

SMITH MIDLAND CORP  
Form 10-Q  
November 18, 2014

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

FORM 10-Q

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

For the quarterly period ended September 30, 2014

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

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

Commission File Number 1-13752

Smith-Midland Corporation

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
of incorporation or organization)

54-1727060

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

5119 Catlett Road, P.O. Box 300

Midland, VA 22728

(Address, zip code of principal executive offices)

(540) 439-3266

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

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

Common Stock, \$.01 par value, outstanding as of November 5, 2014 : 4,840,628 shares, net of treasury shares

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SMITH-MIDLAND CORPORATION

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## PART I — FINANCIAL INFORMATION

## ITEM 1. Financial Statements

SMITH-MIDLAND CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

ASSETS	September 30, 2014	December 31, 2013
Current assets		
Cash and cash equivalents	\$4,237,434	\$3,136,063
Investment securities, available-for-sale, at fair value	998,792	915,341
Accounts receivable, net		
Trade - billed (less allowance for doubtful accounts of \$356,253 and \$285,305)	4,846,427	7,296,792
Trade - unbilled	246,713	41,859
Inventories		
Raw materials	496,523	861,129
Finished goods	1,180,970	1,078,349
Prepaid expenses and other assets	325,126	231,365
Refundable income taxes	126,100	—
Deferred taxes	504,000	475,000
Total current assets	12,962,085	14,035,898
Property and equipment, net	4,243,974	4,322,995
Other assets	271,050	297,915
Total assets	\$17,477,109	\$18,656,808

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

SMITH-MIDLAND CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 2014	December 31, 2013
Current liabilities		
Accounts payable - trade	\$1,441,040	\$1,517,625
Accrued expenses and other liabilities	1,278,295	1,331,675
Income taxes payable	—	302,263
Current maturities of notes payable	369,086	364,204
Customer deposits	301,530	547,789
Total current liabilities	3,389,951	4,063,556
Notes payable - less current maturities	2,316,998	2,544,809
Deferred tax liability	504,000	630,000
Total liabilities	6,210,949	7,238,365
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; 4,881,548 issued and outstanding	48,815	48,815
Additional paid-in capital	5,041,438	5,041,438
Accumulated other comprehensive loss, net	(7,232	) (41,014 )
Retained earnings	6,285,439	6,471,504
	11,368,460	11,520,743
Treasury stock, at cost, 40,920 shares	(102,300	) (102,300 )
Total stockholders' equity	11,266,160	11,418,443
Total liabilities and stockholders' equity	\$17,477,109	\$18,656,808

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

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

	Three Months Ended September 30,	
	2014	2013
Revenue		
Products sales and leasing	\$4,558,745	\$5,557,080
Shipping and installation revenue	1,072,529	946,159
Royalties	343,821	403,098
Total revenue	5,975,095	6,906,337
Cost of goods sold	4,454,689	5,143,337
Gross profit	1,520,406	1,763,000
Operating expenses		
General and administrative expenses	761,907	711,569
Selling expenses	549,134	518,687
Total operating expenses	1,311,041	1,230,256
Gain on sale of assets	4,352	10,741
Other income (expense)	(24,826)	) (58,520 )
Operating income	188,891	484,965
Interest income (expense)		
Interest expense	(28,993)	) (39,662 )
Interest income	27,592	1,606
Total other expense	(1,401)	) (38,056 )
Income before income tax expense	187,490	446,909
Income tax expense	75,000	175,000
Net income	\$112,490	\$271,909
Basic earnings per share	\$0.02	\$0.06
Diluted earnings per share	\$0.02	\$0.06

Weighted average number of common shares outstanding:

Basic	4,881,548	4,841,208
Diluted	4,925,064	4,906,073

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





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

	Three Months Ended September 30,	
	2014	2013
Net income	\$ 112,490	\$ 271,909
Other comprehensive gain (loss), net of tax:		
Net unrealized holding gain (loss) (1)	5,274	(20,722 )
Reclassification adjustment for realized losses	—	41,681
Comprehensive income	\$ 117,764	\$ 292,868

(1) Unrealized gains (losses) on available for sale securities are shown net of income tax expense of \$3,000 for September 30, 2014 and an income tax benefit of \$13,000 for September 30, 2013.

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,	
	2014	2013
Revenue		
Products sales and leasing	\$13,295,450	\$16,003,161
Shipping and installation revenue	3,580,769	2,769,227
Royalties	1,164,600	1,162,148
Total revenue	18,040,819	19,934,536
Cost of goods sold	14,385,001	15,303,534
Gross profit	3,655,818	4,631,002
Operating expenses		
General and administrative expenses	2,337,909	2,175,631
Selling expenses	1,635,503	1,784,748
Total operating expenses	3,973,412	3,960,379
Gain on sale of assets	38,431	29,247
Other income (expense)	27,847	(13,039)
Operating income (loss)	(251,316)	) 686,831
Interest income (expense)		
Interest expense	(87,597)	) (98,833)
Interest income	34,848	3,067
Total other expense	(52,749)	) (95,766)
Income (loss) before income tax expense (benefit)	(304,065)	) 591,065
Income tax expense (benefit)	(118,000)	) 233,000
Net income (loss)	\$(186,065)	) \$358,065
Basic earnings (loss) per share	\$(0.04)	) \$0.07
Diluted earnings (loss) per share	\$(0.04)	) \$0.07
Weighted average number of common shares outstanding:		
Basic	4,881,548	4,834,305
Diluted	4,881,548	4,899,170

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



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

	Nine Months Ended September	
	30,	
	2014	2013
Net income (loss)	\$(186,065	) \$358,065
Other comprehensive gain (loss), net of tax:		
Net unrealized holding gain (loss) (1)	33,782	(79,727 )
Reclassification adjustment for realized losses	—	41,681
Comprehensive income (loss)	\$(152,283	) \$320,019

(1) Unrealized gains (losses) on available for sale securities are shown net of income tax expense of \$22,000 for September 30, 2014 and an income tax benefit of \$31,000 for September 30, 2013.

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

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

	Nine Months Ended September 30,	
	2014	2013
Reconciliation of net income to cash provided (absorbed) by operating activities		
Net income (loss)	\$(186,065	) \$358,065
Adjustments to reconcile net income (loss) to net cash provided (absorbed) by operating activities:		
Depreciation and amortization	474,744	478,323
Gain on disposal of fixed assets	(38,431	) (29,247 )
Realized loss on the sale of securities available-for-sale	—	68,631
Deferred taxes	(155,000	) (140,000 )
(Increase) decrease in:		
Accounts receivable - billed	2,450,365	(2,622,161 )
Accounts receivable - unbilled	(204,854	) 90,198
Inventories	261,984	218,934
Prepaid expenses and other assets	(66,895	) 48,717
Prepaid income taxes	(126,100	) 173,155
Increase (decrease) in:		
Accounts payable - trade	(76,586	) 90,746
Accrued expenses and other	(53,377	) (31,210 )
Accrued income taxes payable	(302,263	) 183,332
Customer deposits	(246,259	) 613,693
Net cash provided (absorbed) by operating activities	1,731,263	(498,824 )
Cash flows from investing activities:		
Purchases of investment securities available-for-sale	(45,503	) (2,009,110 )
Sale of securities available-for-sale	—	1,000,000
Purchases of property and equipment	(398,684	) (548,337 )
Proceeds from sale of fixed assets	40,116	29,405
Net cash absorbed by investing activities	(404,071	) (1,528,042 )
Cash flows from financing activities:		
Proceeds from long-term borrowings	55,159	2,139,339
Repayments of long-term borrowings	(280,980	) (2,292,865 )
Proceeds from options exercised	—	16,731
Net cash absorbed by financing activities	(225,821	) (136,795 )
Net increase (decrease) in cash and cash equivalents	1,101,371	(2,163,661 )
Cash and cash equivalents		
Beginning of period	3,136,063	4,367,474

End of period	\$4,237,434	\$2,203,813
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The accompanying notes are an integral part of the condensed consolidated financial statements.

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

NOTE 1. – INTERIM FINANCIAL REPORTING

Basis of Presentation

The accompanying condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, we have condensed or omitted certain information and footnote disclosures that are included in our annual financial statements. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2013. The December 31, 2013 balance sheet was derived from audited financial statements included in the Form 10-K.

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

Reclassifications

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

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

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

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

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

revenue from licensing agreements is recognized in the month earned.

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

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



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

#### Investments

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

#### NOTE 2. – NET INCOME PER COMMON SHARE

Basic earnings per common share exclude all dilutive stock options and are computed using the weighted average number of common shares outstanding during the period. The diluted earnings per common share calculation reflect the potential dilutive effect of securities that could share in earnings of an entity. Outstanding options were excluded from the diluted earnings per share calculation because they would have an anti-dilutive effect were 254,166 for the three and nine months ended September 30, 2014 and 254,166 for the three and nine months ended September 30, 2013.

	Three Months Ended September, 30	
	2014	2013
Basic earnings per share		
Income available to common shareholders	\$ 112,490	\$ 271,909
Weighted average shares outstanding	4,881,548	4,841,208
Basic earnings per share	\$0.02	\$0.06
Diluted earnings per share		
Income available to common shareholders	\$ 112,490	\$ 271,909
Weighted average shares outstanding	4,881,548	4,841,208
Dilutive effect of stock options	43,516	64,865
Total weighted average shares outstanding	4,925,064	4,906,073
Diluted earnings per share	\$0.02	\$0.06

	Nine Months Ended September 30,	
	2014	2013
Basic earnings (loss) per share		
Income (loss) available to common shareholders	\$(186,065 )	\$358,065
Weighted average shares outstanding	4,881,548	4,834,305
Basic earnings (loss) per share	\$(0.04 )	\$0.07
Diluted earnings (loss) per share		
Income (loss) available to common shareholders	\$(186,065 )	\$358,065
Weighted average shares outstanding	4,881,548	4,834,305
Dilutive effect of stock options	—	64,865
Total weighted average shares outstanding	4,881,548	4,899,170
Diluted earnings (loss) per share	\$(0.04 )	\$0.07

## NOTE 3. – STOCK OPTIONS

In accordance with ASC 718, the Company had no stock option expense for the three and nine months ended September 30, 2014 and September 30, 2013. The Company uses the Black-Scholes option-pricing model to measure the fair value of stock options granted to employees. The Company did not issue any stock options for the nine months ended September 30, 2014.

The following table summarized options outstanding at September 30, 2014

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

The intrinsic value of outstanding and exercisable options at September 30, 2014 was approximately \$87,000.

## NOTE 4. – SUBSEQUENT EVENTS

Through the date of the filing of this Form 10-Q, the Company has evaluated events and transactions occurring subsequent to September 30, 2014 and has determined that there have been no significant events or transactions that provide additional evidence about conditions of the Company that existed as of the balance sheet date.

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

## Forward-Looking Statements

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

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no assurance of profitable operations; in this respect, the Company reported a net loss for the first quarter of 2014, a small profit for the second quarter of 2014 and a small profit for the third quarter of 2014 with a loss for nine months ended September 30, 2014,

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

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

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

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

changes in general economic conditions, such as the current weakness in construction in the Company's primary service area which has been showing gradual signs of improvement over the past few months,

adverse weather, such as occurred in the first quarter of 2014, which inhibits the demand for our products,

our compliance with governmental regulations,

the outcome of future litigation, if any,

on material construction projects, our ability to produce and install product that conforms to contract specifications and in a time frame that meets the contract requirements,

the cyclical nature of the construction industry,

our exposure to increased interest expense payments should interest rates change,

the Company's Board of Directors, which is composed of four members, has only one outside, independent director, and

the other factors and information disclosed and discussed in other sections of this Report, and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

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

## Overview

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

The Company was incorporated in Delaware on August 2, 1994. Prior to a corporate reorganization completed in October 1994, the Company conducted its business primarily through Smith-Midland Virginia, which was

incorporated in 1960 as Smith Cattleguard Company, a Virginia corporation, and which subsequently changed its name to Smith-Midland Corporation in 1985. The Company's principal offices are located at 5119 Catlett Road, Midland, Virginia 22728 and its telephone number is (540) 439-3266. As used in this report, unless the context otherwise requires, the term the "Company" refers to Smith-Midland Corporation and its subsidiaries.

The first quarter of 2014 resulted in a loss for the Company due to many factors, the largest being the adverse effect on productivity from the extremely cold winter in the Company's main manufacturing and delivery areas. Sales for the first quarter of 2014 were \$5.6 million compared to \$6.4 for the second quarter of the year. In view of the improved weather conditions in the second quarter of 2014, revenue increased by approximately \$800,000 over the first quarter of the year which allowed the Company to be profitable in the second quarter of 2014. The third quarter of 2014 resulted in a small profit for the

Company which helped to reduce its losses on a year-to-date basis. Management expects the fourth quarter to be very similar to the previous quarter and anticipates that 2015 will begin the real recovery for Smith-Midland. In part, this expectation is characterized by several large jobs that have been awarded to the Company which will begin production early next year coupled with the increased bidding activity seen by the Company in the last several months.

## Results of Operations

Three and nine months ended September 30, 2014 compared to the three and nine months ended September 30, 2013

### Revenue By Type

	Three Months Ended September 30,				Nine Months Ended September 30,				
	2014	2013	Change	% of Change	2014	2013	Change	% of Change	
<b>Product Sales:</b>									
Soundwall Sales	\$878,675	\$806,012	\$72,663	9 %	\$1,799,555	\$1,485,238	\$314,317	21 %	
Architectural Panel Sales	456,001	963,341	(507,340)	(53)%	989,547	1,167,059	(177,512)	(15)%	
Slenderwall Sales	47,139	800,352	(753,213)	(94)%	1,287,766	3,018,724	(1,730,958)	(57)%	
Miscellaneous Wall Sales	82,623	96,392	(13,769)	(14)%	353,898	552,694	(198,796)	(36)%	
Total Wall Sales	1,464,438	2,666,097	(1,201,659)	(45)%	4,430,766	6,223,715	(1,792,949)	(29)%	
Barrier Sales	925,315	704,905	220,410	31 %	2,620,938	2,898,859	(277,921)	(10)%	
Easi-Set and Easi-Span Building Sales	852,313	1,344,700	(492,387)	(37)%	2,929,915	2,869,125	60,790	2 %	
Utility and Farm Product Sales	384,678	483,854	(99,176)	(20)%	1,159,252	1,237,997	(78,745)	(6)%	
Miscellaneous Product Sales	184,982	140,042	44,940	32 %	957,175	818,098	139,077	17 %	
Total Product Sales	3,811,726	5,339,598	(1,527,872)	(29)%	12,098,046	14,047,794	(1,949,748)	(14)%	
Royalty Income	343,821	403,098	(59,277)	(15)%	1,164,600	1,162,148	2,452	— %	
Barrier Rentals	747,019	217,482	529,537	243 %	1,197,404	1,955,367	(757,963)	(39)%	
Shipping and Installation Revenue	1,072,529	946,159	126,370	13 %	3,580,769	2,769,227	811,542	29 %	
Total Service Revenue	2,163,369	1,566,739	596,630	38 %	5,942,773	5,886,742	56,031	1 %	
<b>Total Revenue</b>	<b>\$5,975,095</b>	<b>\$6,906,337</b>	<b>\$(931,242)</b>	<b>(13)%</b>	<b>\$18,040,819</b>	<b>\$19,934,536</b>	<b>\$(1,893,717)</b>	<b>(9)%</b>	

Wall Panel Sales - Wall sales are generally large contracts issued by general contractors for production and delivery of a specific wall panel for a specific construction project. Changes in the mix of wall sales depend on what contracts are being bid and what projects are in production during the period. Overall wall panel sales decreased significantly during the three and nine months ended September 30, 2014, compared to the same period in 2013. The following describes the change by individual product types:

Soundwall sales increased slightly during the three and nine month periods ended September 30, 2014 when compared to the same periods in 2013. The increase in revenue was due to a higher level of government spending on highway projects in Northern Virginia as well as other areas of Virginia. The Company had one large contract in production and six smaller projects in production during 2014. During the same periods in 2013, the Company had one large project in production and two smaller Soundwall projects in production. In addition, the Company has been awarded several more Soundwall projects that will start during 2015. Management expects that Soundwall revenue should remain relatively strong during the remainder of the year and into 2015.



Architectural panel sales decreased significantly during the three and nine month periods ended September 30, 2014, compared to the same period in 2013. The decrease was due mainly to a large contract that started in the third quarter of 2013 and ended in first quarter of 2014. While the Company did have two small Architectural projects in production during the second and third quarters of 2014, they were significantly smaller in production dollars. The Company has been awarded an Architectural contract in the approximate amount of \$1.8 million that will start in the first quarter of 2015. The Company continues to bid certain Architectural projects but cannot be certain if it will be awarded any additional projects in the near future as they continue to be bid on a very competitive basis.

Slenderwall panel sales decreased greatly during the three and nine month periods ended September 30, 2014 when compared to the same periods in 2013. During 2013 the Company had seven different Slenderwall projects in production. During the first six months of 2014, the Company had only one Slenderwall project in production, with that project on hold for redesign for the entire third quarter; the project started back into production in the fourth quarter of 2014. The Company has been awarded a new Slenderwall project which will start in the first quarter of 2015. In addition, the Company has bid on seven Slenderwall projects over the past several months and management believes that it will be awarded a minimum of four of the projects bid. The projects bid were all in excess of \$1.0 million each. While the Company cannot be assured that it will prevail on any of the seven projects, its history when bidding Slenderwall has been very good.

Miscellaneous wall panels decreased significantly during the three and nine month periods ended September 30, 2014 when compared to the same period in 2013. As these types of projects are not as common as the other types of panels, it is difficult to know when they will become available.

Barrier Sales - Barrier sales increased significantly during the three months ended of September 30, 2014 compared to the same period in 2013, while there was a small decrease in revenue for the nine months ended September 30, 2014 and 2013. The Company was producing two large contracts for barrier in 2013, both of which were completed in first quarter of 2014. The Company was awarded a contract for barrier in the amount of \$500,000 which was completed in the third quarter of 2014. During the third quarter of 2014, the Company received an additional large order for barrier which will be produced in the fourth quarter of 2014. Barrier revenue should end the year with revenue close to that of 2013.

Easi-Set® and Easi-Span® Building Sales - Building and restroom sales decreased 37% for the three months ended September 30, 2014, compared to the same period in 2013. Building and restroom sales increased 2% for the nine months ended September 30, 2014, compared to the same period in 2013. The decrease in sales resulted from the shipment of a large order of restrooms in the third quarter of 2013 and not repeated in the same period in 2014. The order was again awarded to the Company this year and will be delivered as needed starting in 2015. The increase for the nine month periods ended on September 30, 2014 and 2013 resulted from a large sale of restrooms for the military in excess of \$500,000. The Company continues to emphasize the sales of its proprietary restroom buildings to federal, state and local governmental parks, sports complexes and other governmental facilities. It is anticipated by the Company that building and restroom sales will continue to increase over the next several years.

Utility and Farm Product Sales - Utility and farm products decreased in sales during the three and nine month periods ended September 30, 2014, compared to the same period in 2013. The number of manhole projects bid during the periods remained about the same, however, bid prices continued to be low. The Company recently received two relatively large jobs for manholes on a local highway project for which delivery will begin in the fourth quarter of 2014 to be delivered over an 18 month period. Utility products are tied closely with infrastructure spending by federal, state and local governments which seems to be improving very slightly.

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 moderately for three and nine months ended September 30, 2014, compared to the same periods in 2013. The increase is due primarily to the award of a large bulkhead water retaining wall project which completed production in the second quarter of 2014. In addition, the Company also produced a large retaining wall project in the first and second quarters of 2014. Management believes

that miscellaneous sales will increase only slightly, or remain flat through the remainder of the year and during 2015. Royalty Income - Royalty revenue decreased by 15% for the three months ended September 30, 2014 compared to the same period in 2013, and remained relatively flat for the nine months ended ending the same dates. The small decrease for the three month period was due primarily to lower barrier and Slenderwall royalties. For the nine month period, building and barrier royalties were up slightly up but were offset by lower Slenderwall royalties. Management believes that royalties will remain relatively flat for the remainder of 2014 expects to see a moderate increase in 2015.

Barrier Rentals - Barrier rentals increased greatly for the three months ended September 30, 2014 compared to the same period in 2013, while rentals for the nine month periods ending the same dates were significantly lower. The increase for the three month period ending September 30, 2014 resulted from a special project held in the Washington DC area during the third quarter. The decrease for the nine month period was the result of the rental contract for the Presidential Inauguration held in January 2013 making the first quarter of 2013 abnormally high. Management believes its core barrier rentals should show a slight increase during the remainder of 2014 and into 2015.

Shipping and Installation - Shipping revenue results from shipping our products to the customers' final destination and is recognized when the shipping services take place. Installation revenue results from installation of our products at the customers' construction site. Installation revenue results when attaching architectural wall panels to a building, installing an Easi-Set® building at a customers' site or setting any of our other precast products at a site specific to the requirements of the owner. Shipping and installation revenue increased by 13% for the three months ended September 30, 2014, compared to the same period in 2013 and 29% for nine months ending the same dates. A significant portion of our panel projects had not been shipped or installed prior to the end of 2013, consequently, shipping and installation revenue were lower during 2013. Several of the large projects that were manufactured in late 2013, but held in our storage yard began to be shipped and/or installed in 2014, thereby, increasing these revenues for the three and nine month periods ending 2014, when compared to the same periods in 2013. Management believes that shipping and installation revenues should increase, over the remainder of 2014 and into 2015.

Cost of Goods Sold – Total cost of goods sold for the three months ended September 30, 2014 decreased by \$688,648, or 13%, from the same period in 2013. Total cost of goods sold for the nine months ended September 30, 2014 decreased by \$918,533 or 6%, from the same period in 2013. Total cost of goods sold, as a percentage of total revenue, not including royalties, was 79% for the three months ended September 30, 2014 and September 30, 2013. Total cost of goods sold, as a percentage of total revenue, not including royalties, was 85% for the nine months ended September 30, 2014 and 82% for the same period in 2013. The increase in the cost of goods sold as a percentage of total revenue, not including royalties, for the nine months ended September 30, 2014 compared to the same period in 2013 was primarily due to a decreased volume of production and sales during the first nine months of 2014 as discussed in the earlier part of this section resulting in the absorption of fixed expenses over a smaller revenue base. Inflation continues to remain relatively low for raw materials used in production of the Company's precast products and management believes inflation will continue to remain relatively low for the remainder of the 2014. The Company anticipates that production and sales will increase slightly in the first quarter of 2015 and over the remainder of the year.

General and Administrative Expenses – For the three months ended September 30, 2014, the Company's general and administrative expenses increased \$50,338, or 7%, to \$761,907 from \$711,569 during the same period in 2013. The increase for the three month comparative period was primarily due to slightly increased salary expense and an increase in general office expenses. General and administrative expense as a percentage of total revenue was 13% and 10% for the three months ended September 30, 2014 and 2013, respectively. For the nine months ended September 30, 2014, the Company's general and administrative expenses increased by \$162,278 or 7%, to \$2,337,909 from \$2,175,631 during the same period in 2013. The increase for the nine month comparative period was primarily due to slightly increased salary expense (an across the board salary increase was given in December 2013) and a small increase in general office expenses. General and administrative expense as a percentage of total revenue was 13% and 11% for the nine months ended June 30, 2014 and 2013, respectively.

Selling Expenses – Selling expenses increased for the three months ended September 30, 2014 compared to the same period in 2013 due mainly to slightly increased advertising expenses and slightly increased commissions. Selling expenses decreased for the nine months ended September 30, 2014 compared to the same period in 2013 due mainly to decreased advertising and salaries expense.

Operating Income – The Company had operating income for the three months ended September 30, 2014 of \$188,891 compared to operating income of \$484,965 for the same period in 2013. The decrease in operating income for the three months ended September 30, 2014 was primarily the result of decreased sales. The Company had an operating loss for the nine months ended September 30, 2014 of \$251,316 compared to operating income of \$686,831 for the same period in 2013. The decrease in operating income for the nine months ended September 30, 2014 was primarily the

result of decreased sales and an increase in cost of goods sold for the period as a percentage of total revenue, not including royalties.

Interest Expense – Interest expense was slightly lower for the three and nine months ended September 30, 2014, compared to the same period in 2013. The decrease for the three and nine months ended September 30, 2014 was due primarily the payment of notes payable of during the periods discussed.

Income Tax Expense – The Company had tax expense of \$75,000, with an effective rate of 40%, for the three months ended September 30, 2014 compared to tax expense of \$175,000 with an effective rate of 39% for the same period in 2013. The Company had a tax benefit of \$118,000 with an effective rate of 39%, for the nine months ended September 30, 2014 compared to tax expense of \$233,000, with an effective rate of 39% for the same period in 2013. The changes in the tax expense for the periods correlated to the change in pre-tax income.

Net Income – The Company had net income of \$112,490 for the three months ended September 30, 2014, compared to net income of \$271,909 for the same period in 2013. The Company had a net loss of \$186,065 for the nine months ended September 30, 2014, compared to net income of \$358,065 for the same period in 2013.

### Liquidity and Capital Resources

The Company has financed its capital expenditures and its operating requirements for the first nine months of 2014 primarily from cash provided by operations. The Company had \$2,686,084 of debt obligations at September 30, 2014, of which \$369,086 was scheduled to mature within twelve months. During the nine months ended September 30, 2014, the Company made repayments of outstanding debt in the amount \$280,980. The Company's \$2,000,000 line of credit matured on September 12, 2013. The renewal of the line of credit has been approved by the bank for substantially the same terms and conditions and is currently awaiting signature by the President of the Company. In addition, the Company had a commitment from Summit Community Bank in the amount of \$1,000,000 for an equipment line of credit which expired on September 12, 2014. As with the line of credit, the renewal has been approved by the bank with substantially the same terms and conditions and is currently awaiting signature by the President of the Company.

At September 30, 2014, the Company had cash totaling \$4,237,434 and \$998,792 of investment securities available for sale compared to cash totaling \$3,136,063 and \$915,341 of investment securities available for sale on December 31, 2013. Investment securities available for sale at September 30, 2014 consist of 86,852 shares of USVAX (a Virginia Bond Fund). The increase in cash is primarily the result of increased collections of accounts receivable.

Capital spending totaled \$398,684 for the nine months ended September 30, 2014, as compared to \$548,337 for the same period in 2013. The 2014 expenditures were for new vehicles and small miscellaneous manufacturing equipment. The Company plans to be particularly cautious in its capital purchases over the remainder of the year. In 2013, the Company refinanced its prior existing variable rate mortgage with a fixed rate loan of 3.99% per annum. Because of the refinancing, the Company is no longer sensitive to changes in the prevailing interest rates. Increases in such rates will only slightly affect the interest paid by the Company annually. Each 1% increase in the interest rates of the Company's outstanding debt will reduce income by approximately \$8,000 annually.

The Company's cash flow from operations is affected by production schedules set by contractors, which generally provide for payment 35 to 90 days after the products are produced. This payment schedule may result in liquidity problems for the Company because it must bear a portion of the cost of production before it receives payment from its customers. The Company's average days sales outstanding, excluding the effect of unbilled revenue, decreased from 91 days for the year ended December 31, 2013 to 90 days for the nine months ended September 30, 2014. The decrease in days sales outstanding is due to the continued emphasis on credit and collection efforts by the Company. 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 \$1,677,493 at September 30, 2014 and at December 31, 2013 was \$1,939,478, or a decrease of \$261,985. Inventory turnover was 8.4 for the nine months ended September 30, 2014, compared to 7.7 for the same period in 2013.

### Critical Accounting Policies and Estimates

The Company's critical accounting policies are more fully described in its Summary of Accounting Policies to the Company's consolidated financial statements on Form 10-K for the year ended December 31, 2013. The preparation of consolidated financial statements in conformity with accounting principles generally accepted within the United States of America requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related notes. In preparing these consolidated financial statements, management has made its best estimates and judgments of certain amounts included in the consolidated financial statements, giving due consideration to materiality. The Company does not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below, however, application of these accounting policies involves the exercise of judgment and the use of assumptions as to future uncertainties and as a result, actual results could differ from these estimates.

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

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

#### Seasonality

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

#### Inflation

Raw material costs for the Company, steel, cement, aggregates and other direct materials used in production increased only slightly in 2013 and the first nine months of 2014 and the Company anticipates prices will increase only slightly over the remainder of 2014.

#### Sales Backlog

As of November 5, 2014, the Company's sales backlog was approximately \$12.9 million, as compared to approximately \$13.2 million at the same time in 2013. It is estimated that substantially all of the projects in the sales backlog will be produced within 12 months. The Company also maintains a regularly occurring repeat customer business, which should be considered in addition to the ordered production backlog described above. These orders typically have a quick turn around and represent purchases of a significant portion of the Company's inventoried standard products, such as highway safety barrier, utility and Easi-Set® and Easi-Span® building products. Historically, this regularly occurring repeat customer business has ranged from \$5.0 million to \$7.0 million annually.

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

Not Applicable

#### ITEM 4. Controls and Procedures

##### (a) Disclosure controls and procedures

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



financial officer have concluded that the Company's disclosure controls and procedures were effective at September 30, 2014.

(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, 2014 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

Not required

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

None

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Mine Safety Disclosures

Not applicable

ITEM 5. Other Information

None

ITEM 6. Exhibits

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



SIGNATURES

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

SMITH-MIDLAND CORPORATION  
(Registrant)

Date: November 18, 2014

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

Date: November 18, 2014

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

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

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