SMITH MIDLAND CORP
Form 10-Q
August 13, 2012

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

FORM 10-Q

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

For the quarterly period ended June 30, 2012

or

o 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	54-1727060
(State or other jurisdiction of of incorporation or organization)	(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 þ No o

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 þ No o

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 o Accelerated filer o

Non-accelerated filer o Smaller reporting company þ

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

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 7, 2012 : 4,785,262 shares, net of treasury shares

SMITH-MIDLAND CORPORATION

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PART I — FINANCIAL INFORMATION

ITEM 1. Financial Statements

SMITH-MIDLAND CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS	June 30, 2012	December 31, 2011
Current assets		
Cash and cash equivalents	$2,860,583	$2,130,686
Accounts receivable, net		
Trade - billed (less allowance for doubtful accounts of $249,161 and $233,851)	6,420,544	7,191,071
Trade - unbilled	414,910	24,310
Inventories		
Raw materials	439,862	735,125
Finished goods	1,274,566	1,204,508
Prepaid expenses and other assets	215,685	354,884
Refundable income taxes	383,531	727,440
Deferred taxes	376,000	332,000
Total current assets	12,385,681	12,700,024
Property and equipment, net	4,265,909	4,615,514
Other assets	287,203	212,436
Total assets	$16,938,793	$17,527,974

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

SMITH-MIDLAND CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 2012	December 31, 2011
Current liabilities		
Accounts payable - trade	$978,710	$854,165
Accrued expenses and other liabilities	752,596	785,387
Current maturities of notes payable	357,051	411,561
Customer deposits	155,119	932,193
Total current liabilities	2,243,476	2,983,306
Notes payable - less current maturities	2,827,483	2,992,996
Deferred tax liability	842,000	822,000
Total liabilities	5,912,959	6,798,302
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
Retained earnings	6,084,594	5,788,432
	11,128,134	10,831,972
Treasury stock, at cost, 40,920 shares	(102,300)	(102,300)
Total stockholders' equity	11,025,834	10,729,672
Total liabilities and stockholders' equity	$16,938,793	$17,527,974

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

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

	Three Months Ended June 30, 2012	2011
Revenue		
Products sales and leasing	$4,948,697	$5,467,610
Shipping and installation revenue	1,258,657	1,339,933
Royalties	429,801	337,515
Total revenue	6,637,155	7,145,058
Cost of goods sold	4,831,019	5,392,727
Gross profit	1,806,136	1,752,331
Operating expenses		
General and administrative expenses	550,545	725,660
Selling expenses	514,590	634,282
Total operating expenses	1,065,135	1,359,942
Gain (loss) on sale of assets	(7,284)	17,317
Other	(6,912)	23,681
Operating income	726,805	433,387
Other income (expense)		
Interest expense	(32,800)	(37,544)
Interest income	1,532	3,701
Total other expense	(31,268)	(33,843)
Income before income tax expense	695,537	399,544
Income tax expense	272,000	145,000
Net income	$423,537	$254,544
Basic earnings per share	$0.09	$0.05
Diluted earnings per share	$0.09	$0.05
Weighted average number of common shares outstanding:		
Basic	4,826,182	4,796,649
Diluted	4,850,569	4,884,769

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

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

	Six Months Ended June 30,	
	2012	2011
Revenue		
Products sales and leasing	$9,012,812	$11,538,969
Shipping and installation revenue	2,801,395	2,552,815
Royalties	813,372	668,661
Total revenue	12,627,579	14,760,445
Cost of goods sold	9,805,586	11,414,166
Gross profit	2,821,993	3,346,279
Operating expenses		
General and administrative expenses	1,208,815	1,491,683
Selling expenses	1,131,696	1,194,588
Total operating expenses	2,340,511	2,686,271
Gain on sale of assets	50,971	20,154
Other	2,880	73,722
Operating income	535,333	753,884
Other income (expense)		
Interest expense	(68,051)	(72,322)
Interest income	2,880	8,874
Total other expense	(65,171)	(63,448)
Income before income tax expense	470,162	690,436
Income tax expense	174,000	248,000
Net income	$296,162	$442,436
Basic earnings per share	$0.06	$0.09
Diluted earnings per share	$0.06	$0.09
Weighted average number of common shares outstanding:		
Basic	4,826,182	4,750,674
Diluted	4,863,208	4,839,510

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

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SMITH-MIDLAND CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2012	2011
Reconciliation of net income to cash provided by operating activities		
Net income	$296,162	$442,436
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	357,918	357,089
Stock option compensation expense	—	17,043
Gain on disposal of fixed assets	(50,971)	(20,154)
Deferred taxes	(24,000)	(48,000)
(Increase) decrease in:		
Accounts receivable - billed	770,527	1,459,176
Accounts receivable - unbilled	(390,600)	131,200
Inventories	225,205	(636,686)
Prepaid taxes and other assets	408,343	82,013
Increase (decrease) in:		
Accounts payable - trade	124,544	92,186
Accrued expenses and other	(32,791)	(940,350)
Customer deposits	(777,075)	(155,433)
Net cash provided by operating activities	907,262	780,520
Cash flows from investing activities:		
Purchases of property and equipment	(8,334)	(301,678)
Proceeds from sale of fixed assets	50,993	20,928
Net cash provided (absorbed) by investing activities	42,659	(280,750)
Cash flows from financing activities:		
Proceeds from long-term borrowings	—	575,000
Repayments of long-term borrowings	(220,024)	(200,920)
Proceeds from options exercised	—	105,118
Net cash provided (absorbed) by financing activities	(220,024)	479,198
Net increase in cash and cash equivalents	729,897	978,968
Cash and cash equivalents		
Beginning of period	2,130,686	2,573,168
End of period	$2,860,583	$3,552,136

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

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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, 2011. The December 31, 2011 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 income 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 are usually completed the day of delivery or the following day. In utility building sales, the majority of the buildings are erected on the Company’s site and delivered completely installed.

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.

NOTE 2. – RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the Financial Accounting Standards Board (the "FASB") issued new accounting guidance regarding the presentation of comprehensive income. The new guidance requires the presentation of items of net income and comprehensive income in either a single continuous financial statement or in two separate but consecutive financial statements. This accounting guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption did not have a material effect on the company's consolidated financial statements.

In December 2011, the FASB issued new accounting guidance regarding additional disclosures for financial instruments that are offset including the gross amount of the asset and liability as well as the impact of any net amount presented in the consolidated financial statements. These provisions are effective for fiscal and interim periods beginning on or after January 1, 2013. The impact of adoption will not have a material effect on the company's consolidated financial statements.

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 and six months ended June 30, 2012 and 2011, respectively.

	Three Months Ended June 30,	
	2012	2011
Basic earnings .per share		
Income available to common shareholders	$423,537	$254,544
Weighted average shares outstanding	4,826,182	4,796,649
Basic earnings per share	$0.09	$0.05
Diluted earnings per share		
Income available to common shareholders	$423,537	$254,544
Weighted average shares outstanding	4,826,182	4,796,649
Dilutive effect of stock options	24,387	88,120
Total weighted average shares outstanding	4,850,569	4,884,769

Diluted earnings per share	$0.09	$0.05

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	Six Months Ended June 30, 2012	2011
Basic earnings per share		
Income available to common shareholder	$296,162	$442,436
Weighted average shares outstanding	4,826,182	4,750,674
Basic earnings per share	$0.06	$0.09
Diluted earnings per share		
Income available to common shareholder	$296,162	$442,436
Weighted average shares outstanding	4,826,182	4,750,674
Dilutive effect of stock options	37,026	88,836
Total weighted average shares outstanding	4,863,208	4,839,510
Diluted earnings per share	$0.06	$0.09

NOTE 4. – STOCK OPTIONS

In accordance with ASC 718, the Company had no stock option expense for the three and six months ended June 30, 2012 and $8,522 and $17,043 for the same periods in 2011, respectively. The Company uses the Black-Scholes option-pricing model to measure the fair value of stock options granted to employees. The Company did not issue any stock options for the six months ended June 30, 2012.

The following table summarized options outstanding at June 30, 2012

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2011	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 June 30, 2012 was approximately $29,000.

NOTE 5. – SUBSEQUENT EVENTS

Through the date of the filing of this Form 10-Q, the Company has evaluated events and transactions occurring subsequent to June 30, 2012 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 th terms. Potential risks and uncertainties include, among other things, such factors as:

- no assurance of profitable operations; in this respect, while the Company had net income of $423,537 for the three months ended June 30, 2012, the Company incurred a net loss of $127,375 for the three months ended March 31, 2012 and a net loss of $351,680 for the year ended December 31,2011,
- our level of indebtedness and ability to satisfy the same,
- 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 2012 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 four members, has only one outside, independent director,
- the Company does not have an audit committee; the Board of Directors functions in that role,

- the Company’s Board of Directors does not have a member that qualifies as an audit committee financial expert as defined in SEC regulations, 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, 2011.

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 results of operations for the three months ended June 30, 2012 were above that of the same period in 2011, however, the results for the six months ended June 30, 2012 was lower than that of the same period in 2011. While the Company was successful in acquiring several construction contracts during 2012, intense competition for these types of contracts in the geographical areas serviced by the Company has caused a decrease in gross margins for some of the its construction projects. Management has diligently worked to improve its gross margins by improving production processes and working more closely with its major suppliers to obtain raw materials at the lowest possible prices.

The Company’s overall performance improved for the three months June 30, 2012, resulting in a slight improvement in gross margins when compared to the same period in 2011. In an effort to mitigate its potential losses in 2012 in view of the slowdown in the nation's economy and in the construction industry, management elected to enact employee layoffs at all levels of its primary manufacturing entity, Smith-Midland Virginia, including both production and overhead departments. In addition to the layoffs made, management also enacted salary reductions for all remaining employees with senior managers absorbing the biggest reductions. The layoffs and salary reductions were made in February 2012 and resulted in annualized savings of approximately $2,000,000. It is anticipated that as the economy and the construction industry begin a meaningful comeback, the salary reductions will be rescinded. Management believes that its first responsibility is to the shareholders of Smith-Midland and understands that our highest priority is to remain profitable without negatively affecting future earnings.

Results of Operations

Three and six months ended June 30, 2012 compared to the three and six months ended June 30, 2011

Revenue By Type

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	Three Months Ended June 30,				Six Months Ended June 30,			
	2012	2011	Change	% of Change	2012	2011	Change	% of Change
Product Sales:								
Soundwall Sales	$260,635	$365,477	$(104,842)	(29)%	$546,580	$1,265,695	$(719,115)	(57)%
Architectural Panel Sales	687,631	574,888	112,743	20%	1,376,029	1,587,026	(210,997)	(13)%
Slenderwall Sales	34,394	420,254	(385,860)	(92)%	395,170	1,470,496	(1,075,326)	(73)%
Miscellaneous Wall Sales	123,834	463,678	(339,844)	(73)%	201,351	463,678	(262,327)	(57)%
Total Wall Sales	1,106,494	1,824,297	(717,803)	(39)%	2,519,130	4,786,895	(2,267,765)	(47)%
Barrier Sales	1,246,659	770,991	475,668	62%	1,990,582	1,610,406	380,176	24%
Easi-Set and Easi-Span Building Sales	936,284	735,455	200,829	27%	1,398,295	1,547,673	(149,378)	(10)%
Utility and Farm Product Sales	409,291	658,934	(249,643)	(38)%	786,751	1,428,270	(641,519)	(45)%
Miscellaneous Product Sales	442,677	1,311,977	(869,300)	(66)%	1,431,731	1,860,382	(428,651)	(23)%
Total Product Sales	4,141,405	5,301,654	(1,160,249)	(22)%	8,126,489	11,233,626	(3,107,137)	(28)%
Royalty Income	429,801	337,515	92,286	27%	813,372	668,661	144,711	22%
Barrier Rentals	807,292	165,956	641,336	386%	886,323	305,343	580,980	190%
Shipping and Installation Revenue	1,258,657	1,339,933	(81,276)	(6)%	2,801,395	2,552,815	248,580	10%
Total Service Revenue	2,495,750	1,843,404	652,346	35%	4,501,090	3,526,819	974,271	28%
Total Revenue	$6,637,155	$7,145,058	$(507,903)	(7)%	$12,627,579	$14,760,445	$(2,132,866)	(14)%

Wall 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 decreased significantly during the three and six months periods ended June 30, 2012 compared to the same periods in 2011, due primarily to the continued slowdown in the construction economy. The Company was awarded three new wall contracts during the first six months of 2012, and all were in production prior to June 30, 2012. However, these new contracts were at lower gross margins because of the aggressive bidding by competitors. The Company believes this trend will continue through the remainder of 2012 with a slight reduction in the downward trend.

Barrier Sales – Barrier sales increased during the three and six months ended of June 30, 2012 compared to the same periods in 2011. The increase in sales relates primarily to several federal and state government contracts for road projects. While the overall barrier market has slowed significantly over the last several years, management is in negotiation for two additional barrier sales contracts for immediate production and delivery, that will continue this upward trend over the remainder of the year.

Easi-Set® and Easi-Span® Building Sales – While building sales decreased slightly during the six months ended June 30, 2012, sales for the three months ended June 30, 2012 were up compared to the same period in 2011. The Company received two large building orders that were produced and delivered in the second quarter of 2012. Recent bidding activity in the Company's geographical sales area leads management to believe that building sales will continue to improve slightly during the remainder of 2012.

Utility and Farm Product Sales – Utility and farm product sales decreased significantly for the three and six months ended June 30, 2012 compared to the same periods in 2011. The decrease in utility products, mainly manholes, is a result of the continued weakness in the construction industry. The Company is aggressively seeking sales of utility products through its marketing and sales staff to maintain and improve sales over the remainder of 2012.

Miscellaneous Product Sales – Miscellaneous products are products produced and sold that do not meet the criteria defined for other revenue categories. For the three and six month periods ended June 30, 2012, miscellaneous sales decreased by 66% and 23% compared to the same periods in 2011, respectively. As these types of projects have become more available in the last several years, the Company has become more aggressive in understanding and bidding these projects. 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 increased moderately during the three and six months ended June 30, 2012, compared to the same periods in 2011. The increase was due in part to increased barrier and Slenderwall royalties from Canadian licensees as Canada has been less affected by the economic downturn. The Company also signed its first two Softsound™ licenses during 2012. The Company continues to help licensees promote their products to increase its royalty revenues.

Barrier Rentals – Barrier rentals increased significantly for the three and six months ended June 30, 2012 compared to the same periods in 2011. The increase in barrier rentals is the result of a contract to provide services to set and remove barrier, supplied by the contractor, for the NATO Conference held in Chicago in May 2012. Management believes barrier rentals will increase slightly over the remainder of the year as it anticipates that federal and state government contracts for road projects will increase from current levels only slightly, if at all, during the remainder of 2012.

Shipping and Installation – Shipping and installation revenue decreased slightly for the three months ended June 30, 2012, compared to the same periods in 2011, due to lower sales of products resulting in lower shipping and installation during the period. Shipping and installation revenue increased slightly for the six months ended June 30, 2012, compared to the same period in 2011, due in part to the installation of two large architectural projects that were installed mostly during the first quarter of the 2012. While management expects shipping to remain relatively flat over the remainder of the year, it believes that installation revenue will increase slightly due to increased sales requiring installation.

Cost of Goods Sold – Total cost of goods sold for the three and six month periods ended June 30, 2012 decreased by $561,708, or 10%, and $1,608,580 or 14%, respectively, from the same periods in 2011. Total cost of goods sold, as a percentage of total revenue, not including royalties, was 78% and 79%, and 83% and 81% for the three and six month periods ended June 30, 2012 and June 30, 2011, respectively. The decrease in cost of goods sold as a percentage of total revenue, not including royalties, for the three months ended June 30, 2012 compared to the same period in 2011, was primarily due to employee layoffs and reductions of salaries made in February 2012. The increase in cost of goods sold as a percentage of total revenue, not including royalties, for the six months ended June 30, 2012 compared to the same period in 2011, was the result of reduced sales and continued competitive bidding on construction contracts resulting in lower gross margins partially offset by employee layoffs and reductions of salaries made in February 2012. Inflation remains relatively low for raw materials used in production of the Company's precast products and management believes inflation will continue to remain low for the remainder of the year.

General and Administrative Expenses – For the three months ended June 30, 2012, the Company's general and administrative expenses decreased $175,115, or 24%, to $550,545 from $725,660 during the same period in 2011. The decrease was primarily related to the employee layoffs and reduction of salaries made in February 2012, the reduction in state use tax assessed on installation projects and lower bad debts expense. For the six months ended June 30, 2012, the Company's general and administrative expenses decreased $282,868, or 19%, to $1,208,815 from $1,491,683 during the same period in 2011. The decrease for the three months ended June 30, 2012 compared to the same period in 2011, was primarily related to employee layoffs and reduction of salaries made in February of 2012, the reduction in state use tax assessed on installation projects and a reduction in bad debts expense. The decrease for the six months ended June 30, 2012 compared to the same period in 2011, was primarily related to the employee layoffs and reduction of salaries made in February 2012, the reduction in state use tax assessed on installation projects and a reduction in general office expenses. General and administrative expense as a percentage of total revenue was 8% and 10% for the three months ended June 30, 2012 and 2011, respectively, and 10% for the six months ended June 30, 2012 and 2011.

Selling Expenses – Selling expenses for the three months ended June 30, 2012 decreased to $514,590 from $634,282 for the same period in 2011, or 19%. Selling expenses for the six months ended June 30, 2012 decreased to

$1,131,696 from $1,194,588 for the same period in 2011, or 5%. The decreases for the three and six months ended June 30, 2012 resulted from reductions in salaries made in February 2012 and lower advertising expenses when comparing to the same periods in 2011.

Operating Income – The Company had an operating income for the three months ended June 30, 2012 of $726,805 compared to operating income of $433,387 for the same period in 2011. The increase in operating income for the three month comparison of June 30, 2012 and 2011 was primarily the result of employee layoffs and the reduction of salaries made in February 2012. The Company had an operating income for the six months ended June 30, 2012 of $535,333 compared to operating income of $753,884 for the same period in 2011. The decrease in operating income for the six month comparison of June 30, 2012 and 2011, was due to higher revenues and gross margins in 2011, partially offset by employee layoffs and reduction of salaries made in February 2012.

Interest Expense – Interest expense was approximately $4,500 lower for both the three and six month periods ended June 30, 2012 compared to the same period in 2011. The decrease was due primarily to payment of notes payable during the period.

Income Tax Expense – The Company had tax expense of $272,000 for the three months ended June 30, 2012 compared to $145,000 for the same period in 2011. The tax expense for the six months ended June 30, 2012 was $174,000 compared to $248,000 for the same period in 2011. The changes in the tax expense for the periods correlated to the change in pre-tax income.

Net Income – The Company had net income of $423,537 for the three months ended June 30, 2012, compared to net income of $254,544 for the same period in 2011. The Company had net income of $296,162 for the six months ended June 30, 2012, compared to net income of $442,436 for the same period in 2011.

Liquidity and Capital Resources

The Company has financed its capital expenditures and its operating requirements for the first six months of 2012 primarily from cash provided by operating activities. The Company had $3,184,534 of debt obligations at June 30, 2012, of which $357,051 was scheduled to mature within twelve months. During the six months ended June 30, 2012, the Company made repayments of outstanding debt in the amount $220,024. The Company has a $2,000,000 line of credit, of which none was outstanding at June 30, 2012. 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 expires on May 9, 2013.

At June 30, 2012, the Company had cash totaling $2,860,583 compared to cash totaling $2,130,686 on December 31, 2011. The increase in cash is primarily the result of customer payments on accounts receivable during the period and a federal income tax refund. During the six months ended June 30, 2012, operating activities provided $907,262 of cash, investing activities provided $42,659, and financing activities absorbed $220,024 .

Capital spending totaled $8,334 for the six months ended June 30, 2012, as compared to $301,678 for the same period in 2011. The 2012 expenditures were primarily for office computer upgrades. As demonstrated by the low dollar value of purchases in the first six months of 2012, the Company plans to make minimum purchases of property and equipment for the remainder of the year, based solely on production needs only.

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 $32,000 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 95 days for the year ended December 31, 2011 to 90 days for the six months ended June 30, 2012. The decrease in days sales outstanding is attributable to the reduction of accounts receivable through 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 $1,714,428 at June 30, 2012 and at December 31, 2011 was $1,939,633 or a decrease of $225,205. Inventory turnover was 4.3 for the six months ended June 30, 2012 and 4.1 for the six months ended June 30, 2011.

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 2011 and the six months ended 2012 and the Company anticipates prices will remain relatively stable over the remainder of 2012.

Sales Backlog

As of August 7, 2012, the Company's sales backlog was approximately $8.4 million, as compared to approximately $8.1 million at approximately the same date in 2011. It is estimated that substantially all of the projects in the sales backlog will be produced within 12 months. The Company also maintains a regularly occurring repeat customer business, which should be considered in addition to the ordered production backlog described above. These orders typically have a quick turn around and represent purchases of a significant portion of the Company's inventoried standard products, such as highway safety barrier, utility and Easi-Set® and Easi-Span® building products. Historically, this regularly occurring repeat customer business has ranged from $5.0 million to $7.0 million annually.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

ITEM 4. Controls and Procedures

(a) Disclosure controls and procedures

The Company carried out our evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, the chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures were effective at June 30, 2012.

(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, 2012 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"

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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 13, 2012	By: /s/ Rodney I. Smith Rodney I. Smith, President (Principal Executive Officer)
Date: August 13, 2012	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 six months ended June 30, 2012

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