

SMITH MIDLAND CORP  
Form 10-Q  
November 12, 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 September 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 November 9, 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	September 30, 2010	December 31, 2009
Current assets		
Cash and cash equivalents	\$ 1,600,051	\$ 2,929,868
Accounts receivable		
Trade - billed, (less allowance for doubtful accounts of \$309,931 and \$253,082)	4,898,335	4,134,729
Trade - unbilled	4,010,201	713,322
Inventories		
Raw materials	529,518	648,023
Finished goods	1,341,602	1,955,347
Prepaid expenses and other assets	136,961	80,786
Prepaid income taxes	-	138,003
Deferred taxes	446,000	444,000
Total current assets	12,962,668	11,044,078
Property and equipment, net	4,637,286	4,183,124
Total other assets	115,373	127,552
Total assets	\$ 17,715,327	\$ 15,354,754

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	September 30, 2010	December 31, 2009
Current liabilities		
Accounts payable - trade	\$ 1,313,629	\$ 1,205,228
Accrued expenses and other liabilities	1,599,880	1,063,445
Accrued income taxes payable	221,650	-
Current maturities of notes payable	515,463	481,078
Customer deposits	272,169	704,270
<b>Total current liabilities</b>	<b>3,922,791</b>	<b>3,454,021</b>
Notes payable - less current maturities	2,820,112	3,077,302
Deferred tax liability	539,000	337,000
<b>Total liabilities</b>	<b>7,281,903</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	4,846,454	4,812,401
Retained earnings	5,642,241	3,729,301
	10,535,724	8,588,731
Treasury stock, at cost, 40,920 shares	(102,300)	(102,300)
<b>Total stockholders' equity</b>	<b>10,433,424</b>	<b>8,486,431</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 17,715,327</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 September 30,	
	2010	2009
Revenue		
Products sales and leasing	\$ 7,505,181	\$ 5,514,234
Shipping and installation revenue	1,071,157	1,602,784
Royalties	419,620	435,157
<b>Total revenue</b>	<b>8,995,958</b>	<b>7,552,175</b>
<b>Cost of goods sold</b>	<b>6,169,371</b>	<b>5,471,205</b>
<b>Gross profit</b>	<b>2,826,587</b>	<b>2,080,970</b>
Operating expenses		
General and administrative expenses	668,727	822,647
Selling expenses	699,421	498,934
<b>Total operating expenses</b>	<b>1,368,148</b>	<b>1,321,581</b>
<b>Operating income</b>	<b>1,458,439</b>	<b>759,389</b>
Other income (expense)		
Interest expense	(38,104)	(46,252)
Interest income	1,393	13,344
Gain on sale of assets	2,321	37,355
Other, net	438	(645)
<b>Total other (expense)</b>	<b>(33,952)</b>	<b>3,802</b>
<b>Income before income tax expense</b>	<b>1,424,487</b>	<b>763,191</b>
<b>Income tax expense</b>	<b>523,000</b>	<b>272,000</b>
<b>Net income</b>	<b>\$ 901,487</b>	<b>\$ 491,191</b>
Basic earnings per share	\$ 0.19	\$ 0.11
Diluted earnings per share	\$ 0.19	\$ 0.10
Weighted average number of common shares outstanding:		
Basic	4,702,882	4,670,882
Diluted	4,792,796	4,841,767

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





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

	Nine Months Ended September 30,	
	2010	2009
Revenue		
Products sales and leasing	\$ 19,531,551	\$ 18,998,458
Shipping and installation revenue	2,190,497	4,014,216
Royalties	1,317,496	1,271,026
<b>Total revenue</b>	<b>23,039,544</b>	<b>24,283,700</b>
<b>Cost of goods sold</b>	<b>16,100,316</b>	<b>16,688,328</b>
<b>Gross profit</b>	<b>6,939,228</b>	<b>7,595,372</b>
Operating expenses		
General and administrative expenses	1,892,485	2,396,617
Selling expenses	1,880,921	1,626,215
<b>Total operating expenses</b>	<b>3,773,406</b>	<b>4,022,832</b>
<b>Operating income</b>	<b>3,165,822</b>	<b>3,572,540</b>
Other income (expense)		
Interest expense	(126,603)	(167,585)
Interest income	17,924	14,358
Gain on sale of assets	6,988	61,457
Other, net	(191)	(900)
<b>Total other (expense)</b>	<b>(101,882)</b>	<b>(92,670)</b>
<b>Income before income tax expense</b>	<b>3,063,940</b>	<b>3,479,870</b>
<b>Income tax expense</b>	<b>1,151,000</b>	<b>1,351,000</b>
<b>Net income</b>	<b>\$ 1,912,940</b>	<b>\$ 2,128,870</b>
Basic earnings per share	\$ 0.41	\$ 0.46
Diluted earnings per share	\$ 0.40	\$ 0.45
Weighted average number of common shares outstanding:		
Basic	4,702,882	4,670,882
Diluted	4,802,516	4,773,428

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)

	Nine Months Ended September 30,	
	2010	2009
Reconciliation of net income to cash provided (absorbed) by operating activities		
Net income	\$ 1,912,940	\$ 2,128,870
Adjustments to reconcile net income to net cash provided (absorbed) by operating activities:		
Depreciation and amortization	545,569	519,936
Stock option compensation expense	34,054	71,231
Gain on disposal of fixed assets	(6,988)	(61,457)
Deferred taxes	200,000	49,000
(Increase) decrease in:		
Accounts receivable - billed	(763,606)	410,217
Accounts receivable - unbilled	(3,296,879)	(18,510)
Inventories	732,250	616,390
Prepaid taxes and other assets	(43,996)	347,983
Increase (decrease) in:		
Accounts payable - trade	108,401	(1,192,967)
Accrued expenses and other	536,434	(274,214)
Accrued income taxes payable	359,653	378,998
Customer deposits	(432,101)	(320,375)
Net cash provided (absorbed) by operating activities	(114,269)	2,655,102
Cash flows from investing activities:		
Purchases of property and equipment	(1,012,054)	(604,790)
Proceeds from sale of fixed assets	19,311	86,388
Net cash absorbed by investing activities	(992,743)	(518,402)
Cash flows from financing activities:		
Repayments on lines of credit, net	-	(500,000)
Proceeds from long-term borrowings	118,505	-
Repayments of long-term borrowings and capital leases	(341,310)	(487,614)
Net cash provided (absorbed) by financing activities	(222,805)	(987,614)
Net increase (decrease) in cash and cash equivalents	(1,329,817)	1,149,086
Cash and cash equivalents		
Beginning of period	2,929,868	1,363,284
End of period	\$ 1,600,051	\$ 2,512,370
Supplemental schedule of non-cash investing activities		
Cash Payments for interest	\$ 126,603	\$ 167,585

Cash Payments for income taxes	\$ 476,500	\$ 664,728
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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, 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 258,166 and 260,666 for the three months ended September 30, 2010 and 2009, and 258,166 and 312,666 for the nine months ended September 30, 2010 and 2009, respectively.

	Three Months Ended September 30,	
	2010	2009
Basic earnings per share		
Income available to common shareholder	\$ 901,487	\$ 491,191
Weighted average shares outstanding	4,702,882	4,670,882
Basic earnings per share	\$ 0.19	\$ 0.11
Diluted earnings per share		
Income available to common shareholder	\$ 901,487	\$ 491,191
Weighted average shares outstanding	4,702,882	4,670,882
Dilutive effect of stock options	89,914	170,885
Total weighted average shares outstanding	4,792,796	4,841,767
Diluted earnings per share	\$ 0.19	\$ 0.10
Basic earnings per share		
Nine Months Ended September 30,		
2010                      2009		
Basic earnings per share		
Income available to common shareholder	\$ 1,912,940	\$ 2,128,870
Weighted average shares outstanding	4,702,882	4,670,882
Basic earnings per share	\$ 0.41	\$ 0.46
Diluted earnings per share		
Income available to common shareholder	\$ 1,912,940	\$ 2,128,870
Weighted average shares outstanding	4,702,882	4,670,882
Dilutive effect of stock options	99,634	102,546
Total weighted average shares outstanding	4,802,516	4,773,428

Diluted earnings per share	\$	0.40	\$	0.45
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## NOTE 3. – STOCK OPTIONS

In accordance with ASC 718, stock option expense for the three months ended September 30, 2010 and 2009 was \$8,522 and \$19,699, respectively and for the nine months ended September 30, 2010 and 2009 was \$34,054 and \$71,231, 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 nine months ended September 30, 2010.

The following table summarized options outstanding at September 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 September 30, 2010 was approximately \$122,000 and \$115,000, 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.

In July 2010, the FASB issued FASB ASC 2010-20 "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This standard amends existing guidance by requiring more robust and disaggregated disclosures by an entity about the credit quality of its financing receivables and its allowance for credit losses. These disclosures will provide financial statement users with additional information about the nature of credit risks inherent in our financing receivables, how we analyze and assess credit risk in determining our allowance for credit losses, and the reasons for any changes we may make in our allowance for credit losses. This update is generally effective for interim and annual reporting periods ending on or after December 15, 2010. We believe the adoption of this standard will not have a material effect on our financial statements.

## NOTE 5. – SUBSEQUENT EVENTS

As of November 12, 2010, the date on which the Company issued these financial statements, management has evaluated events and transactions occurring subsequent to September 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.

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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 nine months ended September 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 slightly negative impact on the Company's sales overall.

## Results of Operations

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

### Revenue By Type

	2010	2009	Change	% of Change
Product Sales:				
Soundwall Sales	\$ 2,715,827	\$ 230,691	\$ 2,485,137	1077%
Architectural Panel Sales	54,894	867,063	(812,169)	-94%
Slenderwall Sales	442,042	-	442,042	-
Total Wall Sales	3,212,764	1,097,754	2,115,010	193%
Barrier Sales	1,321,423	1,734,027	(412,604)	-24%
Beach Prisms	-	2,907	(2,907)	-100%
Easi-Set and Easi-Span Building Sales	931,047	1,157,804	(226,757)	-20%
Utility and Farm Product Sales	589,818	526,845	62,973	12%
Miscellaneous Product Sales	1,249,012	876,848	372,164	42%
Total Product Sales	7,304,063	5,396,185	1,907,879	35%
Shipping and Installation	1,071,157	1,602,784	(531,627)	-33%
Barrier Rentals	201,118	118,050	83,068	70%
Royalties income	419,620	435,157	(15,537)	-4%
Total Service Revenue	1,691,895	2,155,990	(464,095)	-22%
Total Revenue	\$ 8,995,958	\$ 7,552,175	\$ 1,443,783	19%

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 increased during the period as a result of a large contract for the manufacturing and delivery of Soundwall in the state of Maryland. This contract will continue for the remainder of 2010 and into the first quarter of 2011. 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 fourth quarter of 2010. The Company has a contract for the production of Slenderwall™ which started in third quarter 2010 and will finish in the fourth quarter of 2010. There were no Slenderwall™ sales for the same period of 2009.

Barrier Sales – Barrier sales decreased during the three months ended September 30, 2010 compared to the same period in 2009. While there was a decrease in barrier sales during the period, sales have remained above expectation for the nine month period ended September 30, 2010. It is anticipated, due to a decrease in road projects by federal and state governments, that barrier sales will moderate slightly in the fourth quarter of 2010.

Easi-Set® and Easi-Span® Building Sales – Building sales decreased moderately during the three months ended September 30, 2010 compared to the same period in 2009. The decrease in Building sales was primarily due to scheduled times for the production and delivery of Building orders in the backlog. Based on the current backlog of building orders, management believes building sales will be moderately higher in the final quarter of 2010. Management believes that the decrease in building sale in the current year to be also attributable to the current economic conditions

Utility and Farm Product Sales – Utility and farm product sales increased by 18% for the three months ended September 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.

Miscellaneous Product Sales – Miscellaneous products are products produced and sold that do not meet the criteria defined for other revenue categories. For the three months ended September 30, 2010, miscellaneous sales increased by 42% over the same period in 2009. The increase in sales relates to a large contract to manufacture, ship and install 18 specialty buildings at the Marine Corps facility at Camp Lejeune, NC.

Shipping and Installation – Shipping and installation revenue decreased by \$531, 627 for the three months ended September 30, 2010 compared to the same period in 2009 due primarily to the shipping schedule for Soundwall panels manufactured in early 2010 which will start shipping in the fourth quarter 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. Shipping and installation revenue is expected to remain below 2009 levels for the remainder of 2010.

Barrier Rentals – Barrier rentals increased significantly for the three months ended September 30, 2010 compared to the same period in 2009, primarily due to the reluctance of customers to purchase Barrier in uncertain economic conditions.

Royalty Income – Royalty revenue decreased slightly during the three months ended September 30, 2010, compared to the same period in 2009. The majority of the royalties earned in 2010 are from Barrier sales by licensees. The Company expects royalty revenue to remain at the same level for the remainder of the year.

Cost of Goods Sold – Total cost of goods sold for the three months ended September 30, 2010 was \$6,169,371, an increase of \$698,166, or 13%, from \$5,471,205 for the same period in 2009. The increase in total cost of goods sold results from the increase in sales for the three months ended September 30, 2010, compared to the same period in 2009. Total cost of goods sold, as a percentage of total revenue, not including royalties, decreased to 72% for the three months ended September 30, 2010 from 77% for the same period in 2009. The decrease 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, a shift to projects with more profitable margins, and a better use of manpower in the manufacturing process.

General and Administrative Expenses – For the three months ended September 30, 2010, the Company's general and administrative expenses decreased by \$153,920, or 19%, to \$668,727 from \$822,647 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 such as bad debts and legal fees. General and

administrative expense as a percentage of total revenue was 7% and 11% for the three months ended September 30, 2010 and 2009, respectively.

**Selling Expenses** – Selling expenses for the three months ended September 30, 2010 increased to \$699,421 from \$498,934 for the same period in 2009, or 40%. The increase was due in part to higher salaries and commissions earned, two additional salespersons and a general increase in overall expenses such as advertising and travel expenses during the three months ended September 30, 2010 compared to the same period in 2009.

**Operating Income** – The Company had operating income for the three months ended September 30, 2010 of \$1,458,439 compared to operating income of \$759,389 for the same period in 2009, a increase of \$699,050, or 92%. The increase in operating income was primarily the result of increased revenues and a decrease in cost of goods sold as more fully described above.

Interest Expense – Interest expense was \$38,104 for the three months ended September 30, 2010 compared to \$46,252 for the same period in 2009. The decrease of \$8,148, or 18%, was due primarily to a decrease in notes payable outstanding during the period.

Income Tax Expense – The Company had income tax expense of \$523,000 for the three months ended September 30, 2010 compared to \$272,000 for the same period in 2009.

Net Income – The Company had net income of \$901,487 for the three months ended September 30, 2010, compared to net income of \$491,191 for the same period in 2009.

Nine months ended September 30, 2010 compared to the nine months ended September 30, 2009

#### Revenue By Type

	2010	2009	Change	% of Change
Product Sales:				
Soundwall Sales	\$ 7,931,785	\$ 2,883,122	\$ 5,048,663	175%
Architectural Panel Sales	651,406	5,188,272	(4,536,866)	-87%
Slenderwall Sales	442,042	-	442,042	-
Miscellaneous Wall Sales	-	8,236	(8,236)	-100%
Total Wall Sales	9,025,233	8,079,629	945,604	12%
Barrier Sales	3,622,704	3,328,396	294,308	9%
Beach Prisms	12,408	34,782	(22,374)	-64%
Easi-Set and Easi-Span Building Sales	2,392,348	2,850,413	(458,065)	-16%
Utility and Farm Product Sales	1,869,739	1,599,879	269,860	17%
Miscellaneous Product Sales	1,848,979	1,603,835	245,144	15%
Total Product Sales	18,771,412	17,496,935	1,274,477	7%
Shipping and Installation	2,190,497	4,014,216	(1,823,719)	-45%
Barrier Rentals	760,140	1,501,523	(741,384)	-49%
Royalties income	1,317,496	1,271,026	46,470	4%
Total Service Revenue	4,268,132	6,786,765	(2,518,633)	-37%
<b>Total Revenue</b>	<b>\$ 23,039,544</b>	<b>\$ 24,283,700</b>	<b>\$ (1,244,156)</b>	<b>-5%</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 increased during the period as a result of a large contract for the manufacturing and delivery of Soundwall in the state of Maryland. This contract will continue for the remainder of 2010 and into the first quarter of 2011. While the Company did not produce a significant amount of architectural panels during the period, the Company has several contracts that will begin production in the fourth quarter of 2010. The Company is currently producing Slenderwall™ panels for a contract that started in the third quarter of 2010 and will complete in by years' end. There were no Slenderwall™ sales for the same period of 2009.

Barrier Sales – Barrier sales increased by 9% during the nine months ended September 30, 2010 compared to the same period in 2009. The increase in sales for 2010 is partly a result of strong barrier sales in the first six months of 2010. It is anticipated by the Company that barrier sales will moderate slightly in the fourth quarter of 2010.

Easi-Set® and Easi-Span® Building Sales – Building sales declined by 16% or \$458,065 during the nine months ended September 30, 2010 compared to the same period in 2009. The decrease was primarily due to the timing of production and delivery of buildings currently in the Company's' backlog. 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 the final quarter of 2010. Management believes that the decrease in building sales in 2010 to be attributable to the current economic conditions.

Utility and Farm Product Sales – Utility and farm product sales increased slightly for the nine months ended September 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.

Miscellaneous Product Sales – Miscellaneous products are products produced and sold that do not meet the criteria defined for other revenue categories. For the nine months ended September 30, 2010 miscellaneous sales increased by 15% over the same period in 2009. The increase in sales relates to a large contract to manufacture, ship and install 18 specialty buildings at the Marine Corps facility at Camp Lejeune, NC. In addition, in the most recent period, Company produced steam tunnels for two universities in Northern Virginia.

Shipping and Installation – Shipping and installation revenue decreased by \$1,823,719, or 45%, for the nine months ended September 30, 2010 compared to the same period in 2009 due primarily to the shipping schedule for Soundwall panels manufactured early in 2010 which will start shipping in the fourth quarter 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. Shipping and installation revenue is expected to remain below 2009 levels for the remainder of 2010.

Barrier Rentals – Barrier rentals were down significantly for the nine months ended September 30, 2010 compared to 2009, primarily due to the rental of barrier for the Presidential Inauguration in January 2009. Management believes that barrier rentals will remain at the current levels for the remainder of the 2010.

Royalty Income – Royalty revenue increased slightly for the nine months ended September 30, 2010 as a result of increased sales of Barrier by our licensees and the addition of three new licensees in 2010. The new licenses were for Barrier products, Slenderwall™ panels and Easi-Set® and Easi-Span® Buildings.

Cost of Goods Sold – Total cost of goods sold for the nine months ended September 30, 2010 was \$16,100,316, a decrease of \$588,012, or 4%, from \$16,888,328 for the same period in 2009. Total cost of goods sold, as a percentage of total revenue, not including royalties, increased to 74% for the nine months ended September 30, 2010 from 73% 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.

General and Administrative Expenses – For the nine months ended September 30, 2010, the Company's general and administrative expenses decreased by \$504,132, or 21%, to \$1,892,485 from \$2,396,617 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 bad debts expense and audit and tax related expenses. General and administrative expense as a percentage of total revenue was 8% and 10% for the nine months ended September 30, 2010 and 2009, respectively.

Selling Expenses – Selling expenses for the nine months ended September 30, 2010 increased to \$1,880,921 from \$1,626,215 for the same period in 2009, or 16%. The increase was due in part to higher commissions earned, two additional salespersons, increased advertising expense and a general increase in overall expenses during the nine months ended September 30, 2010 compared to the same period in 2009.

Operating Income – The Company had operating income for the nine months ended September 30, 2010 of \$3,165,822 compared to operating income of \$3,572,540 for the same period in 2009, a decrease of \$406,718, or 11%. The decrease in operating income was primarily the result of decreased revenues for the period.

Interest Expense – Interest expense was \$126,603 for the nine months ended September 30, 2010 compared to \$167,585 for the same period in 2009. The decrease of \$40,982, or 24%, was due primarily to a decrease in notes payable outstanding during the period.

Income Tax Expense – The Company had income tax expense of \$1,151,000 for the nine months ended September 30, 2010 compared to \$1,351,000 for the same period in 2009.

Net Income – The Company had net income of \$1,912,940 for the nine months ended September 30, 2010, compared to net income of \$2,128,870 for the same period in 2009.

#### Liquidity and Capital Resources

The Company has financed its capital expenditures and its operating requirements for the first nine months of 2010 primarily from cash balances and an equipment line of credit. The Company had \$3,335,575 of debt obligations at September 30, 2010, of which \$515,463 was scheduled to mature within twelve months. During the nine months ended September 30, 2010, the Company made repayments of outstanding debt in the amount \$341,310. The Company executed a \$2,000,000 line of credit constituting a renewal of the existing \$1,500,000 line of credit during 2010. 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 September 30, 2010, the Company had cash totaling \$1,600,051 compared to cash totaling \$2,929,868 on December 31, 2009. The decrease in cash is a result of an increase in unbilled receivables in the total amount of \$3,296,879 for the nine months ended September 30, 2010. The increase in unbilled receivables is a result of several large projects that are currently in production but have not been invoiced to the customer as of September 30, 2010. As the unbilled receivables are invoiced during the final quarter of 2010, the receivables are expected to convert to cash consistent with our normal collection period. During the period, operating activities absorbed \$114,269 of cash, investing activities absorbed \$992,743, and financing activities absorbed \$222,805.

Capital spending totaled \$1,012,054 for the nine months ended September 30, 2010, as compared to \$604,790 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 and 2011 based on the continued achievement of operating goals and the availability of funds. Total annual expenditures for 2010 for capital assets are estimated at \$1.2 million. The Company is still evaluating its capital expenditures plans for 2011.

As a result of the Company's existing variable rate debt burden, the Company is sensitive to changes in the prevailing interest rates. Increases in such rates may materially and adversely affect the Company's ability to finance its operations either by increasing the Company's cost to service its current debt, or by creating a more burdensome refinancing environment. Each 1% increase in interest rates affecting the Company's outstanding debt will reduce income by approximately \$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, excluding the effect of unbilled revenue, increased from 68 days for the year ended December 31, 2009 to 71 days for the nine months ended September 30, 2010. Although no assurances can be given, the Company believes that anticipated cash flow from operations and the available lines of credits will be sufficient to finance the Company's operations for at least the next twelve months.

The Company's inventory was \$1,871,120 at September 30, 2010 and at December 31, 2009 was \$2,603,370 or a decrease of \$732,250. Inventory turnover was 8.9 for the nine months ended September 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 nine months of 2010.

### Sales Backlog

As of November 5, 2010, the Company's sales backlog was approximately \$12.0 million, as compared to approximately \$14.0 million at the same date in 2009. 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 \$5,000,000 to \$7,000,000 annually.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

ITEM 4. 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 September 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 September 30, 2010 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

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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

10.1 Promissory Note, dated July 7, 2010, in the amount of \$2,000,000 issued to Summit Community Bank (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of the Company filed with the SEC on July 19, 2010).

10.2 The Commercial Security Agreement dated July 7, 2010 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of the Company filed with the SEC on July 19, 2010).

10.3 Summit Community Bank Commitment Letter dated May 6, 2010, for a line of credit in the amount of \$2,000,000 (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of the Company filed with the SEC on July 19, 2010).

10.4 Summit Community Bank Commitment Letter dated May 6, 2010, for the guidance line of credit in the amount of \$1,000,000 (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of the Company filed with the SEC on July 19, 2010).

10.5 Summit Community Bank Commitment Letter dated May 6, 2010, for the business line of credit in the amount of \$575,000 (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K of the Company filed with the SEC on July 19, 2010).

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

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SIGNATURES

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

SMITH-MIDLAND CORPORATION  
(Registrant)

Date: November 12, 2010

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

Date: November 12, 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 nine months ended September 30, 2010

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