

SMITH MIDLAND CORP  
Form 10-Q  
May 14, 2009

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 March 31, 2009

or

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

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

Commission File Number 1-13752

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

Delaware  
(State or other jurisdiction of  
of incorporation or organization)

54-1727060  
(I.R.S. Employer  
Identification No.)

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

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

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

Common Stock, \$.01 par value, outstanding as of April 30, 2009: 4,629,962 shares, net of treasury shares

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## SMITH-MIDLAND CORPORATION

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## PART I — FINANCIAL INFORMATION

## ITEM 1. Financial Statements

SMITH-MIDLAND CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

|  | March 31,<br>2009    | December 31,<br>2008 |
|--|----------------------|----------------------|
| <b>Assets:</b>   |                      |                      |
| <b>Current Assets:</b>   |                      |                      |
| Cash and cash equivalents  | \$ 1,473,107         | \$ 1,363,284         |
| Accounts receivable  |                      |                      |
| Trade- billed (less allowance for doubtful accounts of \$247,672, and \$396,665, respectively) | 6,840,268            | 5,831,182            |
| Trade - unbilled   | 830,603              | 660,165              |
| Inventories  |                      |                      |
| Raw materials  | 990,185              | 851,394              |
| Finished goods   | 1,499,522            | 1,572,830            |
| Prepaid expenses and other assets  | 131,911              | 155,772              |
| Prepaid income taxes   | -                    | 258,150              |
| Deferred tax asset   | 397,000              | 471,000              |
| <b>Total current assets</b>  | <b>12,162,596</b>    | <b>11,163,777</b>    |
| Property and equipment, net  | 4,186,627            | 4,223,555            |
| Other assets   | 154,183              | 163,735              |
| <b>Total assets</b>  | <b>\$ 16,503,406</b> | <b>\$ 15,551,067</b> |

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

SMITH-MIDLAND CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

|  | March 31,<br>2009    | December 31,<br>2008 |
|--|----------------------|----------------------|
| <b>Liabilities and Shareholders' Equity:</b>   |                      |                      |
| <b>Current Liabilities:</b>  |                      |                      |
| Accounts payable - trade   | \$ 2,340,196         | \$ 2,142,478         |
| Accrued income taxes payable   | 263,440              | -                    |
| Accrued expenses and other liabilities   | 619,569              | 1,074,889            |
| Current maturities of notes payable  | 1,284,510            | 1,022,476            |
| Customer deposits  | 725,703              | 858,437              |
| <b>Total current liabilities</b>   | <b>5,233,418</b>     | <b>5,098,280</b>     |
| Notes payable – less current maturities  | 3,429,846            | 3,569,321            |
| Deferred taxes   | 309,000              | 317,000              |
| <b>Total liabilities</b>   | <b>8,972,264</b>     | <b>8,984,601</b>     |
| <b>Commitments and Contingencies</b>   |                      |                      |
| <b>Shareholders' Equity:</b>   |                      |                      |
| Preferred stock, par value \$.01 per share; authorized 1,000,000 shares; none issued and outstanding   | -                    | -                    |
| Common stock, par value \$.01 per share; authorized 8,000,000 shares; issued and outstanding 4,670,882 | 46,709               | 46,709               |
| Additional paid-in capital   | 4,726,335            | 4,701,820            |
| Retained earnings  | 2,860,398            | 1,920,237            |
| Treasury Stock, at cost, 40,920 shares   | (102,300)            | (102,300)            |
| <b>Total shareholders' equity</b>  | <b>7,531,142</b>     | <b>6,566,466</b>     |
| <b>Total liabilities and shareholders' equity</b>  | <b>\$ 16,503,406</b> | <b>\$ 15,551,067</b> |

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

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

|   | Three Months Ended<br>March 31, |              |
|---|---------------------------------|--------------|
|   | 2009                            | 2008         |
| Revenue   |                                 |              |
| Product sales and leasing                             | \$ 7,347,492                    | \$ 5,934,412 |
| Shipping and installation revenue                     | 1,344,196                       | 684,500      |
| Royalties   | 442,252                         | 273,729      |
| Total revenue   | 9,133,940                       | 6,892,641    |
| Cost of goods sold                                    | 6,311,204                       | 5,317,862    |
| Gross profit  | 2,822,736                       | 1,574,779    |
| Operating expenses                                    |                                 |              |
| General and administrative expenses                   | 681,385                         | 729,169      |
| Selling expenses                                      | 568,787                         | 645,972      |
| Total operating expenses                              | 1,250,172                       | 1,375,141    |
| Operating income                                      | 1,572,564                       | 199,638      |
| Other income (expense):                               |                                 |              |
| Interest expense                                      | (61,705)                        | (99,380)     |
| Interest income                                       | 485                             | 2,391        |
| Gain (loss) on sale of fixed assets                   | 19,823                          | 2,015        |
| Other, net  | (139)                           | (177)        |
| Total other income (expense)                          | (41,536)                        | (95,151)     |
| Income before income tax expense                      | 1,531,028                       | 104,487      |
| Income tax expense                                    | 591,000                         | 53,000       |
| Net income  | \$ 940,028                      | \$ 51,487    |
| Net income per common share:                          |                                 |              |
| Basic   | \$ 0.20                         | \$ 0.01      |
| Diluted   | \$ 0.20                         | \$ 0.01      |
| Weighted average number of common shares outstanding: |                                 |              |
| Basic   | 4,670,882                       | 4,670,882    |
| Diluted   | 4,692,135                       | 4,767,894    |

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)

|  | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2009                            | 2008       |
| Reconciliation of net income to cash provided (absorbed) by operating activities             |                                 |            |
| Net income   | \$ 940,028                      | \$ 51,487  |
| Adjustments to reconcile net income to net cash provided (absorbed) by operating activities: |                                 |            |
| Depreciation and amortization  | 175,258                         | 167,152    |
| Stock option compensation expense  | 24,515                          | 30,535     |
| Gain on sale of fixed assets   | (19,823)                        | (2,015)    |
| Deferred taxes   | 66,000                          | 12,000     |
| (Increase) decrease in:  |                                 |            |
| Accounts receivable - billed   | (1,009,086)                     | 189,142    |
| Accounts receivable - unbilled   | (170,438)                       | (304,341)  |
| Inventories  | (65,483)                        | 45,218     |
| Prepaid taxes and other assets   | 292,200                         | 214,356    |
| Increase (decrease) in:  |                                 |            |
| Accounts payable - trade   | 197,718                         | (8,653)    |
| Accrued expenses and other   | (455,320)                       | 2,592      |
| Accrued income taxes payable   | 263,440                         | (502,271)  |
| Customer deposits  | (132,734)                       | 18,124     |
| Net cash provided (absorbed) by operating activities   | 106,275                         | (86,674)   |
| Cash flows from investing activities:  |                                 |            |
| Purchases of property and equipment  | (155,272)                       | (166,371)  |
| Proceeds from sale of fixed assets   | 36,260                          | 5,800      |
| Net cash absorbed by investing activities  | (119,012)                       | (160,571)  |
| Cash flows from financing activities:  |                                 |            |
| Proceeds from line of credit, net  | 250,000                         | 250,000    |
| Proceeds from long-term borrowings   | -                               | 103,636    |
| Repayments of long-term borrowings and capital leases  | (127,440)                       | (111,843)  |
| Net cash provided by financing activities  | 122,560                         | 241,793    |
| Net increase (decrease) in cash and cash equivalents   | 109,823                         | (5,452)    |
| Cash and cash equivalents  |                                 |            |
| Beginning of period  | 1,363,284                       | 282,440    |
| End of period  | \$ 1,473,107                    | \$ 276,988 |

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, 2008. The December 31, 2008 balance sheet was derived from audited financial statements included in the Form 10-K.

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

Use of Estimates

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

Revenue Recognition

The Company primarily recognizes revenue on the sale of its standard precast concrete products at shipment date, including revenue derived from any projects to be completed under short-term contracts. Installation of the Company's standard products is typically performed by the customer; however, in some circumstances, the Company will install certain products which are accomplished at the time of delivery. The installation activities are usually completed the day of delivery or the following day. In utility building sales, the majority of the buildings are erected on the Company's site and delivered completely installed.

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

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

Certain sales of Soundwall, architectural precast panels and Slenderwall™ concrete products revenue is recognized using the percentage of completion method for recording revenues on long term contracts under ARB 45 and SOP 81-1. The contracts are executed by both parties and clearly stipulate the requirements for progress payments and a

schedule of delivery dates. Provisions for estimated losses on contracts are made in the period in which such losses are determined.

Shipping revenues are recognized 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.

## Reclassifications

Certain immaterial reclassifications have been made to the prior year's condensed consolidated financial statements to conform to the 2009 presentation.

## NOTE 2. – NET INCOME PER COMMON SHARE

Basic earnings per common share exclude all dilutive stock options and are computed using the weighted average number of common shares outstanding during the period. The diluted earnings per common share calculation reflect the potential dilutive effect of securities that could share in earnings of an entity. Outstanding options excluded from the diluted earnings per share calculation because they would have an anti-dilutive effect were 450,744 and 443,645 from the three months ended March 31, 2009 and 2008, respectively.

|   | Three Months ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2009                            | 2008      |
| <b>Basic earnings per share</b>             |                                 |           |
| Income available to common shareholder      | \$ 940,028                      | \$ 51,487 |
| Weighted average shares outstanding         | 4,670,882                       | 4,670,882 |
| Basic earnings per share                    | \$ 0.20                         | \$ 0.01   |
| <b>Diluted earnings per share</b>           |                                 |           |
| Income available to common shareholder      | \$ 940,028                      | \$ 51,487 |
| Weighted average shares outstanding         | 4,670,882                       | 4,670,882 |
| Dilutive effect of stock options            | 21,253                          | 97,012    |
| Diluted weighted average shares outstanding | 4,692,135                       | 4,767,894 |
| Diluted earnings per share                  | \$ 0.20                         | \$ 0.01   |

## NOTE 3. – NOTES PAYABLE

The Company has executed a Letter of Intent with Summit Bank to replace the \$1,500,000 line of credit prior to maturity of its current line on June 15, 2009. There can be no assurance that a definitive agreement will be entered into, however, if the Company does not execute the line of credit with Summit Bank, there are sufficient funds on hand to pay the outstanding amount of the line of credit, if needed. If necessary, the Company believes it would be able to obtain financing from other lending sources. Amounts at March 31, 2009 and December 31, 2008 are \$750,000 and \$500,000 and are classified as current.

## NOTE 4. – STOCK OPTIONS

In accordance with SFAS 123R, stock option expense for the three months ended March 31, 2009 and 2008 was \$24,515 and \$30,535 respectively. The Company uses the Black-Scholes option-pricing model to measure the fair value of stock options granted to employees. The Company did not issue any stock options for the three months ended

March 31, 2009.

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The following table summarized options outstanding at March 31, 2009:

|  | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price |
|--|---------------------|--|
| Outstanding options at beginning of period | 642,157             | \$ 1.52                                  |
| Granted                                    | -                   | -  |
| Forfeited                                  | (11,000)            | 1.38                                     |
| Exercised                                  | -                   | -  |
| Outstanding options at end of period       | 631,157             | \$ 1.55                                  |
| Outstanding exercisable at end of period   | 432,332             | \$ 1.52                                  |

The intrinsic value of outstanding and exercisable options at March 31, 2009 is approximately \$34,000.

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

### Forward-Looking Statements

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

- our revenues and net income decreased in 2008 as compared to 2007, due in part to economic conditions,
- our high level of indebtedness and ability to satisfy the same,
- the continued availability of financing in the amounts, at the times, and on the terms required, to support our future business and capital projects,
- the extent to which we are successful in developing, acquiring, licensing or securing patents for proprietary products,
- changes in economic conditions specific to any one or more of our markets (including the availability of public funds and grants for construction),
- changes in general economic conditions, such as the continuing economic downturn in the construction industry.
- adverse weather which inhibits the demand for our products,
- our compliance with governmental regulations,

- the outcome of future litigation,
- on material construction projects, our ability to produce and install product that conforms to contract specifications and in a time frame that meets the contract requirements ,
  - the cyclical nature of the construction industry,
  - our exposure to increased interest expense payments should interest rates change
- the Board of Directors, which is composed of four members, has only one outside, independent director,
  - the Company does not have an audit committee; the Board of Directors functions in that role,

- the Company's Board of Directors does not have a member that qualifies as an audit committee financial expert as defined in the regulations,
- the Company has experienced a high degree of employee turnover, and
- the other factors and information disclosed and discussed in other sections of this report, and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

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

## Overview

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

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

## Results of Operations

Three months ended March 31, 2009 compared to the three months ended March 31, 2008

Revenue: For the three months ended March 31, 2009, the Company had total revenue of \$9,133,940 compared to total revenue of \$6,892,641 for the three months ended March 31, 2008, an increase of \$2,241,299 or 33%. Total product sales and leasing were \$7,347,492 for the three months ended March 31, 2009 compared to \$5,934,412 for the three months ended March 31, 2008, an increase of \$1,413,080 or 24%. The increase was primarily due to the rental of highway barrier for the presidential inauguration in January 2009 in Washington, DC. In the wall sales category, Soundwall sales decreased by \$805,190 from the prior year while architectural wall sales increased by \$1,143,027 so that combined wall sales increased by \$337,837 or 11%. There were no Slenderwall™ sales in the three months ended March 31, 2009 or March 31, 2008 due to different marketing efforts as in the past. Sales of Easi-set® precast buildings increased by \$657,283 or 106% to \$1,275,704 for the three months ended March 31, 2009 over the same period in 2008. Lower revenues from utility and farm products of \$87,659 partially offset the increase in sales. Highway barrier sales decreased by \$862,711 due to the economic slowdown in state and federal spending on road projects. Royalty revenue for the three months ended March 31, 2009 was \$442,252 compared to \$273,729 for



the three months ended March 31, 2008, an increase of \$168,523 or 62%. Shipping and installation revenue increased by \$659,696 or 96% for the three months ended March 31, 2009 over the same period in 2008. The increase was primarily due to increased shipping activity related to the rental of highway barrier for the presidential inauguration during the month of January 2009 in Washington, DC.

**Cost of Goods Sold:** Total cost of good sold for the three months ended March 31, 2009 was \$6,311,204, an increase of \$993,342 or 19%. The increase was primarily to the increased revenue as described above. In addition, during the first half of 2008, the Company realized significant increases in the cost of steel, cement and other direct materials used in production and delivery costs including fuel surcharges, however, in second half of 2008 and the first three months of 2009, the Company experienced moderation in the cost increases experienced in early 2008. As a result of increased sales and moderating costs, the cost of goods sold as a percentage of total revenue not including royalties for the three months ended March 31, 2009 was 73% as compared to 80% for the same period in 2008. The Company continues to make the reduction of manufacturing costs the highest priority in 2009 through the implementation of lean manufacturing practices.

**General and Administrative Expenses:** For the three months ended March 31, 2009, the Company's general and administrative expenses decreased \$47,784 or 7% to \$681,385 from \$729,169 during the same period in 2008. The decrease was primarily due to reduced professional fees associated with the temporary use of an outside firm to provide finance and accounting oversight.

**Selling Expenses:** Selling expenses for the three months ended March 31, 2009 were \$568,787, a decrease of \$77,185 or 12% from \$645,972 in 2008. The decrease was primarily due to decreased advertising costs and lower sales commissions.

**Operating Income:** The Company had operating income of \$1,572,564 for the three months March 31, 2009, compared to operating income of \$199,638 for the same period in 2008, an increase of \$1,372,926 or 688%. The increase in operating income was primarily the result of increased sales and decreased cost of goods sold as a percentage of revenues.

**Interest expense:** Interest expense was \$61,705 for the three months ended March 31, 2009, compared to \$99,380 in 2008, a decrease of \$37,675 or 38%. The decrease was due primarily to a decrease in prevailing interest rates.

**Net Income:** The Company had net income of \$940,028 for the three months ended March 31, 2009, as compared to net income of \$51,487 for the same period in 2008. The basic and diluted net income per common share for the three month period ending March 31, 2009 was \$.20 as compared to \$.01 and for the same period in 2008.

#### Liquidity and Capital Resources

The Company has financed its capital expenditures and operating requirements to date in 2009 primarily from net cash generated from operating activities. The Company had \$4,714,356 of debt obligations at March 31, 2009, of which \$1,284,510 was scheduled to mature within twelve months. The Company has a \$1,500,000 line of credit, of which \$750,000 was outstanding at March 31, 2009. The line of credit is evidenced by a commercial revolving promissory note, which carries a variable interest rate of prime and matures on June 15, 2009. The Company has executed a Letter of Intent with Summit Bank to replace the \$1,500,000 line of credit prior to its maturity date, however, there can be no assurance that a definitive agreement will be entered into. If the Company does not execute the line of credit with Summit Bank, there are sufficient funds on hand to pay the outstanding amount of the line of credit, if needed. If necessary, the Company believes it would be able to obtain financing from other lending sources.

At March 31, 2009, the Company had cash totaling \$1,473,107 compared to cash totaling \$1,363,284 on December 31, 2008. During the period, operating activities contributed \$106,275, investing activities absorbed \$119,012, and financing activities increased cash by \$122,560.

Capital spending totaled \$155,272 for the three months ended March 31, 2009, as compared to \$166,371 for the same period in 2008. The 2009 expenditures are primarily for the upgrade and replacement of equipment in the precast

plant. The Company plans to make additional capital expenditures for routine equipment replacement, productivity improvements, and plant upgrades, which are planned through 2009 based on the achievement of operating goals and the availability of funds.

As a result of the Company's existing debt burden, the Company is sensitive to changes in the prevailing interest rates. Increases in such rates may materially and adversely affect the Company's ability to finance its operations either by increasing the Company's cost to service its current debt, or by creating a more burdensome refinancing environment. Each 1% increase in interest rates affecting the Company's outstanding debt will reduce income by approximately \$47,000 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 has resulted in liquidity problems in the past for the Company because it must bear the cost of production for its products before it receives payment. The Company has been able to decrease its days sales outstanding using aggressive collection activities, thereby, reducing the days sales outstanding from 76 days at December 31, 2008 to 68 days at March 31, 2009. Although no assurances can be given, the Company believes that anticipated cash flow from operations and the available line of credit will be sufficient to finance the Company's operations for at least the next twelve months.

The Company's inventory was \$2,489,707 at March 31, 2009 and at December 31, 2008 was \$2,424,224 or an increase of \$65,483. The increase in inventory caused the inventory turns to decrease from 2.6 turns for the three months ended December 31, 2008 to 2.5 turns for the three months ended March 31, 2009.

#### 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, 2008. The preparation of financial statements in conformity with accounting principles generally accepted within the United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying financial statements and related notes. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Company does not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below, however, application of these accounting policies involves the exercise of judgment and the use of assumptions as to future uncertainties and as a result, actual results could differ from these estimates.

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

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



### Seasonality

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

### Inflation

Significant increases in the cost of steel, cement and other direct materials used in production and delivery, including fuel surcharges, have caused increases in cost of goods sold of the Company during the year ending December 31, 2008. Due to a downturn in the economy, the Company expects these costs to continue to moderate during 2009.

### Production Backlog

As of May 6, 2009, the Registrant's sales backlog was approximately \$15,900,000, as compared to approximately \$12,432,000 at the same date in 2008. The Company also maintains a regularly occurring repeat customer business, which should be considered in addition to the ordered production backlog described above. These orders typically have a quick turn around and represent purchases of a significant portion of the Company's inventoried standard products, such as highway safety barrier, utility and Easi-Set® building products. Historically, this regularly occurring repeat customer business is equal to approximately \$6,500,000 annually.

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

Not Applicable

### ITEM 4T. Controls and Procedures

#### (a) Disclosure controls and procedures

We carried out our evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, the chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures were effective at March 31, 2009.

#### (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 March 31, 2009 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 6. Exhibits

Exhibit

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

SIGNATURES

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

SMITH-MIDLAND CORPORATION  
(Registrant)

Date: May 13, 2009

By: /s/ Rodney I. Smith

Rodney I. Smith, President  
(Principal Executive Officer)

Date May 13, 2009

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 March 31, 2009

| Exhibit No | Exhibit Description   |
|------------|---|
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