

SMITH MIDLAND CORP  
Form 10-Q  
August 13, 2010

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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

or

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

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

Commission File Number 1-13752

Smith-Midland Corporation  
(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
of incorporation or organization)

54-1727060  
(I.R.S. Employer  
Identification No.)

5119 Catlett Road, P.O. Box 300  
Midland, VA 22728  
(Address, zip code of principal executive offices)

(540) 439-3266  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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 6, 2010: 4,661,962 shares, net of treasury shares

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## SMITH-MIDLAND CORPORATION

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## PART I — FINANCIAL INFORMATION

## ITEM 1. Financial Statements

SMITH-MIDLAND CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

ASSETS	June 30, 2010	December 31, 2009
Current assets		
Cash and cash equivalents	\$ 668,108	\$ 2,929,868
Accounts receivable		
Trade - billed, (less allowance for doubtful accounts of \$296,661 and \$253,082)	6,693,439	4,134,729
Trade - unbilled	1,734,891	713,322
Inventories		
Raw materials	593,572	648,023
Finished goods	1,274,606	1,955,347
Prepaid expenses and other assets	139,722	80,786
Prepaid income taxes	-	138,003
Deferred taxes	480,000	444,000
<b>Total current assets</b>	<b>11,584,338</b>	<b>11,044,078</b>
Property and equipment, net	4,599,391	4,183,124
Total other assets	115,130	127,552
<b>Total assets</b>	<b>\$ 16,298,859</b>	<b>\$ 15,354,754</b>

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

SMITH-MIDLAND CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	June 30, 2010	December 31, 2009
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable - trade	\$ 1,423,884	\$ 1,205,228
Accrued expenses and other liabilities	764,958	1,063,445
Accrued income taxes payable	165,159	-
Current maturities of notes payable	459,392	481,078
Customer deposits	696,355	704,270
<b>Total current liabilities</b>	<b>3,509,748</b>	<b>3,454,021</b>
Notes payable - less current maturities	2,925,695	3,077,302
Deferred tax liability	340,000	337,000
<b>Total liabilities</b>	<b>6,775,443</b>	<b>6,868,323</b>
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; 4,702,882 issued and outstanding	47,029	47,029
Additional paid-in capital	4,837,933	4,812,401
Retained earnings	4,740,754	3,729,301
	9,625,716	8,588,731
Treasury stock, at cost, 40,920 shares	(102,300)	(102,300)
<b>Total stockholders' equity</b>	<b>9,523,416</b>	<b>8,486,431</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 16,298,859</b>	<b>\$ 15,354,754</b>

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,	
	2010	2009
Revenue		
Products sales and leasing	\$ 6,543,501	\$ 6,136,732
Shipping and installation revenue	694,134	1,067,236
Royalties	453,932	393,617
<b>Total revenue</b>	<b>7,691,567</b>	<b>7,597,585</b>
Cost of goods sold	5,563,403	4,905,919
<b>Gross profit</b>	<b>2,128,164</b>	<b>2,691,666</b>
Operating expenses		
General and administrative expenses	641,434	892,585
Selling expenses	613,719	558,494
<b>Total operating expenses</b>	<b>1,255,153</b>	<b>1,451,079</b>
<b>Operating income</b>	<b>873,011</b>	<b>1,240,587</b>
Other income (expense)		
Interest expense	(46,051)	(59,627)
Interest income	4,161	529
Gain on sale of assets	1,539	4,279
Other, net	(472)	(117)
<b>Total other (expense)</b>	<b>(40,823)</b>	<b>(54,936)</b>
<b>Income before income tax expense</b>	<b>832,188</b>	<b>1,185,651</b>
Income tax expense	320,993	488,000
<b>Net income</b>	<b>\$ 511,195</b>	<b>\$ 697,651</b>
Basic earnings per share	\$ 0.11	\$ 0.15
Diluted earnings per share	\$ 0.11	\$ 0.15
Weighted average number of common shares outstanding:		
Basic	4,702,882	4,670,882
Diluted	4,786,812	4,733,982

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





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

	Six Months Ended June 30,	
	2010	2009
Revenue		
Products sales and leasing	\$ 12,026,370	\$ 13,484,224
Shipping and installation revenue	1,119,340	2,411,432
Royalties	897,876	835,869
<b>Total revenue</b>	<b>14,043,586</b>	<b>16,731,525</b>
Cost of goods sold	9,930,945	11,217,123
<b>Gross profit</b>	<b>4,112,641</b>	<b>5,514,402</b>
Operating expenses		
General and administrative expenses	1,223,758	1,573,970
Selling expenses	1,181,500	1,127,281
<b>Total operating expenses</b>	<b>2,405,258</b>	<b>2,701,251</b>
<b>Operating income</b>	<b>1,707,383</b>	<b>2,813,151</b>
Other income (expense)		
Interest expense	(88,499)	(121,332)
Interest income	16,531	1,014
Gain on sale of assets	4,667	24,102
Other, net	(629)	(256)
<b>Total other (expense)</b>	<b>(67,930)</b>	<b>(96,472)</b>
<b>Income before income tax expense</b>	<b>1,639,453</b>	<b>2,716,679</b>
Income tax expense	628,000	1,079,000
<b>Net income</b>	<b>\$ 1,011,453</b>	<b>\$ 1,637,679</b>
Basic earnings per share	\$ 0.22	\$ 0.35
Diluted earnings per share	\$ 0.21	\$ 0.35
Weighted average number of common shares outstanding:		
Basic	4,702,882	4,670,882
Diluted	4,807,240	4,733,982

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



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

	Six Months Ended June 30,	
	2010	2009
Reconciliation of net income to cash provided (absorbed) by operating activities		
Net income	\$ 1,011,453	\$ 1,637,679
Adjustments to reconcile net income to net cash provided (absorbed) by operating activities:		
Depreciation and amortization	357,233	347,187
Stock option compensation expense	25,532	51,532
Gain on disposal of fixed assets	(4,668)	(24,102)
Deferred taxes	(33,000)	76,000
(Increase) decrease in:		
Accounts receivable - billed	(2,558,710)	443,940
Accounts receivable - unbilled	(1,021,569)	539,048
Inventories	735,192	106,814
Prepaid taxes and other assets	91,620	327,873
Increase (decrease) in:		
Accounts payable - trade	218,525	(813,561)
Accrued expenses and other	(298,487)	(420,341)
Accrued income taxes payable	165,159	183,090
Customer deposits	(7,915)	(301,891)
Net cash provided (absorbed) by operating activities	(1,319,635)	2,153,268
Cash flows from investing activities:		
Purchases of property and equipment	(785,683)	(421,626)
Proceeds from sale of fixed assets	16,851	42,288
Net cash absorbed by investing activities	(768,832)	(379,338)
Cash flows from financing activities:		
Repayments on lines of credit, net	-	(500,000)
Proceeds from long-term borrowings	52,157	-
Repayments of long-term borrowings and capital leases	(225,450)	(380,962)
Net cash provided (absorbed) by financing activities	(173,293)	(880,962)
Net increase (decrease) in cash and cash equivalents	(2,261,760)	892,968
Cash and cash equivalents		
Beginning of period	2,929,868	1,363,284
End of period	\$ 668,108	\$ 2,256,252

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



SMITH-MIDLAND CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1. – INTERIM FINANCIAL REPORTING

Basis of Presentation

The accompanying condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, we have condensed or omitted certain information and footnote disclosures that are included in our annual financial statements. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2009. The December 31, 2009 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.

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

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.

Certain sales of Soundwall, architectural precast panels and Slenderwall™ concrete products 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.

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## NOTE 2. – 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 excluded from the diluted earnings per share calculation because they would have an anti-dilutive effect were 308,166 and 260,666 for the three months ended June 30, 2010 and 2009, and 258,166 and 429,491 for the six months ended June 30, 2010 and 2009, respectively.

	Three Months Ended June 30,	
	2010	2009
Basic earnings per share		
Income available to common shareholder	\$ 511,195	\$ 697,651
Weighted average shares outstanding	4,702,882	4,670,882
Basic earnings per share	\$ 0.11	\$ 0.15
Diluted earnings per share		
Income available to common shareholder	\$ 511,195	\$ 697,651
Weighted average shares outstanding	4,702,882	4,670,882
Dilutive effect of stock options	83,930	104,267
Total weighted average shares outstanding	4,786,812	4,775,149
Diluted earnings per share	\$ 0.11	\$ 0.15

	Six Months Ended June 30,	
	2010	2009
Basic earnings per share		
Income available to common shareholder	\$ 1,011,453	\$ 1,637,679
Weighted average shares outstanding	4,702,882	4,670,882
Basic earnings per share	\$ 0.22	\$ 0.35
Diluted earnings per share		
Income available to common shareholder	\$ 1,011,453	\$ 1,637,679
Weighted average shares outstanding	4,702,882	4,670,882
Dilutive effect of stock options	104,358	63,100
Total weighted average shares outstanding	4,807,240	4,733,982
Diluted earnings per share	\$ 0.21	\$ 0.35

## NOTE 3. – STOCK OPTIONS

In accordance with ASC 718, stock option expense for the three months ended June 30, 2010 and 2009 was \$10,917 and \$27,017, respectively and for the six months ended June 30, 2010 and 2009 was \$25,532 and \$51,532, 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, 2010.

The following table summarized options outstanding at June 30, 2010:

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2009	594,990	\$ 1.59
Granted	-	-
Forfeited	-	-
Exercised	-	-
Outstanding options at end of quarter	594,990	1.59
Outstanding exercisable options at end of quarter	556,271	1.62

The intrinsic value of outstanding and exercisable options at June 30, 2010 was approximately \$110,000 and \$105,000, respectively.



#### NOTE 4. – RECENT PRONOUNCEMENTS

In January 2010, the FASB issued ASU 2010-06 codified as ASC 820-10-50, “Improving Disclosures about Fair Value Measurements” (“ASC 855”). This update amended guidance and issued a clarification with regard to disclosure requirements about fair market value measurement. A reporting entity is required to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. In addition, for measurements utilizing significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements. We adopted ASC 855 on January 1, 2010. There was no impact upon adoption of ASC 855 to our financial position or results of operations.

#### NOTE 5. – SUBSEQUENT EVENTS

Management has evaluated events and transactions occurring subsequent to June 30, 2010 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 except for the renewal of certain lines of credit with Summit Community Bank as follows. The Company executed a \$2,000,000 line of credit constituting a renewal of the then existing \$1,500,000 line of credit. The new line of credit is evidenced by a commercial revolving promissory note, which carries a variable interest rate of prime plus .5% and matures on July 7, 2011. In addition, the Company has a commitment from Summit Community Bank in the amount of \$1,000,000 for the purchase of equipment which expires on May 6, 2011. The Company also received a commitment for a commercial business line of credit to improve its property located in Midland, VA, in the amount of \$575,000.

#### 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 and Section 21E of the Exchange Act. 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:

- 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 2010 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, 2009.

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

Smith-Midland Corporation (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, 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.

While the Company's results of operations for the six months ended June 30, 2010 were very positive, sales and net income were down from the same period in 2009. A significant reason for the decrease in both sales and net income was the contract for rental of highway barrier for the presidential inauguration held in January of 2009 resulting in unusually high sales and earnings for the first quarter of 2009. In addition, the construction industry recession has had a negative impact on the Company's sales overall. The Company believes the results of operations for 2010 will be positive, particularly as the economy is showing positive signs of recovery; however, no assurance can be given in respect to future results of operations.

## Results of Operations

Three months ended June 30, 2010 compared to the three months ended June 30, 2009

## Sales By Type

	2010	2009	Change	% of Change
<b>Product Sales:</b>				
Soundwall Sales	\$ 2,024,707	\$ 726,274	\$ 1,298,433	179%
Architectural Panel Sales	506,850	2,937,471	(2,430,621)	-83%
Miscellaneous Wall Sales	15,354	8,236	7,118	86%
<b>Total Wall Sales</b>	<b>2,546,911</b>	<b>3,671,981</b>	<b>(1,125,070)</b>	<b>-31%</b>
Barrier Sales	1,547,908	1,061,949	485,958	46%
Beach Prisms	6,375	31,875	(25,500)	-80%
Easi-Set and Easi-Span Building Sales	751,808	455,901	295,907	65%
Utility and Farm Product Sales	804,238	566,898	237,340	42%
Barrier Rentals	439,508	90,458	349,050	386%
Miscellaneous Product Sales	446,753	257,669	189,084	73%
<b>Total Product Sales</b>	<b>6,543,501</b>	<b>6,136,732</b>	<b>406,769</b>	<b>7%</b>
Shipping and Installation	694,134	1,067,236	(373,102)	-35%
Royalties income	453,932	393,617	60,315	15%
Total Service Revenue	1,148,066	1,460,853	(312,787)	-21%
<b>Total Sales</b>	<b>\$ 7,691,567</b>	<b>\$ 7,597,585</b>	<b>\$ 93,982</b>	<b>1%</b>

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 during the period as a result of the economic recession in the construction industry. For the three months ended June 30, 2010, the Company's production facilities were employed primarily producing soundwall panels for several highway contracts. While the Company did not produce a significant amount of architectural panels during the period, the Company is scheduled to begin production on several new architectural contracts in the latter half of 2010. There were no Slenderwall™ sales for the three months ended June 30, 2010 and 2009; however, the Company has a Slenderwall™ contract which will begin production in the latter half of 2010.

Barrier Sales – Barrier sales were strong during the three months ended June 30, 2010 compared to the same period in 2009. The increase in sales is a direct result of an increase in road projects by federal and state governments. It is anticipated by the Company that barrier sales will moderate over the second half of 2010.

Easi-Set® and Easi-Span® Building Sales – Building sales increased significantly during the three months ended June 30, 2010 compared to the same period in 2009. The increase was primarily due to increased marketing activities for buildings as well as the addition of two new sales persons. Increasing Easi-Set®, Easi-Span® and restroom building sales is a major marketing goal for the Company that began in late 2009 and will continue through 2010. Based on the current backlog of building orders, management believes building sales will be moderately higher in 2010 than in 2009, although no assurance can be given.

Utility and Farm Sales – Utility and farm product sales increased significantly for the three months ended June 30, 2010 compared to the same period 2009. The increase relates to a contract awarded to the Company for utility manholes for a state highway project in northern Virginia. Management believes that utility and farm product sales

will remain strong for the remainder of 2010.

**Barrier Rentals** – Barrier rentals increased significantly for the three months ended June 30, 2010 compared to the same period in 2009, primarily due to an increase in state and federal highway projects during the period.

**Shipping and Installation** – Shipping and installation revenue decreased significantly for the three months ended June 30, 2010 compared to the same period in 2009 due primarily to shipping schedules of manufactured soundwall panels which will be shipped in the latter half of 2010. In addition, the Company is currently producing less architectural wall panels which require installation as opposed to soundwall panels which normally do not require installation by the Company. The Company has several architectural contracts that will begin in the fall of 2010 which include installation services.

Royalty Income – Royalty revenue increased slightly during the three months June 30, 2010 as a result of increased sales of barrier by our licensees and the addition of four new licensees during 2009.

Cost of Goods Sold – Total cost of goods sold for the three months ended June 30, 2010 was \$5,563,403, an increase of \$657,484, or 13%, from \$4,905,919 for the same period in 2009. Total cost of goods sold, as a percentage of total revenue, not including royalties, increased to 77% for the three months ended June 30, 2010 from 68% for the same period in 2009. The increase in cost of goods sold as a percentage of total revenue, excluding royalties, was primarily attributable to the change in product mix for the period. The Company continues to focus on improving production processes in 2010, through the use of lean manufacturing.

General and Administrative Expenses – For the three months ended June 30, 2010, the Company's general and administrative expenses decreased by \$251,150, or 28%, to \$641,434 from \$892,585 during the same period in 2009. The decrease in expense primarily resulted from a decrease in use tax charged on installation of architectural walls and as noted in the revenue analysis discussed above, there was a significant decrease in architectural wall sales for the period, and a decrease in overall expenses during the period. General and administrative expense as a percentage of total revenue was 8% and 12% for the three months ended June 30, 2010 and 2009, respectively.

Selling Expenses – Selling expenses for the three months ended June 30, 2010 increased to \$613,719 from \$558,494 for the same period in 2009, or 10%. The increase was due in part to higher commissions earned, two additional salespersons and a general increase in overall expenses during the three months ended June 30, 2010 compared to the same period in 2009.

Operating Income – The Company had operating income for the three months ended June 30, 2010 of \$873,011 compared to operating income of \$1,240,587 for the same period in 2009, a decrease of \$367,576, or 30%. The decrease in operating income was primarily the result of decreased revenues and an increase in cost of goods sold as a result of a change in the product mix during the period.

Interest Expense – Interest expense was \$46,051 for the three months ended June 30, 2010 compared to \$59,627 for the same period in 2009. The decrease of \$13,576, or 23%, was due primarily to a decrease in notes payable outstanding and a modest reduction of interest on certain notes payable during the period.

Income Tax Expense – The Company had income tax expense of \$320,993 for the three months ended June 30, 2010 compared to \$488,000 for the same period in 2009.

Net Income – The Company had net income of \$511,195 for the three months ended June 30, 2010, compared to net income of \$697,651 for the same period in 2009.

Six months ended June 30, 2010 compared to the six months ended June 30, 2009

### Sales By Type

	2010	2009	Change	% of Change
<b>Product Sales:</b>				
Soundwall Sales	\$ 5,215,958	\$ 2,652,431	\$ 2,563,526	97%
Architectural Panel Sales	509,982	4,321,208	(3,811,226)	-88%
Miscellaneous Wall Sales	15,354	8,236	7,118	86%
Total Wall Sales	5,741,294	6,981,875	(1,240,581)	-18%
Barrier Sales	2,301,281	1,570,955	730,326	46%
Beach Prisms	12,408	31,875	(19,467)	-61%
Easi-Set and Easi-Span Building Sales	1,463,602	1,731,605	(268,003)	-15%
Utility and Farm Product Sales	1,279,921	1,100,831	179,090	16%
Barrier Rentals	557,564	1,378,197	(820,633)	-60%
Miscellaneous Product Sales	670,301	688,886	(18,584)	-3%
Total Product Sales	12,026,370	13,484,223	(1,457,853)	-11%
Shipping and Installation	1,119,340	2,411,432	(1,292,092)	-54%
Royalties income	897,876	835,869	62,006	7%
Total Service Revenue	2,017,216	3,247,302	62,006	2%
<b>Total Sales</b>	<b>\$ 14,043,586</b>	<b>\$ 16,731,525</b>	<b>\$ (2,687,939)</b>	<b>-16%</b>

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 during the period as a result of the economic recession in the construction industry. For the six months ended June 30, 2010, the Company's production facilities were employed primarily producing soundwall panels for several highway contracts. While the Company did not produce a significant amount of architectural panels during the period, the Company is scheduled to begin production on several new architectural contracts in the fall of 2010. There were no Slenderwall™ sales for the six months ended June 30, 2010 and 2009; however, the Company has a Slenderwall™ contract which will begin production in the latter half of 2010.

Barrier Sales – Barrier sales were strong in the six months ended June 30, 2010 compared to the same period in 2009. The increase sales are a direct result of an increase in highway projects by federal and state governments. It is anticipated by the Company that barrier sales will moderate over the second half of 2010.

Easi-Set® and Easi-Span® Building Sales – Building sales declined slightly during the six months ended June 30, 2010 compared to the same period in 2009. The decrease was primarily due to the high level of sales for the first quarter of 2009 which included several large building orders for military use as well as a large order for utility construction. Increasing Easi-Set®, Easi-Span® and restroom building sales is a major marketing goal for the Company that began in late 2009 and will continue through 2010. Based on the current backlog of building orders, management believes building sales will be moderately higher in 2010 than in 2009, although no assurance can be given.

Utility and Farm Sales – Utility and farm product sales increased slightly for the six months ended June 30, 2010 compared to the same period 2009. The increase relates to a contract awarded to the Company for utility manholes for a state highway project in northern Virginia. Management believes that utility and farm product sales will remain strong for the remainder of 2010.

Barrier Rentals – Barrier rentals were down significantly for the six months ended June 30, 2010 compared to 2009, primarily due to the rental of barrier for the Presidential Inauguration in January 2009.

Shipping and Installation – Shipping and installation revenue decreased significantly for the six months ended June 30, 2010 compared to the same period in 2009 due primarily to shipping schedules of manufactured soundwall panels which will be shipped in the latter half of 2010. In addition, the Company is currently producing less architectural wall panels which require installation as opposed to soundwall panels which normally do not require installation by the Company. The Company has several architectural contracts that will begin in the fall of 2010 which include installation services.



**Royalty Income** – Royalty revenue increased slightly during 2010 as a result of increased sales of barrier by our licensees and the addition of four new licensees in 2009.

**Cost of Goods Sold** – Total cost of goods sold for the three months ended June 30, 2010 was \$9,930,945, a decrease of \$1,286,178, or 12%, from \$11,217,123 for the same period in 2009. Total cost of goods sold, as a percentage of total revenue, not including royalties, increased to 76% for the six months ended June 30, 2010 from 71% for the same period in 2009. The increase in cost of goods sold as a percentage of total revenue, excluding royalties, was primarily attributable to the change in product mix and a decrease in sales for the period. The Company continues to focus on improving production processes in 2010, through the use of lean manufacturing.

**General and Administrative Expenses** – For the six months ended June 30, 2010, the Company's general and administrative expenses decreased by \$350,212 or 22%, to \$1,223,758 from \$1,573,970 during the same period in 2009. The decrease in expense primarily resulted from a decrease in use tax charged on installation of architectural walls as noted in the revenue analysis discussed above, there was a significant decrease in architectural wall sales for the period, and a decrease in overall expenses during the period. General and administrative expense as a percentage of total revenue was 9% for the six months ended June 30, 2010 and 2009.

**Selling Expenses** – Selling expenses for the six months ended June 30, 2010 increased to \$1,181,500 from \$1,127,281 for the same period in 2009, or 5%. The increase was due in part to higher commissions earned, two additional salespersons and a general increase in overall expenses during the six months ended June 30, 2010 compared to the same period in 2009.

**Operating Income** – The Company had operating income for the six months ended June 30, 2010 of \$1,707,383 compared to operating income of \$2,813,181 for the same period in 2009, a decrease of \$1,105,768, or 39%. The decrease in operating income was primarily the result of decreased revenues and an increase in cost of goods sold as a result of a change in the product mix during the period.

**Interest Expense** – Interest expense was \$88,499 for the six months ended June 30, 2010 compared to \$121,332 for the same period in 2009. The decrease of \$32,833, or 27%, was due primarily to a decrease in notes payable outstanding and a modest reduction of interest on certain notes payable during the period.

**Income Tax Expense** – The Company had income tax expense of \$628,000 for the six months ended June 30, 2010 compared to \$1,079,000 for the same period in 2009.

**Net Income** – The Company had net income of \$1,011,453 for the six months ended June 30, 2010, compared to net income of \$1,637,679 for the same period in 2009.

#### Liquidity and Capital Resources

The Company has financed its capital expenditures and its operating requirements for the first six months of 2010 primarily from cash balances. The Company had \$3,385,087 of debt obligations at June 30, 2010, of which \$459,392 was scheduled to mature within twelve months. During the six months ended June 30, 2010, the Company made repayments of outstanding debt in the amount \$225,450. The Company executed a \$2,000,000 line of credit subsequent to the end of June 30, 2010, constituting a renewal of the then existing \$1,500,000 line of credit. The new line of credit is evidenced by a commercial revolving promissory note, which carries a variable interest rate of prime plus .5% and matures on July 7, 2011. In addition, the Company has a commitment from Summit Community Bank in the amount of \$1,000,000 for the purchase of equipment which expires on May 6, 2011. The Company also received a commitment on May 6, 2010 for a commercial business line of credit to improve its property located in Midland, VA, in the amount of \$575,000.

At June 30, 2010, the Company had cash totaling \$668,108 compared to cash totaling \$2,929,868 on December 31, 2009. The decrease in cash is a result of an increase in billed and unbilled receivables in the total amount of \$3,580,279 for the six months ended June 30, 2010. The increase in unbilled receivables is a result of several large projects that were produced during the quarter but not billed to the customer until July 2010. The increase in billed receivables relates to the billing of a large project, of which a significant amount was produced and billed during the quarter. The increase in unbilled receivables will reverse as it is converted to accounts receivable and ultimately to cash over the remainder of 2010. During the period, operating activities absorbed \$1,319,635, investing activities absorbed \$768,832, and financing activities absorbed \$173,293.

Capital spending totaled \$785,683 for the six months ended June 30, 2010, as compared to \$421,626 for the same period in 2009. The 2010 expenditures were primarily for the upgrade and replacement of equipment in the precast plant and additional highway barrier for rental operations. The Company plans to make additional capital expenditures for routine equipment replacement, productivity improvements, and plant upgrades, which are planned through 2010 based on the achievement of operating goals and the availability of funds. Total annual expenditures for 2010 for capital assets is estimated at \$1.0 million.

As a result of the Company's existing 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 \$33,000 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 the cost of production for its products before it receives payment. The Company's average days sales outstanding decreased from 70 days for the year ended December 31, 2009 to 67 days for the six months ended June 30, 2010. Although no assurances can be given, the Company believes that anticipated cash flow from operations and the available line of credits will be sufficient to finance the Company's operations for at least the next twelve months.

The Company's inventory was \$1,868,178 at June 30, 2010 and at December 31, 2009 was \$2,603,370 or a decrease of \$735,192. Inventory turnover was 8.3 for the six months ended June 30, 2010, and 6.7 at December 31, 2009, on an annualized basis.

#### 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, 2009. 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 the substantial 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 remained relatively stable during 2009 and the first six months of 2010.

### Sales Backlog

As of August 2, 2010, the Company's sales backlog was approximately \$11.0 million, as compared to approximately \$13.0 million at the same date in 2009. It is estimated that approximately 75% of the projects in the sales backlog will be produced during 2010. 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®, Easi-Span® building products. Historically, this regularly occurring repeat customer business has ranged from \$5,000,000 to \$7,000,000 annually.

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

Not Applicable

## ITEM 4T. Controls and Procedures

### (a) Disclosure controls and procedures

We 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, 2010.

### (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, 2010 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. Removed and Reserved

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

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, 2010

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

Date: August 13, 2010

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, 2010

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32.1	Certification pursuant 18 U.S.C. Section 1350 as adapted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002