

SMITH MIDLAND CORP  
Form 10-Q  
August 19, 2014

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, 2014

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

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

Commission File Number 1-13752

Smith-Midland Corporation

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
of incorporation or organization)

54-1727060

(I.R.S. Employer  
Identification No.)

5119 Catlett Road, P.O. Box 300

Midland, VA 22728

(Address, zip code of principal executive offices)

(540) 439-3266

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

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

Common Stock, \$.01 par value, outstanding as of August 5, 2014 : 4,840,628 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,<br>2014 | December 31,<br>2013 |
|--|------------------|----------------------|
| Current assets   |                  |                      |
| Cash and cash equivalents  | \$2,848,564      | \$3,136,063          |
| Investment securities, available-for-sale, at fair value                         | 981,524          | 915,341              |
| Accounts receivable, net   |                  |                      |
| Trade - billed (less allowance for doubtful accounts of \$292,541 and \$285,305) | 6,548,374        | 7,296,792            |
| Trade - unbilled   | 206,025          | 41,859               |
| Inventories  |                  |                      |
| Raw materials  | 412,953          | 861,129              |
| Finished goods   | 1,115,530        | 1,078,349            |
| Prepaid expenses and other assets  | 175,170          | 231,365              |
| Refundable income taxes  | 276,288          | —                    |
| Deferred taxes   | 473,000          | 475,000              |
| Total current assets   | 13,037,428       | 14,035,898           |
| Property and equipment, net  | 4,228,425        | 4,322,995            |
| Other assets   | 264,807          | 297,915              |
| Total assets   | \$17,530,660     | \$18,656,808         |

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,<br>2014 | December 31,<br>2013 |
|--|------------------|----------------------|
| Current liabilities  |                  |                      |
| Accounts payable - trade   | \$1,400,962      | \$1,517,625          |
| Accrued expenses and other liabilities   | 1,277,024        | 1,331,675            |
| Income taxes payable   | —                | 302,263              |
| Current maturities of notes payable  | 373,347          | 364,204              |
| Customer deposits  | 343,908          | 547,789              |
| <br>Total current liabilities  | <br>3,395,241    | <br>4,063,556        |
| Notes payable - less current maturities  | 2,406,018        | 2,544,809            |
| Deferred tax liability   | 581,000          | 630,000              |
| <br>Total liabilities  | <br>6,382,259    | <br>7,238,365        |
| <br>Commitments and contingencies  | <br>—            | <br>—                |
| Stockholders' equity   |                  |                      |
| Preferred stock, \$.01 par value; authorized 1,000,000 shares, none outstanding              | —                | —                    |
| Common stock, \$.01 par value; authorized 8,000,000 shares; 4,881,548 issued and outstanding | 48,815           | 48,815               |
| Additional paid-in capital   | 5,041,438        | 5,041,438            |
| Accumulated other comprehensive loss, net  | (12,501          | ) (41,014 )          |
| Retained earnings  | 6,172,949        | 6,471,504            |
|  | 11,250,701       | 11,520,743           |
| <br>Treasury stock, at cost, 40,920 shares   | <br>(102,300     | <br>) (102,300 )     |
| <br>Total stockholders' equity   | <br>11,148,401   | <br>11,418,443       |
| <br>Total liabilities and stockholders' equity   | <br>\$17,530,660 | <br>\$18,656,808     |

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, |                  |
|---|-----------------------------|------------------|
|   | 2014                        | 2013             |
| Revenue   |                             |                  |
| Products sales and leasing                                | \$4,666,367                 | \$4,586,700      |
| Shipping and installation revenue                         | 1,393,336                   | 1,116,264        |
| Royalties   | 368,613                     | 431,600          |
| <br>Total revenue   | <br>6,428,316               | <br>6,134,564    |
| <br>Cost of goods sold                                    | <br>5,022,910               | <br>5,082,325    |
| <br>Gross profit  | <br>1,405,406               | <br>1,052,239    |
| <br>Operating expenses                                    |                             |                  |
| General and administrative expenses                       | 806,931                     | 834,309          |
| Selling expenses  | 546,889                     | 605,162          |
| <br>Total operating expenses                              | <br>1,353,820               | <br>1,439,471    |
| <br>Gain on sale of assets                                | <br>22,102                  | <br>11,349       |
| Other income  | 22,596                      | 25,380           |
| <br>Operating income (loss)                               | <br>96,284                  | <br>(350,503 )   |
| <br>Interest income (expense)                             |                             |                  |
| Interest expense  | (29,847                     | ) (26,793 )      |
| Interest income   | 1,544                       | 381              |
| <br>Total other expense                                   | <br>(28,303                 | <br>) (26,412 )  |
| <br>Income (loss) before income tax expense (benefit)     | <br>67,981                  | <br>(376,915 )   |
| <br>Income tax expense (benefit)                          | <br>38,000                  | <br>(154,000 )   |
| <br>Net income (loss)                                     | <br>\$29,981                | <br>\$(222,915 ) |
| <br>Basic earnings (loss) per share                       | <br>\$0.01                  | <br>\$(0.05 )    |
| Diluted earnings (loss) per share                         | \$0.01                      | \$(0.05 )        |
| <br>Weighted average number of common shares outstanding: |                             |                  |
| Basic   | 4,881,548                   | 4,829,380        |
| Diluted   | 4,928,652                   | 4,829,380        |

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





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

|  | Three Months Ended June 30, |              |
|--|-----------------------------|--------------|
|  | 2014                        | 2013         |
| Net income (loss)                            | \$29,981                    | \$(222,915 ) |
| Other comprehensive gain (loss), net of tax: |                             |              |
| Net unrealized holding gain (loss) (1)       | 11,631                      | (52,627 )    |
| Comprehensive income (loss)                  | \$41,612                    | \$(275,542 ) |

(1) Unrealized gains (losses) on available for sale securities are shown net of income tax expense of \$8,000 for June 30, 2014 and an income tax benefit of \$33,000 for June 30, 2013.

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

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

|   | Six Months Ended June 30, |                |
|---|---------------------------|----------------|
|   | 2014                      | 2013           |
| Revenue   |                           |                |
| Products sales and leasing                                | \$8,736,705               | \$10,446,081   |
| Shipping and installation revenue                         | 2,508,240                 | 1,823,068      |
| Royalties   | 820,779                   | 759,050        |
| <br>Total revenue   | <br>12,065,724            | <br>13,028,199 |
| <br>Cost of goods sold                                    | <br>9,930,312             | <br>10,160,197 |
| <br>Gross profit  | <br>2,135,412             | <br>2,868,002  |
| <br>Operating expenses                                    |                           |                |
| General and administrative expenses                       | 1,576,002                 | 1,464,062      |
| Selling expenses  | 1,086,369                 | 1,266,061      |
| <br>Total operating expenses                              | <br>2,662,371             | <br>2,730,123  |
| <br>Gain on sale of assets                                | <br>34,079                | <br>18,506     |
| Other income  | 52,673                    | 45,481         |
| <br>Operating income (loss)                               | <br>(440,207              | <br>) 201,866  |
| <br>Interest income (expense)                             |                           |                |
| Interest expense  | (58,604                   | ) (59,171      |
| Interest income   | 7,256                     | 1,461          |
| <br>Total other expense                                   | <br>(51,348               | <br>) (57,710  |
| <br>Income (loss) before income tax expense (benefit)     | <br>(491,555              | <br>) 144,156  |
| <br>Income tax expense (benefit)                          | <br>(193,000              | <br>) 58,000   |
| <br>Net income (loss)                                     | <br>\$(298,555            | <br>) \$86,156 |
| <br>Basic earnings (loss) per share                       | <br>\$(0.06               | <br>) \$0.02   |
| Diluted earnings (loss) per share                         | \$(0.06                   | ) \$0.02       |
| <br>Weighted average number of common shares outstanding: |                           |                |
| Basic   | 4,881,548                 | 4,827,790      |
| Diluted   | 4,881,548                 | 4,890,848      |

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



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

|  | Six Months Ended June 30, |            |
|--|---------------------------|------------|
|  | 2014                      | 2013       |
| Net income (loss)                            | \$(298,555                | ) \$86,156 |
| Other comprehensive gain (loss), net of tax: |                           |            |
| Net unrealized holding gain (loss) (1)       | 28,513                    | (59,005    |
|  |                           | )          |
| Comprehensive income (loss)                  | \$(270,042                | ) \$27,151 |

(1) Unrealized gains (losses) on available for sale securities are shown net of income tax expense of \$19,000 for June 30, 2014 and an income tax benefit of \$38,000 for June 30, 2013.

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, |                |
|--|---------------------------|----------------|
|  | 2014                      | 2013           |
| Reconciliation of net income to cash provided<br>by operating activities                               |                           |                |
| Net income (loss)  | \$(298,555                | ) \$86,156     |
| Adjustments to reconcile net income (loss) to net cash provided (absorbed) by<br>operating activities: |                           |                |
| Depreciation and amortization  | 312,066                   | 332,040        |
| Gain on disposal of fixed assets   | (34,079                   | ) (18,282 )    |
| Deferred taxes   | (47,000                   | ) (69,000 )    |
| (Increase) decrease in:  |                           |                |
| Accounts receivable - billed   | 748,418                   | (2,555,349 )   |
| Accounts receivable - unbilled   | (164,166                  | ) 659,995      |
| Inventories  | 410,994                   | 123,776        |
| Prepaid expenses and other assets  | (276,288                  | ) 92,866       |
| Prepaid income taxes   | 89,303                    | 81,750         |
| Increase (decrease) in:  |                           |                |
| Accounts payable - trade   | (116,661                  | ) 273,541      |
| Accrued expenses and other   | (54,650                   | ) 13,160       |
| Accrued income taxes payable   | (302,263                  | ) —            |
| Customer deposits  | (203,881                  | ) 237,947      |
| Net cash provided (absorbed) by operating activities   | 63,238                    | (741,400 )     |
| Cash flows from investing activities:  |                           |                |
| Purchases of investment securities available-for-sale  | (36,217                   | ) (1,985,377 ) |
| Purchases of property and equipment  | (217,599                  | ) (245,138 )   |
| Proceeds from sale of fixed assets   | 35,619                    | 18,282         |
| Net cash absorbed by investing activities  | (218,197                  | ) (2,212,233 ) |
| Cash flows from financing activities:  |                           |                |
| Proceeds from long-term borrowings   | 55,160                    | 39,898         |
| Repayments of long-term borrowings   | (187,700                  | ) (169,386 )   |
| Proceeds from options exercised  | —                         | 8,431          |
| Net cash absorbed by financing activities  | (132,540                  | ) (121,057 )   |
| Net decrease in cash and cash equivalents  | (287,499                  | ) (3,074,690 ) |
| Cash and cash equivalents  |                           |                |
| Beginning of period  | 3,136,063                 | 4,367,474      |
| End of period  | \$2,848,564               | \$1,292,784    |

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, 2013. The December 31, 2013 balance sheet was derived from audited financial statements included in the Form 10-K.

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

Reclassifications

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

Use of Estimates

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

Revenue Recognition

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

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

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

revenue from licensing agreements is recognized in the month earned.

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

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



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

#### Investments

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

#### NOTE 2. – 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 per share calculation because they would have an anti-dilutive effect were 254,166 for the three and six months ended June 30, 2014 and 254,166 for the three and six months ended June 30, 2013.

|  | Three Months Ended June, 30 |              |
|--|-----------------------------|--------------|
|  | 2014                        | 2013         |
| Basic earnings (loss) per share                |                             |              |
| Income (loss) available to common shareholders | \$29,981                    | \$(222,915 ) |
| Weighted average shares outstanding            | 4,881,548                   | 4,829,380    |
| Basic earnings (loss) per share                | \$0.01                      | \$(0.05 )    |
| Diluted earnings (loss) per share              |                             |              |
| Income (loss) available to common shareholders | \$29,981                    | \$(222,915 ) |
| Weighted average shares outstanding            | 4,881,548                   | 4,829,380    |
| Dilutive effect of stock options               | 47,104                      | —            |
| Total weighted average shares outstanding      | 4,928,652                   | 4,829,380    |
| Diluted earnings (loss) per share              | \$0.01                      | \$(0.05 )    |

|  | Six Months Ended June 30, |           |
|--|---------------------------|-----------|
|  | 2014                      | 2013      |
| Basic earnings (loss) per share                |                           |           |
| Income (loss) available to common shareholders | \$(298,555 )              | \$86,156  |
| Weighted average shares outstanding            | 4,881,548                 | 4,827,790 |
| Basic earnings (loss) per share                | \$(0.06 )                 | \$0.02    |
| Diluted earnings (loss) per share              |                           |           |
| Income (loss) available to common shareholders | \$(298,555 )              | \$86,156  |
| Weighted average shares outstanding            | 4,881,548                 | 4,827,790 |
| Dilutive effect of stock options               | —                         | 63,058    |
| Total weighted average shares outstanding      | 4,881,548                 | 4,890,848 |
| Diluted earnings (loss) per share              | \$(0.06 )                 | \$0.02    |

## NOTE 3. – STOCK OPTIONS

In accordance with ASC 718, the Company had no stock option expense for the three and six months ended June 30, 2014 and June 30, 2013. 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, 2014.

The following table summarized options outstanding at June 30, 2014

|   | Number of<br>Shares | Weighted<br>Average<br>Exercise Price |
|---|---------------------|---------------------------------------|
| Balance, December 31, 2013                        | 370,599             | \$ 1.96                               |
| Granted   | —                   | —                                     |
| Forfeited   | 6,000               | 0.83                                  |
| Exercised   | —                   | —                                     |
| Outstanding options at end of quarter             | 364,599             | \$ 1.98                               |
| Outstanding exercisable options at end of quarter | 364,599             | \$ 1.98                               |

The intrinsic value of outstanding and exercisable options at June 30, 2014 was approximately \$86,000.

## NOTE 4. – 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, 2014 and has determined that there have been no significant events or transactions that provide additional evidence about conditions of the Company that existed as of the balance sheet date.

## ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

## Forward-Looking Statements

This Quarterly Report and related documents include “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act 1934. Forward-looking statements involve known and unknown risks, uncertainties and other factors which could cause the Company’s actual results, performance (financial or operating) or achievements expressed or implied by such forward looking statements not to occur or be realized. Such forward looking statements generally are based upon the Company’s best estimates of future results, performance or achievement, based upon current conditions and the most recent results of operations. Forward-looking statements may be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “believe,” “estimate,” “anticipate,” “continue,” or similar terms, variations of those terms or the negative of those terms. Potential risks and uncertainties include, among other things, such factors as:

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no assurance of profitable operations; in this respect, the Company reported a net loss for the first quarter of 2014 and a small profit for the second quarter of 2014,

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

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

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

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

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

• adverse weather, such as occurred in the first quarter of 2014, 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 since the resignation of Mr. Frederick L. Russell, Jr., 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, 2013.

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 insulated wall panel for use in building construction; J-J Hooks® Highway Safety Barrier, a positive-connected highway safety barrier; Sierra Wall, a sound barrier primarily for roadside use; and Easi-Set® transportable concrete buildings, also patented. In addition, the Company produces custom order precast concrete products with various architectural surfaces, as well as generic highway sound barriers, utility vaults, and farm

products such as cattleguards 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 first quarter of 2014 resulted in a loss for the Company due to many factors, the largest being the adverse effect on productivity from the extremely cold winter in the Company's main manufacturing and delivery areas. Sales for the first quarter of 2014 were \$5.6 million compared to \$6.4 for the second quarter of the year. In view of the improved weather conditions in the second quarter of 2014, revenue increased by approximately \$800,000 over the first quarter of the year which allowed the Company to be profitable in the second quarter of 2014. While management expects the Company to do slightly better in the remainder of the year, our higher expectations lean toward 2015 as we believe the recovery for Smith-Midland will

begin in earnest next year. In part, this expectation is characterized by several large jobs that have been awarded to the Company which will begin production early next year coupled with the increased bidding activity seen in the last few months.

## Results of Operations

Three and six months ended June 30, 2014 compared to the three and six months ended June 30, 2013

### Revenue By Type

|                                       | Three Months Ended June 30, |             |            |             | Six Months Ended June 30, |              |             |             |  |
|---------------------------------------|-----------------------------|-------------|------------|-------------|---------------------------|--------------|-------------|-------------|--|
|                                       | 2014                        | 2013        | Change     | % of Change | 2014                      | 2013         | Change      | % of Change |  |
| <b>Product Sales:</b>                 |                             |             |            |             |                           |              |             |             |  |
| Soundwall Sales                       | \$663,156                   | \$252,548   | \$410,608  | 163 %       | \$920,880                 | \$679,226    | \$241,654   | 36 %        |  |
| Architectural Panel Sales             | 182,408                     | 90,749      | 91,659     | 101 %       | 533,546                   | 203,718      | 329,828     | 162 %       |  |
| Slenderwall Sales                     | 975,126                     | 1,121,012   | (145,886 ) | (13 )%      | 1,240,627                 | 2,218,372    | (977,745 )  | (44 )%      |  |
| Miscellaneous Wall Sales              | 74,714                      | 298,054     | (223,340 ) | (75 )%      | 271,275                   | 456,302      | (185,027 )  | (41 )%      |  |
| Total Wall Sales                      | 1,895,404                   | 1,762,363   | 133,041    | 8 %         | 2,966,328                 | 3,557,618    | (591,290 )  | (17 )%      |  |
| Barrier Sales                         | 604,239                     | 1,167,889   | (563,650 ) | (48 )%      | 1,695,623                 | 2,193,954    | (498,331 )  | (23 )%      |  |
| Easi-Set and Easi-Span Building Sales | 1,189,699                   | 712,724     | 476,975    | 67 %        | 2,077,602                 | 1,524,425    | 553,177     | 36 %        |  |
| Utility and Farm Product Sales        | 412,387                     | 343,146     | 69,241     | 20 %        | 774,574                   | 754,143      | 20,431      | 3 %         |  |
| Miscellaneous Product Sales           | 327,691                     | 411,449     | (83,758 )  | (20 )%      | 772,193                   | 678,056      | 94,137      | 14 %        |  |
| Total Product Sales                   | 4,429,420                   | 4,397,571   | 31,849     | 1 %         | 8,286,320                 | 8,708,196    | (421,876 )  | (5 )%       |  |
| Royalty Income                        | 368,613                     | 431,600     | (62,987 )  | (15 )%      | 820,779                   | 759,050      | 61,729      | 8 %         |  |
| Barrier Rentals                       | 236,947                     | 189,129     | 47,818     | 25 %        | 450,385                   | 1,737,885    | (1,287,500) | (74 )%      |  |
| Shipping and Installation Revenue     | 1,393,336                   | 1,116,264   | 277,072    | 25 %        | 2,508,240                 | 1,823,068    | 685,172     | 38 %        |  |
| Total Service Revenue                 | 1,998,896                   | 1,736,993   | 261,903    | 15 %        | 3,779,404                 | 4,320,003    | (540,599 )  | (13 )%      |  |
| Total Revenue                         | \$6,428,316                 | \$6,134,564 | \$293,752  | 5 %         | \$12,065,724              | \$13,028,199 | \$(962,475) | (7 )%       |  |

Wall Panel Sales – Wall sales are generally large contracts issued by general contractors for production and delivery of a specific wall panel for a specific construction project. Changes in the mix of wall sales depend on what contracts are being bid and what projects are in production during the period. Overall wall panel sales increased slightly during the three months ended June 30, 2014, compared to the same period in 2013 and decreased moderately for the six months

ended June 30, 2014, compared to the same period in 2013. Soundwall sales increased significantly during the three and six month periods ended June 30, 2014 when compared to the same periods in 2013. The increase was due to a large contract for Soundwall in northern Virginia and two other small contracts now in process. Soundwall should remain relatively strong during the remainder of the year. Architectural panel sales increased significantly during the three and six months ended June 30, 2014, compared to the same period in 2013, due to a large contract that started in the third quarter of 2013 and which ended in first quarter of 2014. The Company was awarded two small contracts which started in the second quarter and will complete in the third quarter of 2014. The Company continues to bid certain architectural projects but cannot be certain if it will be awarded any additional jobs in 2014. Slenderwall™ panel sales decreased moderately during the three and six month periods ended June 30, 2014 when compared to the same periods in 2013. There has only been one Slenderwall™ project in production during the first six months of 2014 compared to approximately four during the same period in 2013. The Company has been awarded one smaller Slenderwall™

project which will start near the end of the year and has bid on several more potential projects for late 2014 and into 2015. Miscellaneous wall panels decreased significantly during the three and six month periods ended June 30, 2014 when compared to the same period in 2013. As these types of projects are not as common as the other types of panels, it is difficult to know when they will become available.

**Barrier Sales** - Barrier sales decreased significantly during the three and six months ended of June 30, 2014 compared to the same period in 2013. The Company was producing two large contracts for barrier in 2013, both of which were completed in first quarter of 2014. The Company was recently awarded a contract for barrier in the amount of \$500,000 which will be completed in the third quarter of 2014. While the overall barrier market has slowed over the last several years, management has been successful in maintaining its market share and pricing for the last several years as J-J Hooks highway safety barrier is the primary barrier approved in the majority of the states in our geographical sales area.

**Easi-Set® and Easi-Span® Building Sales** - Building and restroom sales increased 67% for the three months ended June 30, 2014, compared to the same period in 2013. Building and restroom sales increased 36% for the six months ended June 30, 2014, compared to the same period in 2013. The increase was due in part by a large contract to produce restrooms for the federal government. The Company continues to emphasize the sales of its proprietary restroom buildings to federal, state and local governmental parks, sports complexes and other governmental facilities. It is anticipated by the Company that building and restroom sales will increase slightly through the remainder of 2014 when compared to 2013.

**Utility and Farm Product Sales** - Utility and farm products increased in sales during the three and six month periods ended June 30, 2014, compared to the same period in 2013. The number of manhole projects bid during the periods increased slightly, however, bid prices remained low. The Company believes utility and farm product sales will increase slightly for the remainder of the year as there are signs in the market place which indicates that 2014 will be a slightly better year for utility and farm product sales than 2013. Utility products are tied closely with infrastructure spending by federal, state and local governments which seems to be improving.

**Miscellaneous Product Sales** - Miscellaneous products are products produced and sold that do not meet the criteria defined for other revenue categories. Miscellaneous product sales decreased slightly for three months ended June 30, 2014, compared to the same period in 2013 and miscellaneous sales increased slightly for the six months ended June 30, 2014, compared to the same period in 2013. The increase is due primarily to the award of a large retaining wall project which completed production in the second quarter of 2014. Management believes that miscellaneous sales will increase only slightly, or remain flat over the remainder of 2014. As stated in prior reports, with the increased focus sales of Slenderwall™ over the past several years, management has placed less emphasis on the sales and marketing of miscellaneous products.

**Royalty Income** - While royalty revenue decreased slightly for the three months ended June 30, 2014 compared to the same period in 2013, it increased slightly for the six months ended ending the same date. The increase was due primarily to increased building and barrier royalties. Building royalties have remained relatively stable with a slight increase over the last year. Barrier royalties, which are usually down in the winter as most of the barrier is put in place on highway projects before winter begins, in the mid-west stayed strong during the first quarter. It is anticipated that royalty income will increase slightly during 2014.

**Barrier Rentals** - Barrier rentals increased moderately for the three months ended June 30, 2014 compared to the same period in 2013, while rentals for the six month periods ending the same dates were significantly lower. The decrease for the six month period was the result of the rental contract for the Presidential Inauguration held in January 2013 making the first quarter of 2013 abnormally high. Management believes its core barrier rentals should show a slight increase during the remainder of 2014.

**Shipping and Installation** - Shipping revenue results from shipping our products to the customers' final destination and is recognized when the shipping services take place. Installation revenue results from installation of our products at the customers' construction site. Installation revenue results when attaching architectural wall panels to a building, installing an Easi-Set® building at a customers' site or setting any of our other precast products at a site specific to the requirements of the owner. Shipping and installation revenue increased by 25% for the three months ended June 30,



2014, compared to the same period in 2013 and 38% for six months ending the dates. As noted in the Form 10-K for the year ended December 31, 2013, a significant portion of our panel projects had not been shipped or installed prior to the end of 2013, consequently, shipping and installation revenue were lower when compared to the prior year, 2012. Several of the large projects that were manufactured in late 2013, but held in our storage yard began to be shipped and/or installed in early 2014, thereby, increasing these revenues for the first and second quarters of 2014, when compared to the same periods in 2013. Management believes that shipping and installation revenues should, over the remainder of 2014, exceed the revenues earned in 2013.

Cost of Goods Sold – Total cost of goods sold for the three months ended June 30, 2014 decreased by \$59,415, or 1%, from the same period in 2013. Total cost of goods sold for the six months ended June 30, 2014 decreased by \$229,885 or 2%, from the same period in 2013. Total cost of goods sold, as a percentage of total revenue, not including royalties, was 83% and 89% for the three months ended June 30, 2014 and June 30, 2013, respectively. The decrease in cost of goods sold as a percentage of total revenue, not including royalties, for the three months ended June 30, 2014 compared to the same period in 2013 was primarily due to the increased volume of production and sales in the second quarter of 2014 than that of the same period in 2013. In addition, two of the jobs in production during the second quarter of 2013 were bid with lower than normal profit margins. Total cost of goods sold, as a percentage of total revenue, not including royalties, was 88% and 83% for the six months ended June 30, 2014 and June 30, 2013, respectively. The primary factors in the related to the increase in cost of goods sold for the six months ended June 30, 2014 was the unusual lower volume of production during the first quarter of 2014 due to the particularly cold winter, the increased volume of Slenderwall being produced in 2013, which produce much higher profits and the increase volume of highway barrier produced in 2013. Inflation continues to remain 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 2014. The Company anticipates that production will increase slightly over the remainder of 2014 and continue to have a positive affect on gross margins.

General and Administrative Expenses – For the three months ended June 30, 2014, the Company's general and administrative expenses decreased \$27,378, or 3%, to 806,931 from \$834,309 during the same period in 2013. The decrease for the three month comparative period was primarily due to decreased salary expense (attributable to a contractual bonus of \$60,000 paid in in the second quarter of 2013), a decrease in general office expenses partial offset by an increase in state use tax assessed on installation projects. General and administrative expense as a percentage of total revenue was 13% and 14% for the three months ended June 30, 2014 and 2013, respectively. For the six months ended June 30, 2014, the Company's general and administrative expenses increased by \$111,940 or 8%, to \$1,576,002 from \$1,464,062 during the same period in 2013. The increase for the six month comparative period was primarily due to slightly increased salary expense and an increase in state use tax assessed on installation projects partially offset by a slight decrease in general office expenses. General and administrative expense as a percentage of total revenue was 13% and 11% for the six months ended June 30, 2014 and 2013, respectively.

Selling Expenses – Selling expenses decreased for the three and six months ended June 30, 2014 compared to the same period in 2013. The decrease for the three and six months periods June 30, 2014 resulted primarily from slightly lower salaries and slightly lower expenses in most general sales expenses when compared to the same period in 2013.

Operating Income – The Company had operating income for the three months ended June 30, 2014 of \$96,284 compared to an operating loss of \$350,503 for the same period in 2013. The increase in operating income for the three months ended June 30, 2014 was primarily the result of increased sales and a decrease in cost of goods sold for the period as a percentage of total revenue, not including royalties. The Company had an operating loss for the six months ended June 30, 2014 of \$440,207 compared to operating income of \$201,866 for the same period in 2013. The decrease in operating income for the six months ended June 30, 2014 was primarily the result of decreased sales and an increase in cost of goods sold for the period as a percentage of total revenue, not including royalties.

Interest Expense – Interest expense was slightly higher for the three months ended June 30, 2014, compared to the same period in 2013 and slightly lower for the six months ended June 30, 2014, compared to the same period in 2013. The increase for the three months ended June 30, 2014 was due primarily to an adjustment in the amortization schedule for one note made in the second quarter of 2014, while the reduction in interest for the six month period was due to payments made during the first six months of 2014 compared to the same periods in 2013.

Income Tax Expense – The Company had tax expense of \$38,000, with an effective rate of 56%, for the three months ended June 30, 2014 compared to a tax benefit of \$154,000, with an effective rate of 41% for the same period in 2013. The Company had a tax benefit of \$193,000 with an effective rate of 39%, for the six months ended June 30, 2014 compared to tax expense of \$58,000, with an effective rate of 40% for the same period in 2013. 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 \$29,981 for the three months ended June 30, 2014, compared to a net loss of \$222,915 for the same period in 2013. The Company had a net loss of \$298,555 for the six months ended

June 30, 2014, compared to net income of \$86,156 for the same period in 2013.

### Liquidity and Capital Resources

The Company has financed its capital expenditures and its operating requirements for the first six months of 2014 primarily from cash balances. The Company had \$2,779,365 of debt obligations at June 30, 2014, of which \$373,347 was scheduled to mature within twelve months. During the six months ended June 30, 2014, the Company made repayments of outstanding debt in the amount \$187,700. The Company has a \$2,000,000 line of credit, of which none was outstanding at June 30, 2014. The line of credit is evidenced by a commercial revolving promissory note, which carries a variable interest rate of prime and matures on September 12, 2014. 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 September 12, 2014.

At June 30, 2014, the Company had cash totaling \$2,848,564 and \$981,524 of investment securities available for sale compared to cash totaling \$3,136,063 and \$915,341 of investment securities available for sale on December 31, 2013. Investment securities available for sale at June 30, 2014 consist of 86,047 shares of USVAX (a Virginia Bond Fund). The decrease in cash and is primarily the result of cash payments on outstanding debt and purchase of capital equipment.

Capital spending totaled \$217,599 for the six months ended June 30, 2014, as compared to \$245,138 for the same period in 2013. The 2014 expenditures were for new vehicles and small miscellaneous manufacturing equipment. The Company plans to be particularly cautious in its capital purchases over the remainder of the year.

In 2013, the Company refinanced its prior existing variable rate mortgage with a fixed rate loan of 3.99% per annum. Because of the refinancing, the Company is no longer sensitive to changes in the prevailing interest rates. Increases in such rates will only slightly affect the interest paid by the Company annually. Each 1% increase in the interest rates of the Company's outstanding debt will reduce income by approximately \$8,000 annually.

The Company's cash flow from operations is affected by production schedules set by contractors, which generally provide for payment 35 to 90 days after the products are produced. This payment schedule may result in liquidity problems for the Company because it must bear a portion of the cost of production before it receives payment from its customers. The Company's average days sales outstanding, excluding the effect of unbilled revenue, increased from 91 days for the year ended December 31, 2013 to 96 days for the three months ended June 30, 2014. The increase in days sales outstanding is attributable to increased retainage held on accounts receivable by customers until the project is completed and one large contract that continues to pay slow but has made significant payments subsequent to the end of the quarter. 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 \$1,528,483 at June 30, 2014 and at December 31, 2013 was \$1,939,478, or a decrease of \$410,995. Inventory turnover was 5.8 for the six months ended June 30, 2014, compared to 5.1 for the same period in 2013.

### 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, 2013. 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 2013 and the first six months of 2014 and the Company anticipates prices will increase only slightly over the remainder of 2014.

#### Sales Backlog

As of August 5, 2014, the Company's sales backlog was approximately \$9.6 million, as compared to approximately \$13.7 million at the same time in 2013. 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, 2014.

(b) Changes in Internal Control over Financial Reporting

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There has been no change in the Company's internal control over financial reporting during the three months ended June 30, 2014 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.   |





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 19, 2014

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

Date: August 19, 2014

By: /s/ William A. Kenter  
William A. Kenter, Chief Financial Officer  
(Principal Financial Officer)

Smith-Midland Corporation  
Exhibit Index to Quarterly Report on Form 10-Q  
For the three months ended June 30, 2014

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