SMITH MIDLAND CORP
Form 10-Q
November 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2008

or

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

For the transition period from ________ to ________

Commission File Number 1-13752

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

Delaware	**54-1727060**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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

Common Stock, $.01 par value, outstanding as of November 6, 2008: 4,670,882 shares

---

SMITH-MIDLAND CORPORATION

Form 10-Q Index

			Page
PART I.	Financial Information		
	Item 1.	Financial Statements	
		Condensed Consolidated Balance Sheets (Unaudited), September 30, 2008 and December 31, 2007	3
		Condensed Consolidated Statements of Operations (Unaudited) for the three months ended September 30, 2008 and September 30, 2007	4
		Condensed Consolidated Statements of Operations (Unaudited) for the nine months ended September 30, 2008 and September 30, 2007	5
		Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2008 and September 30, 2007	6
		Notes to Condensed Consolidated Financial Statements (Unaudited)	7
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	13
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	18
	Item 4.	Controls and Procedures	19
PART II.	Other Information		
	Item 4	Submission of matters to a Vote of Security Holders	19
	Item 6	Exhibit Index	20
		Exhibit 31.1	
		Exhibit 31.2	
		Exhibit 32	
		Signatures	21

PART I — FINANCIAL INFORMATION

ITEM 1. Financial Statements

SMITH-MIDLAND CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2008	December 31, 2007
Assets:		
Current Assets:		
Cash and cash equivalents	$ 595,187	$ 282,440
Accounts receivable		
Trade- billed (less allowance for doubtful accounts of $289,867, and $243,318, respectively)	5,684,086	5,900,684
Trade - unbilled	878,462	316,059
Inventories		
Raw Materials	1,008,879	825,328
Finished Goods	1,344,032	1,968,978
Prepaid expenses and other assets	102,601	152,289
Refundable income taxes	-	322,835
Deferred tax assets	371,541	367,000
Total current assets	9,984,788	10,135,613
Property and equipment, net	4,189,875	4,102,181
Other assets	167,947	200,090
Total assets	$ 14,342,610	$ 14,437,884
Liabilities and Shareholders' Equity:		
Current Liabilities:		
Accounts payable - trade	$ 1,799,871	$ 1,776,594
Accrued income taxes payable	61,325	656,370
Accrued expenses and other liabilities	520,682	587,399
Current maturities of notes payable	446,668	605,376
Customer deposits	1,133,511	643,509
Total current liabilities	3,962,057	4,269,248
Notes payable - less current maturities	3,790,953	3,991,036
Deferred taxes	208,000	175,000
Total liabilities	7,961,010	8,435,284
Commitments and Contingencies		

Shareholders' Equity:				
Preferred stock, par value $.01 per share; authorized 1,000,000 shares; none issued and outstanding				
Common stock, par value $.01 per share; authorized 8,000,000 shares; issued and outstanding 4,670,882		46,709		46,709
Additional paid-in capital		4,661,306		4,558,947
Retained earnings		1,775,885		1,499,244
Treasury Stock, at cost, 40,920 shares		(102,300)		(102,300)
Total shareholders' equity		6,381,600		6,002,600
Total liabilities and shareholders' equity	$	14,342,610	$	14,437,884

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

3

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

	Three Months Ended September 30, 2008	2007
Revenue		
Product sales and leasing	$ 6,061,235	$ 6,499,930
Shipping and installation revenue	1,175,332	1,289,047
Royalties	517,909	429,671
Total revenue	7,754,476	8,218,648
Cost of goods sold	6,234,087	6,419,523
Gross profit	1,520,389	1,799,125
Operating expenses		
General and administrative expenses	821,951	724,774
Selling expenses	557,053	485,542
Total operating expenses	1,379,004	1,210,316
Operating income	141,385	588,809
Other income (expense):		
Interest expense	(82,673)	(111,599)
Interest income	4,684	10,314
Gain (loss) on sale of fixed assets	34,453	1,504
Other, net	(452)	(1,208)
Total other income (expense)	(43,988)	(100,989)
Income before income tax expense	97,397	487,820
Income tax expense	71,780	208,733
Net income	$ 25,617	$ 279,087
Net income per common share:		
Basic	$ 0.01	$ 0.06
Diluted	$ 0.01	$ 0.06
Weighted average number of common shares outstanding:		
Basic	4,670,882	4,669,436
Diluted	4,732,877	4,830,093

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

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

	Nine Months Ended September 30, 2008	2007
Revenue		
Product sales and leasing	$ 17,383,865	$ 19,487,207
Shipping and installation revenue	2,926,059	4,004,181
Royalties	1,217,571	1,123,110
Total revenue	21,527,495	24,614,498
Cost of goods sold	16,614,581	18,914,131
Gross profit	4,912,914	5,700,367
Operating expenses		
General and administrative expenses	2,348,168	2,366,084
Selling expenses	1,820,661	1,348,335
Total operating expenses	4,168,829	3,714,419
Operating income	744,085	1,985,948
Other income (expense):		
Interest expense	(266,530)	(323,682)
Interest income	24,682	19,196
Gain (loss) on sale of fixed assets	27,894	(11,523)
Other, net	(710)	(3,196)
Total other income (expense)	(214,664)	(319,205)
Income before income tax expense	529,421	1,666,743
Income tax expense	252,780	630,733
Net income	$ 276,641	$ 1,036,010
Net income per common share:		
Basic	$ 0.06	$ 0.22
Diluted	$ 0.06	$ 0.22
Weighted average number of common shares outstanding:		
Basic	4,670,882	4,641,716
Diluted	4,756,799	4,789,192

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,	
	2008	**2007**
Reconciliation of net income to cash provided by operating activities		
Net income	$ 276,641	$ 1,036,010
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	504,833	517,309
Stock option compensation expense	102,359	86,781
Gain(loss) on sale of fixed assets	(27,894)	11,523
Deferred taxes	28,459	7,708
(Increase) decrease in:		
Accounts receivable - billed	216,599	(1,426,429)
Accounts receivable - unbilled	(562,405)	618,603
Inventories	441,395	891,614
Prepaid taxes and other assets	432,513	417,646
Increase (decrease) in:		
Accounts payable - trade	23,279	(540,322)
Accrued expenses and other	(66,721)	(1,110,907)
Accrued income taxes payable	(595,045)	220,051
Customer deposits	490,004	454,267
Net cash provided by operating activities	1,264,017	1,183,854
Cash flows from investing activities:		
Purchases of property and equipment	(640,585)	(971,198)
Proceeds from sale of fixed assets	48,108	15,209
Net cash absorbed by investing activities	(592,477)	(955,989)
Cash flows from financing activities:		
Repayments on line of credit, net	(200,000)	(250,000)
Proceeds from long-term borrowings	171,022	566,375
Repayments of long-term borrowings and capital leases	(329,815)	(422,760)
Proceeds from exercise of stock options	0	38,054
Net cash absorbed by financing activities	(358,793)	(68,331)
Net increase in cash and cash equivalents	312,747	159,534
Cash and cash equivalents		
Beginning of period	282,440	482,690
End of period	$ 595,187	$ 642,224

Supplemental Disclosure of Cash Flow information:				
Cash payments for interest	$	252,510	$	323,682
Cash payments for income taxes	$	819,366	$	10,242

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

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

NOTE 1. - INTERIM FINANCIAL REPORTING

Basis of Presentation

The accompanying condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, we have condensed or omitted certain information and footnote disclosures that are included in our annual financial statements. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K and subsequent amendments on Form 10K/A as Amendments Nos. 1 and 2 filed September 26, 2008 and October 16, 2008, respectively, for the year ended December 31, 2007.

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.

Basis of Consolidation

The Company's condensed consolidated financial statements include the accounts of Smith-Midland Corporation, a Delaware corporation, and its wholly owned subsidiaries: Smith-Midland Corporation, a Virginia corporation; Easi-Set Industries, Inc., a Virginia corporation; Smith-Carolina Corporation, a North Carolina corporation; Smith-Columbia Corporation, a South Carolina corporation; Concrete Safety Systems, a Virginia corporation; and Midland Advertising & Design, Inc., a Virginia corporation. All material inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of these financial statements require management to make certain estimates and assumptions which affect the reported amounts of assets, liabilities, revenues, and expenses we have reported, at the date of the financial statements. Actual results could differ materially from these estimates and assumptions.

Reclassifications

Certain immaterial reclassifications have been made to the prior year's condensed consolidated financial statements to conform to the 2008 presentation.

Inventories

Inventories are stated at lower of cost or market, using the first-in, first-out (FIFO) method.

Advertising Costs

The company produces and distributes advertising materials and promotes the licensed products through its own advertising subsidiary, AdVentures. Advertising expenses are treated as selling expense and typically expensed as incurred. Licensees pay the Company a flat monthly fee for co-op advertising and promotion programs and these fees are recorded as revenue. On an annual basis, advertising costs and licensee fees are approximately equal.

Property and Equipment

Property and equipment, net is stated at depreciated cost. Expenditures for ordinary maintenance and repairs are charged to expense as incurred. Costs of betterments, renewals, and major replacements are capitalized. At the time properties are retired or otherwise disposed of, the related cost and allowance for depreciation are eliminated from the accounts and any gain or loss on disposition is reflected in income.

Depreciation is computed using the straight-line method over the following estimated useful lives:

	Years
Buildings	10-33
Trucks and automotive equipment	3-10
Shop machinery and equipment	3-10
Land improvements	10-15
Office equipment	3-10

Income Taxes

The provision for income taxes is based on earnings reported in the financial statements. A deferred income tax asset or liability is determined by applying currently enacted tax laws and rates to the expected reversal of the cumulative temporary differences between the carrying value of assets and liabilities for financial statement and income tax purposes. Deferred income tax expense is measured by the change in the deferred income tax asset or liability during the year.

The provision for income taxes differs from the amount determined by applying the federal statutory tax rate to the pre-tax income primarily due to the effect of state income taxes and non-deductible stock compensation.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") effective January 1, 2007. FIN 48 provides a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return. The Company did not have any unrecognized tax benefits and there was no effect on our financial condition or results of operations as a result of implementing FIN 48.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company is no longer subject to U.S. or state tax examinations for years before 2003. The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months. Penalties are accrued in the first period in which the position was taken (or is expected to be taken) on a tax return that would give rise to the penalty. Such penalties would be charged to General and Administrative Expense in the Statement of Income.

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 is 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 of 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 five year is term and require royalty payments from 4% to 6% which are paid on a monthly basis. The revenue from licensing agreements are 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 under ARB 45 and SOP 81-1. 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 at the time the shipping services are provided to the customer.

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

NOTE 2. - 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 reflects the potential dilutive effect of securities that could share in earnings of an entity.

	Three Months ended September 30,			
		2008		**2007**
Basic earnings per share				
Income available to common shareholder	$	25,617	$	279,087
Weighted average shares outstanding		4,670,882		4,669,436
Basic earnings per share	$	0.01	$	0.06
Diluted earnings per share				
Income available to common shareholder	$	25,617	$	279,087
Weighted average shares outstanding		4,670,882		4,669,436
Dilutive effect of stock options		61,995		160,657
Diluted weighted average shares outstanding		4,732,877		4,830,093
Diluted earnings per share	$	0.01	$	0.06

	Nine months ended September 30,			
		2008		**2007**
Basic earnings per share				
Income available to common shareholder	$	276,641	$	1,036,010
Weighted average shares outstanding		4,670,882		4,641,716
Basic earnings per share	$	0.06	$	0.22
Diluted earnings per share				
Income available to common shareholder	$	276,641	$	1,036,010
Weighted average shares outstanding		4,670,882		4,641,716
Dilutive effect of stock options		85,917		147,476
Diluted weighted average shares outstanding		4,756,799		4,789,192
Diluted earnings per share	$	0.06	$	0.22

NOTE 3. - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

		September 30, 2008		December 31, 2007
Land and improvements	$	514,601	$	514,601
Buildings		2,813,749		2,739,460
Machinery and equipment		7,564,650		7,189,672
Rental equipment		786,967		711,368
Subtotal		11,679,967		11,155,101
Less: accumulated depreciation		7,490,092		7,052,920
Property and equipment, net	$	4,189,875	$	4,102,181

Depreciation expense was approximately $505,000 for the nine months ended September 30, 2008 and $478,000 for the nine months ended September 30, 2007.

NOTE 4. - NOTES PAYABLE

Notes Payable consist of the following:

		September 30, 2008		December 31, 2007
Note payable to Greater Atlantic Bank, maturing June 2021; with monthly payments of approximately $36,000 of principal and interest at prime plus .5% adjusted quarterly (5.0% at September 30, 2008); collateralized by principally all assets of the Company.	$	3,058,580	$	3,168,126
Note payable to Greater Atlantic Bank, maturing on October 15, 2010; with monthly payments of approximately $8,400 of principal and interest at 8.25% fixed rate; collateralized by a second priority lien on Company assets.		198,811		253,317
$1,500,000 line of credit with Greater Atlantic Bank. The line matures June 15, 2009 and bears interest at the Wall Street Journal daily prime rate (5.0% at September 30, 2008); collateralized by a second priority lien on all accounts receivable, inventory, and certain other assets of the Company.		0		200,000
Capital lease obligations for machinery and equipment maturing through 2012, with interest at 7% through 10%.		485,159		505,354
Installment notes, collateralized by certain machinery and equipment maturing at various dates, primarily through 2011, with interest at 6.125% through 8.375%.		495,071		469,615
		4,237,621		4,596,412

Less: current maturities		446,668	605,376
	$	3,790,953	$ 3,991,036

11

The Company’s mortgage loan is guaranteed in part by the U.S. Department of Agriculture Rural Business - Cooperative Services (USDA). The loan agreement includes certain restrictive covenants, which require the Company to maintain minimum levels of tangible net worth and limits on annual capital expenditures. At September 30, 2008, the Company was in compliance with all loan covenants.

NOTE 5. - STOCK OPTIONS

In accordance with SFAS 123R, stock option expense for the three months ended September 30, 2008 and 2007 was $40,286 and $34,854 respectively, and for the nine months ended September 30, 2008 and 2007 was $102,359 and $86,781,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 three months ended September 30, 2008.

The following table summarized options outstanding at September 30, 2008:

	Number of Shares		Weighted Average Exercise Price
Outstanding options at beginning of period	542,157	$	1.26
Granted	127,825		1.21
Forfeited	(27,825)	$	1.07
Exercised	0		0
Outstanding options at end of period	642,157	$	1.57
Outstanding exercisable at end of period	430,333	$	1.41

The intrinsic value of outstanding and exercisable options at September 30, 2008 is approximately $64,000.

NOTE 6. - RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the FASB issued SFAS 157, “Fair Value Measurements.” (SFAS 157). This statement establishes a framework for measuring fair value in generally accepted accounting principles (“GAAP”), and expands disclosures about fair value measurements. While the Statement applies under other accounting pronouncements that require or permit fair value measurements, it does not require any new fair value measurements. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. In addition, the Statement establishes a fair value hierarchy, which prioritizes the inputs to the valuation techniques used to measure fair value into three broad levels. Lastly, SFAS 157 requires additional disclosures for each interim and annual period separately for each major category of assets and liabilities. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, FASB Staff Position (FSP)FAS 157-2 was issued, which defers the effective date of SFAS 157 until January 1, 2009 for nonfinancial assets and liabilities except those items recognized or disclosed at fair value on an annual or more frequently recurring basis. The adoption of this statement did not have a material effect on the Company’s financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement 115". SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007 provided the entity also elects to apply the provisions of SFAS 157. The Company did not elect the fair value option for any financial assets or liabilities.

In December 2007, the FASB issued SFAS 141 (R), "Business Combinations", to create greater consistency in the accounting and financial reporting of business combinations. SFAS 141 (R) requires a company to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquired entity to be measured at their fair values as of the acquisition date. SFAS 141 (R) also requires companies to recognize and measure goodwill acquired in a business combination or a gain from a bargain purchase and how to evaluate the nature and financial effects of the business combination. SFAS 141 (R) applies to fiscal years beginning after December 15, 2008 and is adopted prospectively. Earlier adoption is prohibited. Management does not expect the adoption of this statement will have a material effect on the Company's results of operations or financial position.

In December 2007, the FASB issued SFAS 160, "Non-controlling Interests in Consolidated Financial Statements - an Amendment of ARB 51", to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 requires the company to clearly identify and present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section but separate from the company's equity. It also requires the amount of consolidated net income attributable to the parent and to the non-controlling interest be clearly identified and presented on the face of the consolidated statement of income; changes in ownership interest be accounted for similarly, as equity transactions; and when a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary be measured at fair value. SFAS160 applies to fiscal years beginning after December 15, 2008. Earlier adoption is prohibited. Management does not expect the adoption of this Statement will have a material effect on the Company's results of operations or financial position.

In March 2008, the FASB issued SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities". The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, results of operations and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with earlier application encouraged. Management does not expect the adoption of this Statement will have a material effect on the Company's results of operations or financial position.

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," "anticip "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 high 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 economic turmoil,

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 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 the regulations,

the Company has experienced a high degree of employee turnover, and

the other factors and information disclosed and discussed in other sections of this report.

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 Ô , a patented, lightweight, energy efficient concrete and steel exterior wall panel for use in building construction; J-J Hooks Ô Highway Safety Barrier, a patented, 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.

Results of Operations

Three months ended September 30, 2008 compared to the three months ended September 30, 2007

Revenue: For the three months ended September 30, 2008, the Company had total revenue of $7,754,476 compared to total revenue of $8,218,648 for the three months ended September 30, 2007, a decrease of $464,172 or 6%. Total product sales and leasing were $6,061,235 for the three months ended September 30, 2008 compared to $6,499,930 for the three months ended September 30, 2007, a decrease of $438,695 or 7%. In the wall sales category, Soundwall sales decreased by $133,793 from the prior year while Slenderwall™/architectural sales declined by $185,923 so that combined wall sales decreased about $319,716 or 13%. Lower revenues from the utility products category accounted for $499,251 of the decrease. The overall decrease in product sales was partially offset by an increase in highway barrier sales of $269,400. Slenderwall™ products also generate installation revenue and the related decrease in Shipping and installation revenue of $113,715 is primarily attributable to the decrease in Slenderwall™ product sales. Royalty revenue for the three months ended September 30, 2008 was $517,909 compared to $429,671 for the three months ended September 30, 2007, an increase of $88,238 or 21%.

Cost of Goods Sold: Total cost of good sold for the three months ended September 30, 2008 was $6,234,087, a decrease of $185,436 or 3%. The decrease was due in large part to the decreased production and sales of Slenderwall™ and Architectural products and the associated expenses for shipping and installation of these products. However, significant increases in the cost of steel, cement and other direct materials used in production and delivery costs including fuel surcharges offset in part the areas of decrease. Cost of goods sold as a percentage of total revenue not including royalties for the three months ended September 30, 2008 was 86% as compared to 82% for the same period in 2007. The company has made the reduction of manufacturing costs the highest priority for the remainder of the year as well as 2009. A director of lean manufacturing was hired this quarter with the duties of reducing waste and inefficiencies within the Company.

General and Administrative Expenses: For the three months ended September 30, 2008, the Company’s general and administrative expenses increased $97,177 or 13% to $821,951 from $724,774 during the same period in 2007. The increase was largely due to an increase in the bad debts reserve and tax penalties of approximately $36,000.

Selling Expenses: Selling expenses for the three months ended September 30, 2008 were $557,053, an increase of $71,511 or 15% from $485,542 in 2007. The increase was primarily the result of increases in advertising costs, increased headcount in the licensing department and engineering costs to update building product drawings.

Operating Income: The Company had operating income of $141,385 for the three months September 30, 2008, compared to operating income of $588,809 for the same period in 2007, a decrease of $447,424 or 76%. The decrease in operating income was primarily the result of lower sales and an increase in both cost of goods sold as a percentage of revenue and operating expenses.

Interest expense: Interest expense was $82,673 for the three months ended September 30, 2008, compared to $111,599 in 2007, a decrease of $28,926 or 26%. The decrease was due primarily to lower use of the Line of Credit and reduction in the amount of debt outstanding.

15

Net Income: The Company had net income of $25,617 for the three months ended September 30, 2008, as compared to net income of $279,087 for the same period in 2007. The basic and diluted net income per common share for the three month period ending September 30, 2008 was $.01 and $.01, respectively, as compared to $.06 and $.06 respectively for the same period in 2007.

Nine months ended September 30, 2008 compared to the nine months ended September 30, 2007

Revenue: For the nine months ended September 30, 2008, the Company had total revenue of $21,527,495 compared to total revenue of $24,614,498 for the nine months ended September 30, 2007, a decrease of $3,087,003 or 13%. Total product sales were $17,383,865 for the nine months ended September 30, 2008 compared to $19,487,207 for the nine months ended September 30, 2007, a decrease of $2,103,342 or 11%. Lower revenues from the utility products category accounted for $1,901,731 of the decrease. In the wall sales category, Soundwall sales increased by $3,220,828 from the prior year while Slenderwall™/architectural sales declined by $2,753,116 so that combined wall sales increased about $467,713 or 6%. The Slenderwall™ products also generate installation revenue and the related decrease in shipping and installation revenue of $1,078,122 is primarily attributable to the decrease in Slenderwall™ product sales. Royalty revenue for the nine months ended September 30, 2008 was $1,217,571 compared to $1,123,110 for the nine months ended September 30, 2007, an increase of $94,461 or about 8%.

Cost of Goods Sold: Total cost of good sold for the nine months ended September 30, 2008 was $16,614,581, a decrease of $2,299,550 or 12%. The decrease was due in large part to the decreased production and sales of Slenderwall™ and Architectural products and the associated expenses for shipping and installation of these products. However, significant increases in the cost of steel, cement and other direct materials used in production and delivery costs including fuel surcharges offset in part the areas of decrease. Cost of goods sold as a percentage of total revenue not including royalties for the nine months ended September 30, 2008 was 81% as compared to 80% for the same period in 2007.

General and Administrative Expenses: For the nine months ended September 30, 2008, the Company's general and administrative expenses decreased $17,916 or .8% to $2,348,168 from $2,366,084 during the same period in 2007. The decrease was largely due to reduction in bad debt expense as a result of aggressive collection of older accounts receivable during the first six months of the year and reduced state use taxes due to lower sales of wall products.

Selling Expenses: Selling expenses for the nine months ended September 30, 2008 were $1,820,661, an increase of $472,326 or 35% from $1,348,335 in 2007. The increase was primarily the result of increases in advertising costs and increased headcount in the licensing department.

Operating Income: The Company had operating income of $744,085 for the nine months ended September 30, 2008, compared to operating income of $1,985,948 for the same period in 2007, a decrease of $1,241,864 or 63%. The decrease in operating income was primarily the result of decreased sales and increased cost of goods sold as a percentage of revenues and operating costs.

Interest expense: Interest expense was $266,530 for the nine months ended September 30, 2008, compared to $323,682 in 2007, a decrease of $57,152 or 18%. The decrease was due primarily to lower use of the Line of Credit, lower interest rates on variable rate obligations and a reduction in the outstanding debt.

Net Income: The Company had net income of $276,641 for the nine months ended September 30, 2008, as compared to net income of $1,036,010 for the same period in 2007. The basic and diluted net income net income per common share for the current nine month period was $.06 and $.06 respectively, as compared to $.22 and $.22 respectively for the same period in 2007.

16

Liquidity and Capital Resources

The Company has financed its capital expenditures and operating requirements to date in 2008 primarily from net cash generated from operating activities. The Company had $4,237,621 of debt obligations at September 30, 2008, of which $446,668 was scheduled to mature within twelve months. The Company has a $1,500,000 line of credit, of which none was outstanding at September 30, 2008. The line of credit is evidenced by a commercial revolving promissory note, which carries a variable interest rate of prime and matures on June 15, 2009.

At September 30, 2008, the Company had cash totaling $595,187 compared to cash totaling $282,440 on December 31, 2007. During the period, operating activities contributed $1,264,017, investing activities absorbed $592,477, and financing activities used $358,793. One of the largest individual items contributing to the absorption of cash was the payment of income taxes related to the profit earned in 2007.

Capital spending totaled $640,585 for the nine months ended September 30, 2008, as compared to $971,198 for the same period in 2007. The 2008 expenditures are primarily for the routine upgrade and replacement of equipment in the precast plant. The Company plans to make additional capital expenditures for routine equipment replacement, productivity improvements, and plant upgrades, which are planned through 2008 based on the achievement of operating goals and the availability of funds.

As a result of the Company’s existing debt burden, the Company is sensitive to changes in the prevailing interest rates. Increases in such rates may materially and adversely affect the Company’s ability to finance its operations either by increasing the Company’s cost to service its current debt, or by creating a more burdensome refinancing environment. Each 1% increase in interest rates affecting the Company’s outstanding debt will reduce income by approximately $42,000 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. The Company has been able to decrease its days sales outstanding using aggressive collection activities, thereby, reducing the days sales outstanding from 78 at December 31, 2007 to 67 days at September 30, 2008. This payment schedule has resulted in liquidity problems for the Company because it must bear the cost of production for its products before it receives payment. Although no assurances can be given, the Company believes that anticipated cash flow from operations and the available line of credit, with adequate project management on jobs will be sufficient to finance the Company’s operations for at least the next twelve months.

The Company’s inventory at September 30, 2008 was $2,352,911 and at December 31, 2007 was $2,794,306 or a decrease of $441,395. While the Company was able to decrease its overall inventory, inventory turns decreased from 9.2 turns for the year ended December 31, 2007 to 6.1 turns for the nine months ended September 30, 2008. The decrease in inventory turns was primarily due to lower production levels and increased sales from inventory.

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, 2007. 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 collectibility 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 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

Significant increases in the cost of steel, cement and other direct materials used in production and delivery, including fuel surcharges, have caused increases in cost of goods sold of the Company. Due to a downturn in the economy, the Company expects these costs to moderate over the fourth quarter of 2008.

Production Backlog

As of November 7, 2008, the Registrant's unaudited production backlog was approximately $13,447,000, as compared to approximately $12,374,000 at the same date in 2007. 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® building products. Historically, this regularly occurring repeat customer business is equal to approximately $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. As disclosed in our annual report on Form 10-K for the year ended December 31, 2007, as amended, the Company was unable to complete the testing phase of the operating effectiveness of our controls due to the unexpected departure of our chief financial officer and our controller going on medical leave. Based on that evaluation and the remaining testing phase to be completed, our principal executive officer and principal financial officer can only conclude that our disclosure controls and procedures as of the end of the period covered by this report were not effective.

The Company hired a permanent chief financial officer on August 13, 2008, replacing the consultant the Company had utilized during the search for the permanent chief financial officer. The Company has hired a consulting firm to develop a plan to test the effectiveness of our internal controls which the Company anticipates will be completed prior to the end of the fourth quarter of 2008.

(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, 2008 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 4. Submission of Matters to a Vote of Security Holders

The Company held its Annual Meeting of Stockholders on September 17, 2008 ("2008 Annual Meeting"). There were two proposals presented by the management of the Company and both were approved as follows:

Proposal #1. Election of Directors

The election of the following individuals to serve as directors until the next annual meeting or until their successors are duly elected and qualified.

	For	Withheld
Rodney I. Smith	3,765,023	221,276
Ashley B. Smith	3,749,523	236,776
Wesley A. Taylor	3,763,932	222,367
Andrew G. Kavounis	3,765,023	221,276

Proposal #2. Proposal to Adopt the Smith-Midland Corporation 2008 Stock Option Plan

For	Against	Abstentions	Broker Non-Votes
1,642,000	453,602	7,050	1,883,647

ITEM 6. Exhibits

Exhibit No.	Exhibit Description
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.
32.1	Certification pursuant 18 U.S.C. Section 1350 as adapted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

SMITH-MIDLAND CORPORATION
(Registrant)

Date: November 14, 2008

By: /s/ Rodney I. Smith

Rodney I. Smith, President
(Principal Executive Officer)

Date November 14, 2008

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 and Nine months Ended September 30, 2008

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