SMITH MIDLAND CORP
Form 10-Q
August 15, 2011

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

FORM 10-Q

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

For the quarterly period ended June 30, 2011

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 o 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 August 5, 2011: 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	June 30, 2011	December 31, 2010
Current assets		
Cash and cash equivalents	$3,552,136	$2,573,168
Accounts receivable		
Trade - billed (less allowance for doubtful accounts of $256,274 and $213,108)	6,059,630	7,518,806
Trade - unbilled	522,614	653,814
Inventories		
Raw materials	759,882	590,805
Finished goods	1,721,471	1,253,862
Prepaid expenses and other assets	189,232	107,617
Prepaid income taxes	65,950	293,869
Deferred taxes	386,000	393,000
Total current assets	13,256,915	13,384,941
Property and equipment, net	4,547,506	4,603,688
Total other assets	198,412	134,122
Total assets	$18,002,833	$18,122,751

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	June 30, 2011	December 31, 2010
Current liabilities		
Accounts payable - trade	$1,406,260	$1,314,074
Accrued expenses and other liabilities	798,115	1,738,466
Current maturities of notes payable	449,174	411,988
Customer deposits	21,819	177,252
Total current liabilities	2,675,368	3,641,780
Notes payable - less current maturities	3,150,677	2,813,782
Deferred tax liability	653,000	708,000
Total liabilities	6,479,045	7,163,562
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 and 4,785,262 issued and outstanding, respectively	48,262	47,042
Additional paid-in capital	4,995,278	4,874,335
Retained earnings	6,582,548	6,140,112
	11,626,088	11,061,489
Treasury stock, at cost, 40,920 shares	(102,300)	(102,300)
Total stockholders’ equity	11,523,788	10,959,189
Total liabilities and stockholders' equity	$18,002,833	$18,122,751

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 June 30,	
	2011	2010
Revenue		
Products sales and leasing	$5,467,610	$6,543,501
Shipping and installation revenue	1,339,933	694,134
Royalties	337,515	453,932
Total revenue	7,145,058	7,691,567
Cost of goods sold	5,392,727	5,563,403
Gross profit	1,752,331	2,128,164
Operating expenses		
General and administrative expenses	725,660	641,434
Selling expenses	634,282	613,719
Total operating expenses	1,359,942	1,255,153
Operating income	392,389	873,011
Other income (expense)		
Interest expense	(37,544)	(46,051)
Interest income	3,701	4,161
Gain on sale of assets	17,317	1,539
Other, net	23,681	(472)
Total other income (expense)	7,155	(40,823)
Income before income tax expense	399,544	832,188
Income tax expense	145,000	320,993
Net income	$254,544	$511,195
Basic earnings per share	$0.05	$0.11
Diluted earnings per share	$0.05	$0.11
Weighted average number of common shares outstanding:		
Basic	4,796,649	4,702,882
Diluted	4,884,769	4,786,812

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

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

	Six Months Ended June 30, 2011	2010
Revenue		
Products sales and leasing	$11,538,969	$12,026,370
Shipping and installation revenue	2,552,815	1,119,340
Royalties	668,661	897,876
Total revenue	14,760,445	14,043,586
Cost of goods sold	11,414,166	9,930,945
Gross profit	3,346,279	4,112,641
Operating expenses		
General and administrative expenses	1,491,683	1,223,758
Selling expenses	1,194,588	1,181,500
Total operating expenses	2,686,271	2,405,258
Operating income	660,008	1,707,383
Other income (expense)		
Interest expense	(72,322)	(88,499)
Interest income	8,874	16,531
Gain on sale of assets	20,154	4,667
Other, net	73,722	(629)
Total other income (expense)	30,428	(67,930)
Income before income tax expense	690,436	1,639,453
Income tax expense	248,000	628,000
Net income	$442,436	$1,011,453
Basic earnings per share	$0.09	$0.22
Diluted earnings per share	$0.09	$0.21
Weighted average number of common shares outstanding:		
Basic	4,750,674	4,702,882
Diluted	4,839,510	4,807,240

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)

	Six Months Ended June 30, 2011	2010
Reconciliation of net income to cash provided (absorbed) by operating activities		
Net income	$442,436	$1,011,453
Adjustments to reconcile net income to net cash provided (absorbed) by operating activities:		
Depreciation and amortization	357,089	357,233
Stock option compensation expense	17,043	25,532
Gain on disposal of fixed assets	(20,154)	(4,668)
Deferred taxes	(48,000)	(33,000)
(Increase) decrease in:		
Accounts receivable - billed	1,459,176	(2,558,710)
Accounts receivable - unbilled	131,200	(1,021,569)
Inventories	(636,686)	735,192
Prepaid taxes and other assets	82,013	91,620
Increase (decrease) in:		
Accounts payable - trade	92,186	218,525
Accrued expenses and other	(940,350)	(298,487)
Accrued income taxes payable	—	165,159
Customer deposits	(155,433)	(7,915)
Net cash provided (absorbed) by operating activities	780,520	(1,319,635)
Cash flows from investing activities:		
Purchases of property and equipment	(301,678)	(785,683)
Proceeds from sale of fixed assets	20,928	16,851
Net cash absorbed by investing activities	(280,750)	(768,832)
Cash flows from financing activities:		
Proceeds from long-term borrowings	575,000	52,157
Repayments of long-term borrowings and capital leases	(200,920)	(225,450)
Proceeds from options exercised	105,118	—
Net cash provided (absorbed) by financing activities	479,198	(173,293)
Net increase (decrease) in cash and cash equivalents	978,968	(2,261,760)
Cash and cash equivalents		
Beginning of period	2,573,168	2,929,868
End of period	$3,552,136	$668,108

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, 2010. The December 31, 2010 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

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 are usually completed the day of delivery or the following day. In utility building sales, the majority of the buildings are erected on the Company’s site and delivered completely installed.

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

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

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

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

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

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 254,166 and 308,166 for the three months ended June 30, 2011 and 2010, and 254,166 and 258,166 for the six months ended June 30,2011 and 2010, respectively.

	Three Months Ended June 30,	
	2011	2010
Basic earnings per share		
Income available to common shareholder	$254,544	$511,195
Weighted average shares outstanding	4,796,649	4,702,882
Basic earnings per share	$0.05	$0.11
Diluted earnings per share		
Income available to common shareholder	$254,544	$511,195
Weighted average shares outstanding	4,796,649	4,702,882
Dilutive effect of stock options	88,120	83,930
Total weighted average shares outstanding	4,884,769	4,786,812
Diluted earnings per share	$0.05	$0.11

	Six Months Ended June 30,	
	2011	2010
Basic earnings per share		
Income available to common shareholder	$442,436	$1,011,453
Weighted average shares outstanding	4,750,674	4,702,882
Basic earnings per share	$0.09	$0.22
Diluted earnings per share		
Income available to common shareholder	$442,436	$1,011,453
Weighted average shares outstanding	4,750,674	4,702,882
Dilutive effect of stock options	88,836	104,358
Total weighted average shares outstanding	4,839,510	4,807,240

Diluted earnings per share	$0.09	$0.21

NOTE 3. – STOCK OPTIONS

In accordance with ASC 718, stock option expense for the three months ended June 30, 2011 and 2010 was $8,522 and $10,917, respectively and for the six months ended June 30, 2011 and 2010 was $17,043 and $25,532, 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 six months ended June 30, 2011.

The following table summarized options outstanding at June 30, 2011

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2010	587,965	$1.59
Granted	—	—
Forfeited	—	—
Exercised	(122,000)	(0.86)
Outstanding options at end of quarter	465,965	1.78
Outstanding exercisable options at end of quarter	465,965	1.78

The intrinsic value of outstanding and exercisable options at June 30, 2011 was approximately $111,000 .

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 June 30, 2011 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 except for the following. The Company's line of credit in the amount of $2,000,000 and its equipment guidance line in the amount of $1,000,000 matured on July 7, 2011. No amounts were outstanding under these lines of credit during the quarter ended June 30, 2011 or at the time of maturity. The Company is currently in discussions with Summit Community Bank regarding the lines of credit and expects, but there can be no assurance, that the lines will be renewed by the end of the third quarter.

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," "anticipat "continue," or similar terms, variations of those terms or the negative of those terms. Potential risks and uncertainties include, among other things, such factors as:

- our level of indebtedness and ability to satisfy the same,
- the continued availability of financing in the amounts, at the times, and on the terms required, to support our future business and capital projects,
- the extent to which we are successful in developing, acquiring, licensing or securing patents for proprietary products,
- changes in economic conditions specific to any one or more of our markets (including the availability of public funds

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and grants for construction),

- changes in general economic conditions, such as the current weakness in construction in 2011 in the Company's primary service area,
- adverse weather which inhibits the demand for our products,
- our compliance with governmental regulations,
- the outcome of future litigation,
- on material construction projects, our ability to produce and install product that conforms to contract specifications and in a time frame that meets the contract requirements,
- the cyclical nature of the construction industry,
- our exposure to increased interest expense payments should interest rates change,
- the Company's Board of Directors, which is composed of four members, has only one outside, independent director,
- the Company does not have an audit committee; the Board of Directors functions in that role,
- the Company's Board of Directors does not have a member that qualifies as an audit committee financial expert as defined in SEC regulations, and
- the other factors and information disclosed and discussed in other sections of this report, and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

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 results of operations for the six months ended June 30, 2011 were below that of the same period in 2010, however, management was able to produce positive results in an industry in which profitability has not been the norm for the past several years. While the Company has seen an increase in bidding activity over the first half of 2011, intense competition for jobs in the geographical areas serviced by the Company has caused a decrease in profit margins for the larger construction projects. Management has diligently worked to improve on its profit margins by improving production processes and working more closely with its major suppliers to obtain raw materials at the lowest possible prices. The Company’s overall performance for 2011 will not only depend on how quickly the construction industry improves but also how effective management is in improving its production processes and reducing raw material costs.

Results of Operations

Three months ended June 30, 2011 compared to the three months ended June 30, 2010

Revenue By Type

	2011	2010	Change	% of Change
Product Sales:				
Soundwall Sales	$365,477	$2,024,707	$(1,659,230)	(82)%
Architectural Panel Sales	574,888	522,204	52,684	10%
Slenderwall Sales	420,254	—	420,254	—%
Miscellaneous Wall Sales	463,678	—	463,678	—%
Total Wall Sales	1,824,297	2,546,911	(722,614)	(28)%
Barrier Sales	770,991	1,547,908	(776,917)	(50)%
Beach Prisms				