SMITH MIDLAND CORP
Form 10-Q
November 13, 2012

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

FORM 10-Q

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from ________ to ________

Commission File Number 1-13752

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

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

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

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

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

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

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

Large accelerated filer o Accelerated filer o

Non-accelerated filer o Smaller reporting company þ

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

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

Common Stock, $.01 par value, outstanding as of November 7, 2012 : 4,785,262 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, 2012	December 31, 2011
Current assets		
Cash and cash equivalents	$3,195,264	$2,130,686
Accounts receivable, net		
Trade - billed (less allowance for doubtful accounts of $262,184 and $233,851)	7,171,442	7,191,071
Trade - unbilled	848,848	24,310
Inventories		
Raw materials	507,149	735,125
Finished goods	1,233,091	1,204,508
Prepaid expenses and other assets	358,948	354,884
Refundable income taxes	—	727,440
Deferred taxes	409,000	332,000
Total current assets	13,723,742	12,700,024
Property and equipment, net	4,157,502	4,615,514
Other assets	281,449	212,436
Total assets	$18,162,693	$17,527,974

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

SMITH-MIDLAND CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 2012	December 31, 2011
Current liabilities		
Accounts payable - trade	$1,200,791	$854,165
Accrued expenses and other liabilities	1,088,533	785,387
Income taxes payable	106,845	—
Current maturities of notes payable	329,497	411,561
Customer deposits	309,302	932,193
Total current liabilities	3,034,968	2,983,306
Notes payable - less current maturities	2,742,736	2,992,996
Deferred tax liability	672,000	822,000
Total liabilities	6,449,704	6,798,302
Commitments and contingencies		
Stockholders’ equity		
Preferred stock, $.01 par value; authorized 1,000,000 shares, none outstanding	—	—
Common stock, $.01 par value; authorized 8,000,000 shares; 4,826,182 issued and outstanding	48,262	48,262
Additional paid-in capital	4,995,278	4,995,278
Retained earnings	6,771,749	5,788,432
	11,815,289	10,831,972
Treasury stock, at cost, 40,920 shares	(102,300)	(102,300)
Total stockholders’ equity	11,712,989	10,729,672
Total liabilities and stockholders' equity	$18,162,693	$17,527,974

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

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

	Three Months Ended September 30,	
	2012	2011
Revenue		
Products sales and leasing	$5,809,880	$4,871,117
Shipping and installation revenue	1,456,430	951,301
Royalties	278,146	311,987
Total revenue	7,544,456	6,134,405
Cost of goods sold	5,479,602	5,479,018
Gross profit	2,064,854	655,387
Operating expenses		
General and administrative expenses	616,514	630,075
Selling expenses	474,913	636,651
Total operating expenses	1,091,427	1,266,726
Gain on sale of assets	31,094	2,316
Other	11,750	12,532
Operating income (loss)	1,016,271	(596,491)
Other income (expense)		
Interest expense	(33,757)	(36,962)
Interest income	1,010	2,565
Total other expense	(32,747)	(34,397)
Income (loss) before income tax expense	983,524	(630,888)
Income tax benefit (expense)	(295,000)	161,000
Net income (loss)	$688,524	$(469,888)
Basic earnings (loss) per share	$0.14	$(0.10)
Diluted earnings (loss) per share	$0.14	$(0.10)
Weighted average number of common shares outstanding:		
Basic	4,826,182	4,826,182
Diluted	4,859,097	4,826,182

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

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

	Nine Months Ended September 30,	
	2012	2011
Revenue		
Products sales and leasing	$14,822,692	$16,410,086
Shipping and installation revenue	4,257,825	3,504,116
Royalties	1,091,518	980,648
Total revenue	20,172,035	20,894,850
Cost of goods sold	15,285,188	16,893,184
Gross profit	4,886,847	4,001,666
Operating expenses		
General and administrative expenses	1,825,329	2,121,758
Selling expenses	1,606,609	1,831,239
Total operating expenses	3,431,938	3,952,997
Gain on sale of assets	82,065	22,470
Other	14,630	86,254
Operating income	1,551,604	157,393
Other income (expense)		
Interest expense	(101,808)	(109,284)
Interest income	3,890	11,439
Total other expense	(97,918)	(97,845)
Income before income tax expense	1,453,686	59,548
Income tax expense	469,000	87,000
Net income (loss)	$984,686	$(27,452)
Basic earnings (loss) per share	$0.20	$(0.01)
Diluted earnings (loss) per share	$0.20	$(0.01)
Weighted average number of common shares outstanding:		
Basic	4,826,182	4,778,441
Diluted	4,861,777	4,778,441

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

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

	Nine Months Ended September 30, 2012	2011
Reconciliation of net income (loss) to cash provided by operating activities		
Net income (loss)	$984,686	$(27,452)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	525,252	537,832
Stock option compensation expense	—	17,043
Gain on disposal of fixed assets	(82,065)	(22,470)
Deferred taxes	(227,000)	(35,000)
(Increase) decrease in:		
Accounts receivable - billed	19,630	163,329
Accounts receivable - unbilled	(824,538)	383,739
Inventories	199,393	(407,716)
Prepaid taxes and other assets	654,365	(109,763)
Increase (decrease) in:		
Accounts payable - trade	346,624	(411,189)
Accrued expenses and other	303,146	(920,560)
Income taxes payable	106,845	—
Customer deposits	(622,892)	382,993
Net cash provided (absorbed) by operating activities	1,383,446	(449,214)
Cash flows from investing activities:		
Purchases of property and equipment	(50,940)	(339,950)
Proceeds from sale of fixed assets	64,397	21,614
Net cash provided (absorbed) by investing activities	13,457	(318,336)
Cash flows from financing activities:		
Proceeds from long-term borrowings	—	575,000
Repayments of long-term borrowings	(332,325)	(310,519)
Proceeds from options exercised	—	105,118
Net cash provided (absorbed) by financing activities	(332,325)	369,599
Net increase (decrease) in cash and cash equivalents	1,064,578	(397,951)
Cash and cash equivalents		
Beginning of period	2,130,686	2,573,168
End of period	$3,195,264	$2,175,217

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

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

NOTE 1. – INTERIM FINANCIAL REPORTING

Basis of Presentation

The accompanying condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, we have condensed or omitted certain information and footnote disclosures that are included in our annual financial statements. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2011. The December 31, 2011 balance sheet was derived from audited financial statements included in the Form 10-K.

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

Reclassifications

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

Use of Estimates

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

Revenue Recognition

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

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

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

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

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

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

NOTE 2. – RECENT ACCOUNTING PRONOUNCEMENTS

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

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

NOTE 3. – NET INCOME PER COMMON SHARE

Basic earnings per common share exclude all dilutive stock options and are computed using the weighted average number of common shares outstanding during the period. The diluted earnings per common share calculation reflect the potential dilutive effect of securities that could share in earnings of an entity. Outstanding options were excluded from the diluted earnings (loss) per share calculation because they would have an anti-dilutive effect were 170,799 for the three and nine months ended September 30, 2012 and 465,965 for the three and nine months ended September 30, 2011.

	Three Months Ended September 30,	
	2012	2011
Basic earnings (loss) per share		
Income (loss) available to common shareholders	$688,524	$(469,888)
Weighted average shares outstanding	4,826,182	4,826,182
Basic earnings (loss) per share	$0.14	$(0.10)
Diluted earnings (loss) per share		
Income (loss) available to common shareholders	$688,524	$(469,888)
Weighted average shares outstanding	4,826,182	4,826,182
Dilutive effect of stock options	32,915	—
Total weighted average shares outstanding	4,859,097	4,826,182

Diluted earnings (loss) per share	$0.14	$(0.10)

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	Nine Months Ended September 30, 2012	2011
Basic earnings (loss) per share		
Income (loss) available to common shareholder	$984,686	$(27,452)
Weighted average shares outstanding	4,826,182	4,778,441
Basic earnings (loss) per share	$0.20	$(0.01)
Diluted earnings (loss) per share		
Income (loss) available to common shareholder	$984,686	$(27,452)
Weighted average shares outstanding	4,826,182	4,778,441
Dilutive effect of stock options	35,595	—
Total weighted average shares outstanding	4,861,777	4,778,441
Diluted earnings (loss) per share	$0.20	$(0.01)

NOTE 4. – STOCK OPTIONS

In accordance with ASC 718, the Company had no stock option expense for the three and nine months ended September 30, 2012 and the three months ended September 30, 2011, and $17,043 for the nine months ended September 30, 2011. 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, 2012.

The following table summarized options outstanding at September 30, 2012

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2011	425,965	$1.82
Granted	—	—
Forfeited	6,000	1.60
Exercised	—	—
Outstanding options at end of quarter	419,965	1.82
Outstanding exercisable options at end of quarter	419,965	1.82

The intrinsic value of outstanding and exercisable options at September 30, 2012 was approximately $80,000.

NOTE 5. – SUBSEQUENT EVENTS

Through the date of the filing of this Form 10-Q, the Company has evaluated events and transactions occurring subsequent to September 30, 2012 and has determined that there have been no significant events or transactions that provide additional evidence about conditions of the Company that existed as of the balance sheet date.

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

Forward-Looking Statements

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

- no assurance of profitable operations; in this respect, while the Company had net income of $$984,686 for the nine months ended September 30, 2012, the Company incurred a net loss of $351,680 for the year ended December 31, 2011,
- while our debt level is decreasing, the ability to satisfy the same cannot be assured,
- the continued availability of financing in the amounts, at the times, and on the terms required, to support our future business and capital projects,
- the extent to which we are successful in developing, acquiring, licensing or securing patents for proprietary products,
- changes in economic conditions specific to any one or more of our markets (including the availability of public funds and grants for construction),
- changes in general economic conditions, such as the current weakness in construction in 2012 in the Company's primary service area,
- adverse weather which inhibits the demand for our products,
- our compliance with governmental regulations,
- the outcome of future litigation,
- on material construction projects, our ability to produce and install product that conforms to contract specifications and in a time frame that meets the contract requirements,
- the cyclical nature of the construction industry,
- our exposure to increased interest expense payments should interest rates change,
- the Company's Board of Directors, which is composed of five members, has only two outside, independent directors, and

- the other factors and information disclosed and discussed in other sections of this report, and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Investors and shareholders should carefully consider such risks, uncertainties and other information, disclosures and discussions which contain cautionary statements identifying important factors that could cause actual results to differ materially from those provided in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

The Company invents, develops, manufactures, markets, leases, licenses, sells, and installs a broad array of precast concrete products for use primarily in the construction, utilities and farming industries. The Company's customers are primarily general contractors and federal, state, and local transportation authorities located in the Mid-Atlantic, Northeastern, and Midwestern regions of the United States. The Company's operating strategy has involved producing innovative and proprietary products, including Slenderwall™, a patented, lightweight, energy efficient concrete and steel exterior wall panel for use in building construction; J-J Hooks® Highway Safety Barrier, a positive-connected highway safety barrier; Sierra Wall, a sound barrier primarily for roadside use; and Easi-Set® transportable concrete buildings, also patented. In addition, the Company produces custom order precast concrete products with various architectural surfaces, as well as generic highway sound barriers, utility vaults, and farm products such as cattleguards and water and feed troughs.

The Company was incorporated in Delaware on August 2, 1994. Prior to a corporate reorganization completed in October 1994, the Company conducted its business primarily through Smith-Midland Virginia, which was incorporated in 1960 as Smith Cattleguard Company, a Virginia corporation, and which subsequently changed its name to Smith-Midland Corporation in 1985. The Company’s principal offices are located at 5119 Catlett Road, Midland, Virginia 22728 and its telephone number is (540) 439-3266. As used in this report, unless the context otherwise requires, the term the “Company” refers to Smith-Midland Corporation and its subsidiaries.

The Company’s net income for the three and nine months ended September 30, 2012 were significantly above that of the same periods in 2011. While the Company continues to see intense competition for architectural and soundwall contracts in the geographical areas serviced by the Company, it has been able to increase both its gross profit and net income during the year. These increases are a result of management's continued emphasis on process controls, cost cutting and finding new, higher gross margin, revenue streams. The Company has been able to increase its sales of its innovative products including its J-J Hooks Highway Safety Barrier and its Easi-Set®/Easi-Span® utility buildings. The Company has also increased its revenues through its service revenue centers which includes shipping and installation services as well as special project revenues included in the barrier rentals sales category. The Company will continue to seek to make sales inroads in its new product development and its special projects revenue activities, although, because of the current weakened economic conditions, no assurance can be given regarding the results of future periods.

Results of Operations

Three and nine months ended September 30, 2012 compared to the three and nine months ended September 30, 2011

Revenue By Type

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012	2011	Change	% of Change	2012	2011	Change	% of Change
Product Sales:								
Soundwall Sales	$1,220,443	$399,073	$821,370	206%	$1,767,023	$1,664,768	$102,255	6%
Architectural Panel Sales	348,436	1,112,089	(763,653)	(69)%	1,724,465	2,699,115	(974,650)	(36)%
Slenderwall Sales	212,633	177,197	35,436	20%	607,803	1,647,693	(1,039,890)	(63)%
Miscellaneous Wall Sales	(46,014)	406,995	(453,009)	(111)%	155,337	870,673	(715,336)	(82)%
Total Wall Sales	1,735,498	2,095,354	(359,856)	(17)%	4,254,628	6,882,249	(2,627,621)	(38)%
Barrier Sales	1,205,172	464,466	740,706	159%	3,195,754	2,074,872	1,120,882	54%
Easi-Set and Easi-Span Building Sales	1,092,827	940,214	152,613	16%	2,491,122	2,487,887	3,235	—
Utility and Farm Product Sales	387,222	1,090,633	(703,411)	(64)%	1,173,973	2,518,903	(1,344,930)	(53)%
Miscellaneous Product Sales	337,717	138,701	199,016	143%	1,769,448	1,999,083	(229,635)	(11)%
Total Product Sales	4,758,436	4,729,368	29,068	1%	12,884,925	15,962,994	(3,078,069)	(19)%
Royalty Income	278,146	311,987	(33,841)	(11)%	1,091,518	980,648	110,870	11%
Barrier Rentals	1,051,444	141,749	909,695	642%	1,937,767	447,092	1,490,675	333%
Shipping and Installation Revenue	1,456,430	951,301	505,129	53%	4,257,825	3,504,116	753,709	22%
Total Service Revenue	2,786,020	1,405,037	1,380,983	98%	7,287,110	4,931,856	2,355,254	48%
Total Revenue	$7,544,456	$6,134,405	$1,410,051	23%	$20,172,035	$20,894,850	$(722,815)	(3)%

Wall Sales – Wall sales are generally large contracts issued by general contractors for production and delivery of a specific wall panel for a specific construction project. Changes in the mix of wall sales depend on what contracts are in production during the period. Overall wall sales decreased significantly during the three and nine month periods ended September 30, 2012 compared to the same periods in 2011, due primarily to the continued slowdown in the overall economy. The Company was awarded three new wall contracts during the first six months of 2012, and all were in production prior to September 30, 2012. However, these new contracts were at lower gross margins because of the aggressive bidding by competitors. The Company was awarded two new wall projects during the third quarter of the year, one being Slenderwall™ and the other a SoftSound™ soundwall project. These projects are scheduled to begin in late fourth quarter of 2012 or early first quarter of 2013. The negative amount in the miscellaneous wall sales type for the three months ended September 30, 2012 is due to the re-classification of a sale made in the first six months of 2012 that was erroneously classified as a miscellaneous wall sale and should have been classified as an architectural panel sale.

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

Easi-Set® and Easi-Span® Building Sales – Building sales increased slightly during the three and nine months ended September 30, 2012, compared to the same periods in 2011. The Company received two large building orders that were produced and delivered in the second quarter of 2012. During the third quarter of 2012, building sales continued to improve slightly over the same period in 2011. Recent bidding activity, and increased contract awards for building products sales leads management to believe that building sales will continue to improve slightly during the remainder of 2012.

Utility and Farm Product Sales – Utility and farm product sales continued its decline over the three and nine months ended September 30, 2012 compared to the same periods in 2011. The decrease in utility products, mainly manholes, is a direct result of the continued weakness in the construction industry. The Company has seen some signs that a slight increase in utilities sales may be forthcoming. Several large road projects have been approved for funding in the Company's geographical area, indicating a slight improvement may be ahead for these products.
Miscellaneous Product Sales – Miscellaneous products are products produced and sold that do not meet the criteria defined for other revenue categories. Miscellaneous product sales increased significantly for three month period ended September 30, 2012, compared to the same periods in 2011. The increase in sales was due to several relatively small contracts awarded to the Company for projects such as retaining wall, decorative street pieces and a culvert project. While sales for the third quarter were strong, sales are still lagging when comparing the nine months ended September 30, 2012 with the same period in 2011. As these types of projects have become more available in the last several years, the Company has become more aggressive in understanding and bidding these projects. Miscellaneous product sales depends in part on the continued availability of these type of jobs and improvement in the construction industry overall.

Royalty Income – Royalty revenue increased by 11% for the nine months ended September 30, 2012, compared to the same period in 2011. The increase was due in part to increased barrier and Slenderwall™ royalties from Canadian licensees as Canada has been less affected by the economic downturn. Royalty revenue decreased by 11% for the three months ended September 30, 2012, compared to the same period in 2011 due primarily to the weakened economic conditions throughout the United States and many of our licensees countries. The Company also signed its first two Softsound™ licenses during 2012. The Company continues to help licensees promote their products to increase its royalty revenues and believes that royalties will remain at the current level in the fourth quarter of 2012.

Barrier Rentals – Barrier rentals increased significantly for the three and nine months ended September 30, 2012 compared to the same periods in 2011. The increase in barrier rentals is the result of several contracts to provide services to set and remove barrier, supplied by the contractor, for the NATO Conference held in Chicago in May 2012 and the Republican and Democratic national conventions held in August and September of 2012, respectively. Management believes that its core barrier rentals will increase slightly over the remainder of the year as it has been awarded a rental contract to provide barrier for a large highway project.

Shipping and Installation – Shipping and installation revenue increased significantly for the three and nine months ended September 30, 2012, compared to the same periods in 2011, due to several large architectural and Slenderwall™ jobs which were shipped and installed during the more recent periods. While management expects shipping to remain relatively flat over the remainder of the year, it expects installation revenue to decrease as the majority of the current projects are in the production phase with installation projected to begin in 2013.

Cost of Goods Sold – Total cost of goods sold for the three month period ended September 30, 2012 increased by $584, or 0%, and the nine month period ended September 30, 2012 decreased by $1,607,996, or 10%, respectively, from the same periods in 2011. Total cost of goods sold, as a percentage of total revenue, not including royalties, was 75% and 94% for the three months ended September 30, 2012 and September 30, 2011, respectively, and 80% and 85% for the nine month periods ended September 30, 2012 and September 30, 2011, respectively. The decrease in cost of goods sold as a percentage of total revenue, not including royalties, for the three and nine months ended September 30, 2012 compared to the same period in 2011 was primarily due to employee layoffs and reductions of salaries made in February 2012, and several short-term jobs with above average profit. Inflation remains relatively low for raw materials used in production of the Company's precast products and management believes inflation will continue to remain low for the remainder of the year.

General and Administrative Expenses – For the three months ended September 30, 2012, the Company's general and administrative expenses decreased $13,561, or 2%, to $616,514 from $630,075 during the same period in 2011. The decrease was primarily due to employee layoffs and reductions of salaries made in February 2012, the reduction in state use tax assessed on installation projects, a reduction in state taxes partially offset by an increase in bad debts expense. For the nine months ended September 30, 2012, the Company's general and administrative expenses decreased $296,429, or 14%, to $1,825,329 from $2,121,758 during the same period in 2011. The decrease for the nine months ended September 30, 2012 compared to the same period in 2011, was primarily due to employee layoffs and reductions of salaries made in February 2012, the reduction in state use tax assessed on installation projects and a reduction in general office expenses. General and administrative expense as a percentage of total revenue was 8% and 10% for the three months ended September 30, 2012 and 2011, respectively, and 9% and 10% for the nine months ended September 30, 2012 and 2011, respectively.

Selling Expenses – Selling expenses for the three months ended September 30, 2012 decreased to $474,913 from $634,282 for the same period in 2011, or 25%. Selling expenses for the nine months ended September 30, 2012 decreased to $1,606,609 from $1,831,239 for the same period in 2011, or 12%. The decreases for the three and nine months ended September 30, 2012 resulted primarily from employee layoffs and reductions of salaries made in February 2012, and lower advertising expenses when comparing to the same periods in 2011.

Operating Income (Loss) – The Company had operating income for the three months ended September 30, 2012 of $1,016,271 compared to an operating loss of $596,491 for the same period in 2011. The increase in operating income for the three month comparison of September 30, 2012 and 2011 was primarily the result of a reduction in employee costs, increased sales and a reduction of cost of goods sold as outlined above. The Company had operating income for the nine months ended September 30, 2012 of $1,551,604 compared to operating income of $157,393 for the same period in 2011. The increase in operating income for the nine month comparison of September 30, 2012 and 2011 was primarily the result of a reduction in employee costs, and reduced cost of goods sold as outlined above.

Interest Expense – Interest expense was slightly lower for both the three and nine month periods ended September 30, 2012 compared to the same period in 2011. The decrease was due primarily to payment of notes payable during the period.

Income Tax Expense – The Company had tax expense of $295,000 for the three months ended September 30, 2012 compared to a tax benefit of $161,000 for the same period in 2011. The tax expense for the nine months ended September 30, 2012 was $469,000 compared to $87,000 for the same period in 2011. The changes in the tax expense for the periods correlated to the change in pre-tax income.
Net Income (Loss) – The Company had net income of $688,524 for the three months ended September 30, 2012, compared to a net loss of 469,888 for the same period in 2011. The Company had net income of $984,686 for the six months ended September 30, 2012, compared to a net loss of 27,452 for the same period in 2011.

Liquidity and Capital Resources

The Company has financed its capital expenditures and its operating requirements for the first nine months of 2012 primarily from cash provided by operating activities. The Company had $3,072,233 of debt obligations at September 30, 2012, of which $329,497 was scheduled to mature within twelve months. During the nine months ended September 30, 2012, the Company made repayments of outstanding debt in the amount $332,325. The Company has a $2,000,000 line of credit, of which none was outstanding at September 30, 2012. The line of credit is evidenced by a commercial revolving promissory note, which carries a variable interest rate of prime and matures on May 10, 2013. In addition, the Company has a commitment from Summit Community Bank in the amount of $1,000,000 for an equipment line of credit which expires on May 9, 2013.

At September 30, 2012, the Company had cash totaling $3,195,264 compared to cash totaling $2,130,686 on December 31, 2011. The increase in cash is primarily the result of customer payments on accounts receivable during the period and a federal income tax refund. During the nine months ended September 30, 2012, operating activities provided $1,383,446 of cash, investing activities provided $13,457, and financing activities absorbed $332,325 .

Capital spending totaled $50,940 for the nine months ended September 30, 2012, as compared to $339,950 for the same period in 2011. The 2012 expenditures were primarily barrier production molds and office computer upgrades. As demonstrated by the low dollar value of purchases in the first nine months of 2012, the Company plans to make minimum purchases of property and equipment for the remainder of the year, based solely on production needs only.

As a result of the Company's existing variable rate debt burden, the Company is sensitive to changes in the prevailing interest rates. Increases in such rates may materially and adversely affect the Company's ability to finance its operations either by increasing the Company's cost to service its current debt, or by creating a more burdensome refinancing environment. Each 1% increase in interest rates affecting the Company's outstanding debt will reduce income by approximately $31,000 annually.

The Company's cash flow from operations is affected by production schedules set by contractors, which generally provide for payment 35 to 75 days after the products are produced. This payment schedule may result in liquidity problems for the Company because it must bear a portion of the cost of production before it receives payment from its customers. The Company's average days sales outstanding, excluding the effect of unbilled revenue, decreased from 95 days for the year ended December 31, 2011 to 89 days for the nine months ended September 30, 2012. The decrease in days sales outstanding is attributable to the reduction of accounts receivable through increased collections efforts. Although no assurances can be given, the Company believes that anticipated cash flow from operations and the availability under the lines of credits will be sufficient to finance the Company's operations for at least the next twelve months.

The Company's inventory was $1,740,240 at September 30, 2012 and at December 31, 2011 was $1,939,633 or a decrease of $199,393. Inventory turnover was 6.5 for the nine months ended September 30, 2012 and 8.3 for the nine months ended September 30, 2011.

Critical Accounting Policies and Estimates

The Company's critical accounting policies are more fully described in its Summary of Accounting Policies to the Company's consolidated financial statements on Form 10-K for the year ended December 31, 2011. The preparation of financial statements in conformity with accounting principles generally accepted within the United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying financial statements and related notes. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Company does not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below, however, application of these accounting policies involves the exercise of judgment and the use of assumptions as to future uncertainties and as a result, actual results could differ from these estimates.

The Company evaluates the adequacy of its allowance for doubtful accounts at the end of each quarter. In performing this evaluation, the Company analyzes the payment history of its significant past due accounts, subsequent cash collections on these accounts and comparative accounts receivable aging statistics. Based on this information, along with other related factors, the Company develops what it considers to be a reasonable estimate of the uncollectible amounts included in accounts receivable. This estimate involves significant judgment by the management of the Company. Actual uncollectible amounts may differ from the Company's estimate.

The Company recognizes revenue on the sale of its standard precast concrete products at shipment date, including revenue derived from any projects to be completed under short-term contracts. Installation services for precast concrete products, leasing and royalties are recognized as revenue as they are earned on an accrual basis. Licensing fees are recognized under the accrual method unless collectability is in doubt, in which event revenue is recognized as cash is received. Certain sales of Soundwall, Slenderwall™, and other architectural concrete products are recognized upon completion of units produced under long-term contracts. When necessary, provisions for estimated losses on these contracts are made in the period in which such losses are determined. Changes in job performance, conditions and contract settlements that affect profit are recognized in the period in which the changes occur. Unbilled trade accounts receivable represents revenue earned on units produced for a specific customer contract and not yet billed.

Seasonality

The Company services the construction industry primarily in areas of the United States where construction activity may be inhibited by adverse weather during the winter. As a result, the Company may experience reduced revenues from December through February and realize a more significant part of its revenues during the other months of the year. The Company may experience lower profits, or losses, during the winter months, and as such, must have sufficient working capital to fund its operations at a reduced level until the spring construction season. The failure to generate or obtain sufficient working capital during the winter may have a material adverse effect on the Company.

Inflation

Raw material costs for the Company, steel, cement, aggregates and other direct materials used in production increased only slightly in 2011 and the first nine months of 2012 and the Company anticipates prices will remain relatively stable over the remainder of 2012.

Sales Backlog

As of November 6, 2012, the Company's sales backlog was approximately $7.5 million, as compared to approximately $9.7 million at approximately the same date in 2011. It is estimated that substantially all of the projects in the sales backlog will be produced within 12 months. The decrease in the backlog at November 6, 2012 from that of November 7. 2011 is attributable to the timing of recognizing long-term contracts in the backlog and, to a lesser extent, the weakened current economy. The Company also maintains a regularly occurring repeat customer business, which should be considered in addition to the ordered production backlog described above. These orders typically have a quick turn around and represent purchases of a significant portion of the Company's inventoried standard products, such as highway safety barrier, utility and Easi-Set® and Easi-Span® building products. Historically, this regularly occurring repeat customer business has ranged from $5.0 million to $7.0 million annually.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

ITEM 4. Controls and Procedures

(a) Disclosure controls and procedures

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

(b) Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the three months ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. Legal Proceedings

The Company is not presently involved in any litigation of a material nature.

ITEM 1A. Risk Factors

Not required

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Mine Safety Disclosures

Not applicable

ITEM 5. Other Information

None

ITEM 6. Exhibits

Exhibit No.	Exhibit Description
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934.
32.1	Certification pursuant 18 U.S.C. Section 1350 as adapted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*

* The XBRL-related information in Exhibit 101 to this quarterly report on Form 10-Q shall be deemed to be "furnished" and not "filed"

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 13, 2012	By: /s/ Rodney I. Smith Rodney I. Smith, President (Principal Executive Officer)
Date: November 13, 2012	By: /s/ William A. Kenter William A. Kenter, Chief Financial Officer (Principal Financial Officer)

Smith-Midland Corporation
Exhibit Index to Quarterly Report on Form 10-Q
For the three months ended September 30, 2012

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