 239      | (26)      | (11)%       |
| Total Product Sales                   | 6,943                       | 7,611    | (668)   | (9)%        | 14,396                    | 12,559   | 1,837     | 15%         |
| Barrier Rentals                       | 340                         | 302      | 38      | 13%         | 649                       | 2,825    | (2,176)   | (77)%       |
| Royalty Income                        | 506                         | 473      | 33      | 7%          | 727                       | 904      | (177)     | (20)%       |
| Shipping and Installation Revenue     | 2,044                       | 2,342    | (298)   | (13)%       | 3,186                     | 3,937    | (751)     | (19)%       |
| Total Service Revenue                 | 2,890                       | 3,117    | (227)   | (7)%        | 4,562                     | 7,666    | (3,104)   | (40)%       |
| Total Revenue                         | \$9,833                     | \$10,728 | \$(895) | (8)%        | \$18,958                  | \$20,225 | \$(1,267) | (6)%        |

Soundwall Sales - Soundwall sales increased for the three and six month periods ended June 30, 2018 when compared to the same periods in 2017. The significant increase in soundwall sales is because all three production facilities are currently producing soundwall projects. Our newest and largest soundwall contract, awarded in April 2018, is expected to be produced and delivered over a three year period. This project will help maintain higher soundwall production and sales over the next several years. With the current backlog and continued increase in highway work, management expects soundwall sales to trend up for the remainder of the year and the full year 2018 soundwall sales to surpass the full year 2017 soundwall sales.

Architectural Panel Sales - Architectural panel sales increased during the three and six month periods ended June 30, 2018, compared to the same periods in 2017. Although architectural panel sales increased over the prior year, revenue will remain at a low volume through the remainder of 2018. There will continue to be production during 2018, as the Company is close to finalizing the contract on a large SlenderWall project, for which architectural panels are a compliment product in design.

SlenderWall™ - There were significant SlenderWall panel sales for the three and six month periods ended June 30, 2018, as compared to no sales in the same periods of 2017. SlenderWall sales are projected to continue through the remainder of 2018 as production of a large project is expected to run through the end of the year 2018 and into 2019.

This proprietary product continues to remain a focus of the sales team, with the long-term expectation of expanding SlenderWall sales in both the Charlotte, North Carolina and Atlanta, Georgia markets to match growth in the Southeast United States.

**Miscellaneous Wall Sales** - Miscellaneous wall sales decreased for the three and six month periods ended June 30, 2018, when compared to the same periods in 2017. The Company had a few miscellaneous wall projects that finished in the first quarter of 2018. With varying market demand, miscellaneous wall sales are expected to be flat or trend down for the remainder of 2018; however, the Company continues to bid on selective miscellaneous wall projects as they are released, as some projects can be very profitable due to their unique characteristics.

**Barrier Sales** - Barrier sales decreased during the three and six month periods ended June 30, 2018, compared to the same periods in 2017. Although barrier production has increased, a large portion of production is not being recognized as barrier sales due to the guaranteed buy-back contract, instead the Company will recognize the income as barrier rental revenue over the duration of the project, for which deliveries began in the second quarter of 2018 and are expected to be completed by the end of the year 2018. Management expects barrier sales to be lower for the remainder of 2018 as compared to annual barrier sales for 2017 due to the buy-back guarantee.

**Easi-Set® and Easi-Span® Building Sales** - Building and restroom sales decreased for the three and six month periods ended June 30, 2018, compared to the same periods in 2017. The Company continues to see an increase in bids in the local markets of all three manufacturing facilities. Bids from the Columbia, South Carolina plant have picked up significantly. Management expects the Company will see an increase in building and restroom sales in 2018 over 2017.

**Utility and Farm Product Sales** - Utility and farm products sales decreased in the three and six month periods ended June 30, 2018, as compared to the same periods in 2017. Utility products are tied closely with infrastructure spending by federal, state and local governments. With the passage of the federal highway bill, and growth in residential and commercial construction, sales and bids on these products are slowly improving. Although there are competitors who specialize in lower priced utility products, the Company is much more competitive on large contracts. Management believes utility product sales will remain at the current level or slightly increase during the remainder of 2018.

**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 for the three and six month periods ended June 30, 2018, as compared to the same periods in 2017. Management believes that miscellaneous product sales will decrease for the remainder of the year.

**Barrier Rentals** - Barrier rentals increased for the three month period ended June 30, 2018 as compared to the same period in 2017. The increase is mainly due to a focus on providing additional barrier rental services to customers. Barrier rentals decreased significantly for the six month period ended June 30, 2018, compared to the same period in 2017. The decrease is mainly due to a special project that occurred in the first quarter of 2017. Excluding the special project in 2017, barrier rental sales in the first six months of 2018 increased when compared to the same period in 2017. With the Company expanding the barrier rental services, management believes it has the potential to increase barrier rental revenue for the remainder of 2018, and moving forward as the outlays for infrastructure spending by federal and state governments continue to increase.

**Royalty Income** - Royalties increased for the three month period ended June 30, 2018, compared to the same period in 2017. The Company had strong royalty revenue in the second quarter 2018 for barrier and SlenderWall. Royalties decreased for the six month period ended June 30, 2018 as compared to the same period in 2017. The decrease was due to the slow first quarter 2018 for barrier, which was attributable to poor weather conditions in the southern states. Management continues to seek new licensee opportunities to expand product offerings around the world. With steady increase in construction and infrastructure spending, management believes royalty revenue will continue to increase through the end of 2018, although no assurance can be given.

**Shipping and Installation** - Shipping revenue results from shipping our products to the customers' final destination and is recognized when the shipping services take place. Installation activities include installation of our products at the customers' construction sites. Installation revenue results when attaching architectural and SlenderWall panels to a building, installing an Easi-Set® building at a customers' sites or setting any of our other precast products at a site specific to the requirements of the owner. Shipping and installation revenue decreased for the three and six month periods ended June 30, 2018, compared to the same periods in 2017. The decrease resulted from minimal installation in the first quarter of 2018, mainly deriving from previously produced SlenderWall projects that were shipped and installed during the same period in 2017. The Company expects to expand shipping and installation services through

additional products such as barrier and barrier rental. Management expects shipping and installation to increase through the end of 2018, although no assurance can be given.

**Cost of Goods Sold** - Total cost of goods sold for the three months ended June 30, 2018 decreased by \$994 , or 13%, from the same period in 2017. Total cost of goods sold, as a percentage of total revenue, not including royalties, was 74% for the three months ended June 30, 2018, a decrease from 77% for the same period in 2017. The decrease in cost of goods sold as a percentage of revenue, not including royalties, for the second quarter of 2018, compared to the same period in 2017, is mainly due to a decrease in direct labor costs. Total cost of goods sold for the six months ended June 30, 2018 increased by \$360, or 2%, from the same period in 2017. Total cost of goods sold, as a percentage of total revenue, not including royalties, was 79% for the six months ended June 30, 2018, an increase from 73% for the same period in 2017. The increase in cost of goods sold as a percentage of revenue, not including royalties, for the first six months of 2018, compared to the same period in 2017, is mainly due to a short-term, high risk special project which occurred in the first quarter 2017 that had higher margins than typical manufacturing. The increase also resulted from design issues on soundwall projects at the Columbia, South Carolina plant, which required the Company to incorporate more steel than estimated in the projects and also increased the associated direct labor. The Company has corrected these design issues on future bids, but is still in negotiations to rectify the current contracts through change orders. The Company expects raw material prices to continue to increase through the remainder of 2018. The Company continues to seek vendor pricing opportunities, and focuses on lean production methods to create capacity and eliminate process waste, while driving value to the customer.

**General and Administrative Expenses** - For the three months ended June 30, 2018 the Company's general and administrative expenses increased by \$319, or 28%, to \$1,452 from \$1,133 during the same period in 2017, and for the six months ended June 30, 2018 the Company's general and administrative expenses increased by \$436, or 18%, to \$2,919 from \$2,483 during the same period in 2017. The increased general and administrative expenses for the three and six month periods ended June 30, 2018 is mainly attributed to an increase in salaries, use tax associated with SlenderWall sales, and an increase in bad debt expense. General and administrative expense as a percentage of total revenue was 15% and 12% for the six months ended June 30, 2018 and 2017, respectively. The total unrecognized compensation cost related to non-vested restricted stock is approximately \$535 as of June 30, 2018.

**Selling Expenses** - Selling expenses for the three months ended June 30, 2018 decreased to \$613 from \$651 for the same period in 2017, or 2%. The decrease was mainly due to a reduction in advertising and marketing costs for the period. Selling expenses for the six months ended June 30, 2018 increased to \$1,290 from \$1,261 for the same period in 2017, or 6%. The increase in sales expense for the six month period was mainly related to an increase in salaries. As the Company grows, additional selling expenses will be incurred. Management expects selling expenses to increase in 2018 as compared to 2017.

**Operating Income** - The Company had operating income for the three month period ended June 30, 2018 of \$911, compared to operating income of \$1,093 for the same period in 2017. The decrease in operating income for three month period ended June 30, 2018 compared to the same period in 2017, was primarily due to an increase in general and administrative expenses. The Company had operating income for the six month period ended June 30, 2018 of \$358, compared to operating income of \$2,450 for the same period in 2017. The decrease in operating income for six month period ended June 30, 2018, compared to the same period in 2017, was due to an increase in cost of goods sold as a percentage of revenue, excluding royalties, an increase in general and administrative expenses, and the higher margin special project, which occurred in the first quarter 2017.

**Interest Expense** - Interest expense was \$44 and \$45, for the three month period ended June 30, 2018 and 2017, respectively. Interest expense was \$90 and \$91, for the six month period ended June 30, 2018 and 2017, respectively. Although the Company added two small loans at the end of the first quarter 2018, larger loan balances continue to be paid down and are towards the end of the loan periods.

**Income Tax Expense** - The Company had an income tax expense of \$225 with an effective rate of 25% for the three months ended June 30, 2018, compared to income tax expense of \$363 with an effective rate of 34% for the same period in 2017. The Company had an income tax expense of \$90 with an effective rate of 25% for the six months ended June 30, 2018, compared to income tax expense of \$849 with an effective rate of 35% for the same period in 2017. The change in tax rate is due to adoption of the Tax Cuts and Jobs Act during December 2017, which lowered the Federal tax rate from 34% to 21% prospectively.

Net Income - The Company had net income of \$691 for the three months ended June 30, 2018, compared to net income of \$711 for the same period in 2017. The basic and diluted income per share was \$0.14 for the three months ended June 30, 2018, and the basic and diluted income per share was \$0.14 for the three months ended June 30, 2017. The Company had a net income of \$270 for the six months ended June 30, 2018, compared to net income of \$1,569 for the same period in 2017. The basic and diluted income per share was \$0.05 for the six months ended June 30, 2018, and the basic and diluted income per share was \$0.31 for the six months ended June 30, 2017.

Liquidity and Capital Resources (dollar amounts in thousands)

The Company financed its capital expenditures and operating requirements for the six months of 2018 primarily from cash balances and notes payable to a bank. The Company had \$3,571 of debt obligations at June 30, 2018, of which \$693 was scheduled to mature within twelve months. During the six months ended June 30, 2018, the Company made repayments of outstanding debt in the amount of \$312 and received \$350 in proceeds of borrowings for the financing of two yard cranes.

The Company has a mortgage note payable to Summit Community Bank (the "Bank") with a balance of \$937 as of June 30, 2018. The note has a maturity date of September 20, 2021 and a fixed interest rate of 3.99% annually with monthly payments of \$26 and is secured by principally all of the assets of the Company. Under the terms of the note, the Bank will permit chattel mortgages on purchased equipment not to exceed \$250 for any one individual loan so long as the Company is not in default.

The Company has a mortgage note payable to the Bank for the purchase of the Columbia, South Carolina facility. Such loan is evidenced by a promissory note, dated July 19, 2016. The note provides for a 15 year term, a fixed annual interest rate of 5.29%, monthly fixed payments of \$11 and a security interest in favor of the Bank in respect of the land, building and fixtures purchased with the proceeds of the loan. The balance of the loan at June 30, 2018 was \$1,203.

The Company additionally has 15 smaller installment loans with annual interest rates between 2.94% and 5.29% and varying balances totaling \$1,431.

Under the loan agreement with the Bank, the Company is limited to annual capital expenditures of \$1,500. The Company is in compliance with all covenants pursuant to the loan agreements.

The Company has a \$2,000 line of credit, secured by accounts receivable and inventory. In addition, the Company has a commitment from the Bank in the amount of \$1,500 for an equipment line of credit. Neither line of credit carried a balance at June 30, 2018.

At June 30, 2018, the Company had cash and cash equivalents totaling \$839 and \$1,097 of investment securities, compared to cash and cash equivalents totaling \$3,390 and \$1,098 of investment securities at December 31, 2017. Investment securities at June 30, 2018 consist of shares of USVAX (a Virginia Bond Fund). The decrease in cash is primarily the result of the increase in accounts receivable at June 30, 2018 as compared to December 31, 2017, due to increased production and billings toward the end of the second quarter and an increase in retainage on several large projects. The purchase of capital assets and the repayment of notes payable were also factors in the decrease of cash and cash equivalents.

Capital spending for the six months ended June 30, 2018 totaled \$1,057, as compared to \$2,159 for the same period in 2017. The 2018 expenditures were for new yard cranes and miscellaneous manufacturing equipment. The Company plans to make additional capital purchases of approximately \$1,500 over the remainder of the year, excluding any plant expansions. The Company is currently in the process of increasing its annual capital expenditure limits with the Bank to remain in compliance with loan covenants. The additional 2018 expenditures are expected to be for land improvements and miscellaneous manufacturing equipment.

The Company received approval from the Bank for the financing of the North Carolina expansion and for additional land expansions at the Virginia manufacturing plant. The expansions are excluded from the capital expenditure limitations in the loan agreements with the Bank. Both projects are expected to begin in the third quarter 2018. See "North Carolina Plant Expansion" below.

The Company's two mortgage notes payable are financed at fixed rates of interest. This leaves the Company almost impervious to fluctuating interest rates. Increases in such rates will only slightly affect the interest paid by the Company on an annual basis. Approximately 94% of the Company's debt obligations are financed at a fixed interest rate so that each 1% increase in the interest rates of the Company's outstanding debt will reduce income by approximately \$2 annually.

The Company's cash flow from operations is affected by production schedules set by contractors, which generally provide for payment 35 to 90 days after the products are produced and with some architectural contracts, retainage may be held until the entire project is completed. 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 (DSO), excluding the effect of unbilled revenue, was 78 days for the six months ended June 30, 2018 compared to 75 days for the year ended December 31, 2017. The increase in DSO is mainly due to retainage being withheld on multiple large projects. 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 12 months.

The Company's inventory was \$3,092 at June 30, 2018 and \$3,515 at December 31, 2017, or a decrease of \$423. The decrease in inventory is due to sales of finished goods on hand at December 31, 2017. Inventory turnover was 9.8, annualized for the six months ended June 30, 2018, compared to 7.2 for the same period in 2017.

### 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, 2017. There have been no changes as of June 30, 2018.

### 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, cement, steel, aggregates, and other direct materials used in production have increased for the first six months of 2018. Steel tariffs have impacted pricing, as the demand for steel has also increased. The Company anticipates prices will continue to increase over the remainder of 2018, although no assurance can be given regarding future pricing.

### Sales Backlog

As of August 1, 2018, the Company's sales backlog was approximately \$35.3 million, as compared to approximately \$30.2 million at the same time in 2017. It is estimated that majority of the projects in the sales backlog will be produced within 12 months, with a portion extending several years.

### North Carolina Plant Expansion

The Company currently owns 46 acres on which it plans to build a 15,000 square foot manufacturing plant with additional space for future expansion. This expansion is estimated to cost \$3.3 million and will increase production and storage capacity. The project will be funded through bank financing. Management expects completion of the new facility by the end of the first quarter 2019 with manufacturing expected to begin during the second quarter 2019 at the new facility. The current North Carolina facility will remain operational during the construction of the new plant, and future use is not determined at this time. There can be no assurance as to the cost, financing, timetable, completion, or success of this project.

### 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, 2018.

(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, 2018 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<br>No. | Exhibit Description                                                                                                                        |
|----------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1           | <u>Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.</u>     |
| 31.2           | <u>Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.</u> |
| 32.1           | <u>Certification pursuant 18 U.S.C. Section 1350 as adapted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>                 |
| 101.INS        | XBRL Instance Document.                                                                                                                    |
| 101.SCH        | XBRL Taxonomy Extension Schema Document.                                                                                                   |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document.                                                                                     |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document.                                                                                      |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document.                                                                                           |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document.                                                                                    |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SMITH-MIDLAND CORPORATION  
(Registrant)

Date: August 2, 2018 By: /s/ Ashley B. Smith  
Ashley B. Smith, Chief Executive Officer  
(Principal Executive Officer)

Date: August 2, 2018 By: /s/ Adam J. Krick  
Adam J. Krick, 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, 2018

| Exhibit<br>No | Exhibit Description                                                                                                                        |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------|
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