

SMITH MIDLAND CORP  
Form 10-Q  
November 14, 2011

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, 2011

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

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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 November 9, 2011 : 4,785,262 shares, net of treasury shares

1

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SMITH-MIDLAND CORPORATION

Form 10-Q Index

|                                                                                                                                  | Page      |
|----------------------------------------------------------------------------------------------------------------------------------|-----------|
| <b>PART I. FINANCIAL INFORMATION</b>                                                                                             |           |
| Item 1. Financial Statements                                                                                                     |           |
| Condensed Consolidated Balance Sheets (Unaudited), September 30, 2011 and December 31, 2010                                      | <u>3</u>  |
| Condensed Consolidated Statements of Operations (Unaudited) for the three months ended September 30, 2011 and September 30, 2010 | <u>5</u>  |
| Condensed Consolidated Statements of Operations (Unaudited) for the nine months ended September 30, 2011 and September 30, 2010  | <u>6</u>  |
| Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2011 and September 30, 2010  | <u>7</u>  |
| Notes to Condensed Consolidated Financial Statements (Unaudited)                                                                 | <u>8</u>  |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations                                    | <u>11</u> |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk                                                               | <u>18</u> |
| Item 4. Controls and Procedures                                                                                                  | <u>18</u> |
| <b>PART II. OTHER INFORMATION</b>                                                                                                |           |
| Item 1. Legal Proceedings                                                                                                        | <u>19</u> |
| Item 1A. Risk Factors                                                                                                            | <u>19</u> |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds                                                              | <u>19</u> |
| Item 3. Defaults Upon Senior Securities                                                                                          | <u>19</u> |
| Item 4. Removed and Reserved                                                                                                     | <u>19</u> |
| Item 5. Other Information                                                                                                        | <u>19</u> |
| Item 6. Exhibits                                                                                                                 | <u>19</u> |
| Exhibit 31.1                                                                                                                     |           |
| Exhibit 31.2                                                                                                                     |           |
| Exhibit 32                                                                                                                       |           |
| Signatures                                                                                                                       | <u>20</u> |



## PART I — FINANCIAL INFORMATION

## ITEM 1. Financial Statements

SMITH-MIDLAND CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

| ASSETS                                                                           | September 30,<br>2011 | December 31,<br>2010 |
|----------------------------------------------------------------------------------|-----------------------|----------------------|
| Current assets                                                                   |                       |                      |
| Cash and cash equivalents                                                        | \$2,175,217           | \$2,573,168          |
| Accounts receivable                                                              |                       |                      |
| Trade - billed (less allowance for doubtful accounts of \$217,235 and \$213,108) | 7,355,477             | 7,518,806            |
| Trade - unbilled                                                                 | 270,075               | 653,814              |
| Inventories                                                                      |                       |                      |
| Raw materials                                                                    | 792,875               | 590,805              |
| Finished goods                                                                   | 1,459,508             | 1,253,862            |
| Prepaid expenses and other assets                                                | 161,596               | 107,617              |
| Prepaid income taxes                                                             | 305,704               | 293,869              |
| Deferred taxes                                                                   | 384,000               | 393,000              |
| Total current assets                                                             | 12,904,452            | 13,384,941           |
| Property and equipment, net                                                      | 4,406,662             | 4,603,688            |
| Total other assets                                                               | 178,070               | 134,122              |
| Total assets                                                                     | \$17,489,184          | \$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                                                                                     | September 30,<br>2011 | December 31,<br>2010 |
|--------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| Current liabilities                                                                                                      |                       |                      |
| Accounts payable - trade                                                                                                 | \$902,885             | \$1,314,074          |
| Accrued expenses and other liabilities                                                                                   | 817,904               | 1,738,466            |
| Current maturities of notes payable                                                                                      | 434,358               | 411,988              |
| Customer deposits                                                                                                        | 560,244               | 177,252              |
| <br>Total current liabilities                                                                                            | <br>2,715,391         | <br>3,641,780        |
| Notes payable - less current maturities                                                                                  | 3,055,893             | 2,813,782            |
| Deferred tax liability                                                                                                   | 664,000               | 708,000              |
| <br>Total liabilities                                                                                                    | <br>6,435,284         | <br>7,163,562        |
| <br>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 4,704,182 issued and outstanding, respectively | 48,262                | 47,042               |
| Additional paid-in capital                                                                                               | 4,995,278             | 4,874,335            |
| Retained earnings                                                                                                        | 6,112,660             | 6,140,112            |
|                                                                                                                          | 11,156,200            | 11,061,489           |
| <br>Treasury stock, at cost, 40,920 shares                                                                               | <br>(102,300          | <br>) (102,300       |
|                                                                                                                          | )                     | )                    |
| <br>Total stockholders' equity                                                                                           | <br>11,053,900        | <br>10,959,189       |
| <br>Total liabilities and stockholders' equity                                                                           | <br>\$17,489,184      | <br>\$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 September<br>30, |             |
|-------------------------------------------------------|-------------------------------------|-------------|
|                                                       | 2011                                | 2010        |
| Revenue                                               |                                     |             |
| Products sales and leasing                            | \$4,871,117                         | \$7,505,181 |
| Shipping and installation revenue                     | 951,301                             | 1,071,157   |
| Royalties                                             | 311,987                             | 419,620     |
| Total revenue                                         | 6,134,405                           | 8,995,958   |
| Cost of goods sold                                    | 5,479,018                           | 6,169,371   |
| Gross profit                                          | 655,387                             | 2,826,587   |
| Operating expenses                                    |                                     |             |
| General and administrative expenses                   | 630,075                             | 668,727     |
| Selling expenses                                      | 636,651                             | 699,421     |
| Total operating expenses                              | 1,266,726                           | 1,368,148   |
| Operating income (loss)                               | (611,339                            | ) 1,458,439 |
| Other income (expense)                                |                                     |             |
| Interest expense                                      | (36,962                             | ) (38,104   |
| Interest income                                       | 2,565                               | 1,393       |
| Gain on sale of assets                                | 2,316                               | 2,321       |
| Other, net                                            | 12,532                              | 438         |
| Total other income (expense)                          | (19,549                             | ) (33,952   |
| Income (loss) before income tax expense               | (630,888                            | ) 1,424,487 |
| Income tax benefit (expense)                          | 161,000                             | (523,000    |
| Net income (loss)                                     | \$(469,888                          | ) \$901,487 |
| Basic earnings (loss) per share                       | \$(0.10                             | ) \$0.19    |
| Diluted earnings (loss) per share                     | \$(0.10                             | ) \$0.19    |
| Weighted average number of common shares outstanding: |                                     |             |
| Basic                                                 | 4,826,182                           | 4,702,882   |
| Diluted                                               | 4,826,182                           | 4,792,796   |

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<br>30, |               |
|-------------------------------------------------------|------------------------------------|---------------|
|                                                       | 2011                               | 2010          |
| Revenue                                               |                                    |               |
| Products sales and leasing                            | \$ 16,410,086                      | \$ 19,531,551 |
| Shipping and installation revenue                     | 3,504,116                          | 2,190,497     |
| Royalties                                             | 980,648                            | 1,317,496     |
| Total revenue                                         | 20,894,850                         | 23,039,544    |
| Cost of goods sold                                    | 16,893,184                         | 16,100,316    |
| Gross profit                                          | 4,001,666                          | 6,939,228     |
| Operating expenses                                    |                                    |               |
| General and administrative expenses                   | 2,121,758                          | 1,892,485     |
| Selling expenses                                      | 1,831,239                          | 1,880,921     |
| Total operating expenses                              | 3,952,997                          | 3,773,406     |
| Operating income                                      | 48,669                             | 3,165,822     |
| Other income (expense)                                |                                    |               |
| Interest expense                                      | (109,284                           | ) (126,603    |
| Interest income                                       | 11,439                             | 17,924        |
| Gain on sale of assets                                | 22,470                             | 6,988         |
| Other, net                                            | 86,254                             | (191          |
| Total other income (expense)                          | 10,879                             | (101,882      |
| Income before income tax expense                      | 59,548                             | 3,063,940     |
| Income tax expense                                    | 87,000                             | 1,151,000     |
| Net income (loss)                                     | \$(27,452                          | ) \$1,912,940 |
| Basic earnings (loss) per share                       | \$(0.01                            | ) \$0.41      |
| Diluted earnings (loss) per share                     | \$(0.01                            | ) \$0.40      |
| Weighted average number of common shares outstanding: |                                    |               |
| Basic                                                 | 4,778,441                          | 4,702,882     |
| Diluted                                               | 4,778,441                          | 4,802,516     |

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<br>30, |                |
|-------------------------------------------------------------------------------------------------|------------------------------------|----------------|
|                                                                                                 | 2011                               | 2010           |
| Reconciliation of net income to cash provided (absorbed)<br>by operating activities             |                                    |                |
| Net income (loss)                                                                               | \$(27,452                          | ) \$1,912,940  |
| Adjustments to reconcile net income to net cash provided (absorbed)<br>by operating activities: |                                    |                |
| Depreciation and amortization                                                                   | 537,832                            | 545,569        |
| Stock option compensation expense                                                               | 17,043                             | 34,054         |
| Gain on disposal of fixed assets                                                                | (22,470                            | ) (6,988 )     |
| Deferred taxes                                                                                  | (35,000                            | ) 200,000      |
| (Increase) decrease in:                                                                         |                                    |                |
| Accounts receivable - billed                                                                    | 163,329                            | (763,606 )     |
| Accounts receivable - unbilled                                                                  | 383,739                            | (3,296,879 )   |
| Inventories                                                                                     | (407,716                           | ) 732,250      |
| Prepaid taxes and other assets                                                                  | (109,763                           | ) (43,996 )    |
| Increase (decrease) in:                                                                         |                                    |                |
| Accounts payable - trade                                                                        | (411,189                           | ) 108,401      |
| Accrued expenses and other                                                                      | (920,560                           | ) 536,434      |
| Accrued income taxes payable                                                                    | —                                  | 359,653        |
| Customer deposits                                                                               | 382,993                            | (432,101 )     |
| Net cash absorbed by operating activities                                                       | (449,214                           | ) (114,269 )   |
| Cash flows from investing activities:                                                           |                                    |                |
| Purchases of property and equipment                                                             | (339,950                           | ) (1,012,054 ) |
| Proceeds from sale of fixed assets                                                              | 21,614                             | 19,311         |
| Net cash absorbed by investing activities                                                       | (318,336                           | ) (992,743 )   |
| Cash flows from financing activities:                                                           |                                    |                |
| Proceeds from long-term borrowings                                                              | 575,000                            | 118,505        |
| Repayments of long-term borrowings and capital leases                                           | (310,519                           | ) (341,310 )   |
| Proceeds from options exercised                                                                 | 105,118                            | —              |
| Net cash provided (absorbed) by financing activities                                            | 369,599                            | (222,805 )     |
| Net decrease in cash and cash equivalents                                                       | (397,951                           | ) (1,329,817 ) |
| Cash and cash equivalents                                                                       |                                    |                |
| Beginning of period                                                                             | 2,573,168                          | 2,929,868      |
| End of period                                                                                   | \$2,175,217                        | \$1,600,051    |

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.

With respect to certain sales of Soundwall panels, architectural precast panels and Slenderwall™ precast panels, revenue is recognized using the percentage of completion method for recording revenues on long term contracts pursuant to ASC 605-35-25. The contracts are executed by both parties and clearly stipulate the requirements for progress

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

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

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

## NOTE 2. – 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 (loss) per share calculation because they would have an anti-dilutive effect were 465,965 and 258,166 for the three months ended September 30, 2011 and 2010, and 465,965 and 258,166 for the nine months ended September 30, 2011 and 2010, respectively.

|                                               | Three Months Ended September<br>30, |             |
|-----------------------------------------------|-------------------------------------|-------------|
|                                               | 2011                                | 2010        |
| Basic earnings (loss) per share               |                                     |             |
| Income (loss) available to common shareholder | \$(469,888                          | ) \$901,487 |
| Weighted average shares outstanding           | 4,826,182                           | 4,702,882   |
| Basic earnings (loss) per share               | \$(0.10                             | ) \$0.19    |
| Diluted earnings (loss) per share             |                                     |             |
| Income (loss) available to common shareholder | \$(469,888                          | ) \$901,487 |
| Weighted average shares outstanding           | 4,826,182                           | 4,702,882   |
| Dilutive effect of stock options              | —                                   | 89,914      |
| Total weighted average shares outstanding     | 4,826,182                           | 4,792,796   |
| Diluted earnings (loss) per share             | \$(0.10                             | ) \$0.19    |

|                                               | Nine Months Ended September 30, |               |
|-----------------------------------------------|---------------------------------|---------------|
|                                               | 2011                            | 2010          |
| Basic earnings per share                      |                                 |               |
| Income (loss) available to common shareholder | \$(27,452                       | ) \$1,912,940 |
| Weighted average shares outstanding           | 4,778,441                       | 4,702,882     |
| Basic earnings (loss) per share               | \$(0.01                         | ) \$0.41      |
| Diluted earnings per share                    |                                 |               |
| Income (loss) available to common shareholder | \$(27,452                       | ) \$1,912,940 |
| Weighted average shares outstanding           | 4,778,441                       | 4,702,882     |
| Dilutive effect of stock options              | —                               | 99,634        |
| Total weighted average shares outstanding     | 4,778,441                       | 4,802,516     |
| Diluted earnings (loss) per share             | \$(0.01                         | ) \$0.40      |

## NOTE 3. – STOCK OPTIONS

In accordance with ASC 718, the Company had no stock option expense for the three months ended September 30, 2011 and \$8,522 for the same period in 2010 and stock option expense for the nine months ended September 30, 2011 and 2010 was \$17,043 and \$34,054, 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 nine months ended September 30, 2011.

The following table summarized options outstanding at September 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 September 30, 2011 was approximately \$119,000 .

## NOTE 4. – SUBSEQUENT EVENTS



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Through the date of the filing of this Form 10-Q, the Company has evaluated events and transactions occurring subsequent to September 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.

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:

- no assurance of profitable operations; in this respect the Company incurred a net loss of \$469,888 for the three months ended September 30, 2011,

- 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 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 nine months ended September 30, 2011 were significantly below that of the same period in 2010. While the Company has been successful in acquiring several large contracts during 2011, intense competition for these types of contracts in the geographical areas serviced by the Company has caused a decrease in profit margins for the large construction projects. Management has diligently worked to improve 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 the third quarter of 2011 has been impacted by the continued slowdown in the nations economy and the construction industry in which we operate. While the Company expects a slight improvement in its results of operations for the fourth quarter of 2011, no assurance of this can be given.

## Results of Operations

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

### Revenue By Type

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|                                       | 2011               | 2010               | Change               | % of Change  |
|---------------------------------------|--------------------|--------------------|----------------------|--------------|
| <b>Product Sales:</b>                 |                    |                    |                      |              |
| Soundwall Sales                       | \$399,073          | \$2,715,827        | \$(2,316,754)        | (85)%        |
| Architectural Panel Sales             | 1,112,089          | 54,894             | 1,057,195            | 1,926%       |
| Slenderwall Sales                     | 177,197            | 442,042            | (264,845)            | (60)%        |
| Miscellaneous Wall Sales              | 406,995            | —                  | 406,995              | —%           |
| Total Wall Sales                      | 2,095,354          | 3,212,763          | (1,117,409)          | (35)%        |
| Barrier Sales                         | 464,466            | 1,321,423          | (856,957)            | (65)%        |
| Beach Prisms                          | 18,489             | —                  | 18,489               | —%           |
| Easi-Set and Easi-Span Building Sales | 940,214            | 931,047            | 9,167                | 1%           |
| Utility and Farm Product Sales        | 1,090,633          | 589,818            | 500,815              | 85%          |
| Miscellaneous Product Sales           | 120,212            | 1,249,012          | (1,128,800)          | (90)%        |
| Total Product Sales                   | 4,729,368          | 7,304,063          | (2,574,695)          | (35)%        |
| Royalty Income                        | 311,987            | 419,620            | (107,633)            | (26)%        |
| Barrier Rentals                       | 141,749            | 201,118            | (59,369)             | (30)%        |
| Shipping and Installation Revenue     | 951,301            | 1,071,157          | (119,856)            | (11)%        |
| Total Service Revenue                 | 1,405,037          | 1,691,895          | (286,858)            | (17)%        |
| <b>Total Revenue</b>                  | <b>\$6,134,405</b> | <b>\$8,995,958</b> | <b>\$(2,861,553)</b> | <b>(32)%</b> |

Wall Sales – Wall sales are generally large contracts issued by general contractors for production and delivery of a specific wall panel for a specific construction project. Changes in the mix of wall sales depend on what contracts are in production during the period. Overall wall sales decreased significantly during three months ended September 30, 2011 due to the winding down of the production of a large soundwall job in Maryland. During 2011, the Company acquired two new wall contracts, one being architectural precast and the other Slenderwall™ precast walls. The architectural contract began production in August 2011 and was in full production in September. The Slenderwall™ contract was originally set to start in late August 2011; however, due to architectural changes made just prior to production caused a delay until late September. Miscellaneous wall sales increase during the period as compared to the same period in 2010. Miscellaneous wall sales for the period consisted mainly of retaining wall panels and special panels for several smaller wall contracts.

Barrier Sales – Barrier sales decreased by 65% during the three months ended of September 30, 2011 compared to the same period in 2010. The decrease in sales relates primarily to the slowdown in federal and state government contracts for road projects. The Company believes that sales of barrier will continue to moderate during the remainder of the year as it is anticipated that federal and state government contracts for road projects will increase from current levels only slightly, if at all, during the remainder of the year.

Easi-Set® and Easi-Span® Building Sales – Building sales remained relatively flat during the three months ended September 30, 2011 compared to the same period in 2010. The Company has received a large building order that will be produced and delivered in 2012. Management believes building sales will continue to improve slightly during the remainder of 2011.

Utility and Farm Product Sales – Utility and farm product sales increased by 85% for the three months ended September 30, 2011 compared to the same period 2010. The increase in utility products relates to the production and sale of utility manholes for two state contracts in northern Virginia. The Company is aggressively seeking sales of utility products through its marketing and sales staff to maintain and improve sales over the remainder of 2011.

Miscellaneous Product Sales – Miscellaneous products are products produced and sold that do not meet the criteria defined for other revenue categories. For the current period, miscellaneous sales decreased significantly compared to

the same period in 2010. The decrease in sales relates to large contract in progress during the third quarter of 2010 which was completed in the fourth quarter of 2010. Miscellaneous product sales depends in part on the continued availability of these type of jobs and improvement in the construction industry overall.

Royalty Income – Royalty revenue decreased by 26% during the three months ended September 30, 2011, compared to the same period in 2010, as a result of the continued weakness in federal and state government spending. The Company has increased its advertising expense and is actively working with licensees to help promote their products to increase royalty revenues.

Barrier Rentals – Barrier rentals decreased for the three months ended September 30, 2011 compared to the same period in 2010. The decrease in barrier rentals was a result of the completion of several large contracts for rented barriers, the required maintenance on the returned barrier and the shipment out for new rental contracts. Management believes that barrier rentals will increase slightly over the remainder of the year as it anticipates that federal and state government contracts for road projects will increase from current levels only slightly, if at all, during the remainder of 2011.

Shipping and Installation – Shipping and installation revenue decreased by \$119,856 for the three months ended September 30, 2011 compared to the same period in 2010 due in part to the shipping of soundwall panels which were manufactured and sold in 2010 and early 2011; with the final delivery of these panels completed in August 2011. Shipping and installation revenue is expected to remain at or near 2010 levels for the remainder of the year.

Cost of Goods Sold – Total cost of goods sold for the three months ended September 30, 2011 was \$5,479,018, a decrease of \$690,353, or 11%, from \$6,169,371 for the same period in 2010. Total cost of goods sold, as a percentage of total revenue, not including royalties, was 94% for the three months ended September 30, 2011 up from 72% for the same period in 2010. The increase in cost of goods sold as a percentage of total revenue, excluding royalties, was attributable, in part, to increases in steel and fuel prices and a product mix that contained several less profitable contracts due to intense competitive bidding in the geographically areas serviced by the Company. In addition, because of the late start on several large projects, revenues for product sales were significantly down for the period as discussed above while fixed costs remained at the same levels when compared to the same period in 2010. It is anticipated that product sales will improve during the fourth quarter compared to the third quarter, but no assurance can be given.

General and Administrative Expenses – For the three months ended September 30, 2011, the Company's general and administrative expenses decreased slightly by \$38,652, or 6%, to \$630,075 from \$668,727 during the same period in 2010. The decrease in expense primarily resulted from lower overall expenses for this category including bad debts of approximately \$25,000. General and administrative expense as a percentage of total revenue was 10% and 7% for the three months ended September 30, 2011 and 2010, respectively. This increase in the percentage of total revenue from 7% to 10% is partially the result of fixed expenses compared to a lower revenue base.

Selling Expenses – Selling expenses for the three months ended September 30, 2011 decreased to \$636,651 from \$699,421 for the same period in 2010, or 9%. The decrease resulted from lower salaries and commissions of approximately \$38,000 and lower travel and entertainment costs of approximately \$15,000. The remaining reduction in sales expenses were from a variety of smaller amounts from various other accounts.

Operating Income – The Company had an operating loss for the three months ended September 30, 2011 of \$611,339 compared to operating income of \$1,458,439 for the same period in 2010, a decrease of \$2,069,778, or 142%. The decrease in operating income was primarily the result of decreased sales and increased cost of goods sold as a percentage of revenues. As stated in the Cost of Goods Sold section above, because of the late start on several large projects, revenues for produced products were significantly down for the period as discussed above while fixed costs remained at the same levels when compared to the same period in 2010. It is anticipated that sales of these products will improve during the fourth quarter, but no assurance can be given.

Interest Expense – Interest expense was \$36,962 for the three months ended September 30, 2011 compared to \$38,104 for the same period in 2010. The decrease of \$1,142, or 3%, was due primarily to payment of notes payable during the period.

Income Tax Expense – The Company had income tax benefit of \$161,000 for the three months ended September 30, 2011 compared to a tax expense of \$523,000 for the same period in 2010.

Net Income – The Company had a net loss of \$469,888 for the three months ended September 30, 2011, compared to net income of \$901,487 for the same period in 2010.



Nine months ended September 30, 2011 compared to the nine months ended September 30, 2010

Revenue By Type

|                                       | 2011         | 2010         | Change        | % of Change |
|---------------------------------------|--------------|--------------|---------------|-------------|
| Product Sales:                        |              |              |               |             |
| Soundwall Sales                       | \$1,664,768  | \$7,931,785  | \$(6,267,017) | (79)%       |
| Architectural Panel Sales             | 2,699,115    | 651,406      | 2,047,709     | 314%        |
| Slenderwall Sales                     | 1,647,693    | 442,042      | 1,205,651     | 273%        |
| Miscellaneous Wall Sales              | 870,673      | —            | 870,673       | —%          |
| Total Wall Sales                      | 6,882,249    | 9,025,233    | (2,142,984)   | (24)%       |
| Barrier Sales                         | 2,074,872    | 3,622,704    | (1,547,832)   | (43)%       |
| Beach Prisms                          | 18,489       | 12,408       | 6,081         | 49%         |
| Easi-Set and Easi-Span Building Sales | 2,487,887    | 2,392,348    | 95,539        | 4%          |
| Utility and Farm Product Sales        | 2,518,903    | 1,869,739    | 649,164       | 35%         |
| Miscellaneous Product Sales           | 1,980,594    | 1,848,979    | 131,615       | 7%          |
| Total Product Sales                   | 15,962,994   | 18,771,411   | (2,808,417)   | (15)%       |
| Royalty Income                        | 980,648      | 1,317,496    | (336,848)     | (26)%       |
| Barrier Rentals                       | 447,092      | 760,140      | (313,048)     | (41)%       |
| Shipping and Installation Revenue     | 3,504,116    | 2,190,497    | 1,313,619     | 60%         |
| Total Service Revenue                 | 4,931,856    | 4,268,133    | 663,723       | 16%         |
| Total Revenue                         | \$20,894,850 | \$23,039,544 | \$(2,144,694) | (9)%        |

Wall Sales – Wall sales are generally large contracts issued by general contractors for production and delivery of a specific wall panel for a specific construction project. Changes in the mix of wall sales depend on what contracts are in production during the period. Overall wall sales decreased significantly during nine months ended September 30, 2011 due to the winding down of the production of a large soundwall job in Maryland. During 2011, the Company acquired several new wall contracts for its architectural and Slenderwall™ precast walls. The architectural contract consisted of both private and government projects in the Northern Virginia area. The largest of the largest of these contracts started in late August 2011 and was in full production in September. The largest of the Slenderwall™ contracts was originally to start in late August 2011; however, due to architectural changes made just prior to production caused a delay until late September. Miscellaneous wall sales increase during the period as compared to the same period in 2010. Miscellaneous wall sales for the period consisted mainly of retaining wall panels, a railway station located in Maryland and special panels for several smaller wall contracts.

Barrier Sales – Barrier sales decreased by 43% for the nine months ended September 30, 2011 compared to the same period in 2010. The decrease in sales relates primarily to the slowdown in federal and state government contracts for road projects. While the Company has received two new large orders for barrier, which will be delivered this year as well as in 2012, the Company anticipates that sales of barrier will moderate during the remainder of the year as it is anticipated that federal and state government contracts for road projects will increase from current levels only slightly, if at all, during the remainder of the year.

Easi-Set® and Easi-Span® Building Sales – Building sales increased slightly during the nine months ended September 30, 2011 compared to the same period in 2010. The increase in building sales relates to a slight up-tick seen in the number of jobs being quoted by the Company in the building market. The Company has received a large order for a number of buildings which will be produced and shipped in 2012. Management believes building sales will

remain at or near last years levels for the remainder of 2011.

Utility and Farm Product Sales – Utility and farm product sales increased by 35% for the nine months ended September 30, 2011 compared to the same period 2010. The increase in utility products relates to the production and sale of utility manholes

15

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for two state contracts in Northern Virginia. The Company is aggressively seeking sales of utility products through its marketing and sales staff to maintain and improve sales over the remainder of 2011.

**Miscellaneous Product Sales** – Miscellaneous products are products produced and sold that do not meet the criteria defined for other revenue categories. The slight increase in sales relates to an increased sales effort in miscellaneous products as well as the availability of miscellaneous contracts bidding. Sales for the period include the manufacture of panels for an underground storage facility and special panels for a university science project. The continued increase in miscellaneous product sales depends in part on the continued availability of these type of jobs and improvement in the construction industry.

**Royalty Income** – Royalty revenue decreased by 26% during the nine months ended September 30, 2011, compared to the same period in 2010, as a result of the continued weakness in federal and state government spending. The Company has increased its advertising expense and is actively working with licensees to help promote their products to increase royalty revenues.

**Barrier Rentals** – Barrier rentals decreased for the nine months ended September 30, 2011 compared to the same period in 2010, primarily due to a large short-term rental contract made in the same period of 2010. As previously indicated, it is anticipated that federal and state government contracts for road projects will increase from current levels only slightly, if at all, during the remainder of 2011.

**Shipping and Installation** – Shipping and installation revenue increased by \$1,313,619 for the nine months ended September 30, 2011 compared to the same period in 2010 due in part to the shipping of soundwall panels which were manufactured in 2010; such panels were not be completely shipped until the end of August 2011. In addition, the Company is currently producing several architectural and Slenderwall™ contracts which require installation as opposed to soundwall panels which normally do not require installation by the Company. Shipping and installation revenue is expected to remain at or near 2010 levels for the remainder of the year.

**Cost of Goods Sold** – Total cost of goods sold for the nine months ended September 30, 2011 was \$16,893,184, a increase of \$792,868, or 5%, from \$16,100,316 for the same period in 2010. Total cost of goods sold, as a percentage of total revenue, not including royalties, was 85% for the nine months ended September 30, 2011 up from 74% for the same period in 2010. The increase in cost of goods sold as a percentage of total revenue, excluding royalties, was attributable, in part, to increases in steel and fuel prices and a product mix that contained several less profitable contracts due to intense competitive bidding in the geographically areas serviced by the Company. In addition, because of the late start on several large projects, revenues for product sales were significantly down for the period as discussed above while fixed costs remained at the same levels when compared to the same period in 2010. It is anticipated that product sales will improve during the fourth quarter compared to the third quarter, but no assurance can be given.

**General and Administrative Expenses** – For the nine months ended September 30, 2011, the Company's general and administrative expenses increased by \$229,273, or 12%, to \$2,121,758 from \$1,892,485 during the same period in 2010. The increase in expense primarily resulted from an increase in use tax charged on installation of wall panels in the approximate amount of \$210,000 and an increase in salaries and benefits of approximately \$92,000 offset by reductions in bad debts expense of approximately \$25,000 and decreases in various other accounts. As noted in the revenue analysis discussed above, the increase in installation revenue resulted from a significant increase in architectural and Slenderwall™ panel sales for the period. General and administrative expense as a percentage of total revenue was 10% and 8% for the nine months ended September 30, 2011 and 2010, respectively. This increase in the percentage of total revenue from 8% to 10% is partially the result of fixed expenses compared to a lower revenue base.

Selling Expenses – Selling expenses for the nine months ended September 30, 2011 decreased to \$1,831,239 from \$1,880,921 for the same period in 2010, or 3%. The decrease resulted from lower salaries and commissions of approximately \$43,000 and lower travel and entertainment costs of approximately \$18,000. The decrease in these expenses were partially offset by increases in several smaller amounts.

Operating Income – The Company had operating income for the nine months ended September 30, 2011 of \$48,669 compared to operating income of \$3,165,822 for the same period in 2010, a decrease of \$3,117,153, or 99%. The decrease in operating income was primarily the result of a decrease in sales, increased cost of goods sold and increased general and administrative expenses.

Interest Expense – Interest expense was \$109,284 for the nine months ended September 30, 2011 compared to \$126,603 for the

same period in 2010. The decrease of \$17,319, or 14%, was due primarily to payment of notes payable over the past year.

Income Tax Expense – The Company had income tax expense of \$87,000 for the nine months ended September 30, 2011 compared to \$1,151,000 for the same period in 2010.

Net Income – The Company had a net loss of \$27,452 for the nine months ended September 30, 2011, compared to net income of \$1,912,940 for the same period in 2010.

#### Liquidity and Capital Resources

The Company has financed its capital expenditures and its operating requirements for the first nine months of 2011 primarily from cash balances and a note payable to a bank in the amount of \$575,000. The note was in respect of the proceeds of a bank loan obtained by the Company in April 2011 to finance improvements to its existing commercial building site. The Company had \$3,490,251 of debt obligations at September 30, 2011, of which \$434,358 was scheduled to mature within twelve months. During the nine months ended September 30, 2011, the Company made repayments of outstanding debt in the amount \$310,519.

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 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 2011.

At September 30, 2011, the Company had cash totaling \$2,175,217 compared to cash totaling \$2,573,168 on December 31, 2010. The decrease in cash is primarily the result of lower net income during the period and the payment of accounts payable and accrued expenses. During the nine months ended September 30, 2011, operating activities absorbed \$449,214 of cash, investing activities absorbed \$318,336, and financing activities provided \$369,599 .

Capital spending totaled \$339,950 for the nine months ended September 30, 2011, as compared to \$1,012,054 for the same period in 2010. The 2011 expenditures were primarily for the upgrade and replacement of property and equipment used in the production process. The Company plans to make minimum purchases of property and equipment for the remainder of the year, based solely on production needs only.

As a result of the Company's existing variable rate debt burden, the Company is sensitive to changes in the prevailing interest rates. Increases in such rates may materially and adversely affect the Company's ability to finance its operations either by increasing the Company's cost to service its current debt, or by creating a more burdensome refinancing environment. Each 1% increase in interest rates affecting the Company's outstanding debt will reduce income by approximately \$35,000 annually.

The Company's cash flow from operations is affected by production schedules set by contractors, which generally provide for payment 35 to 75 days after the products are produced. This payment schedule may result in liquidity problems for the Company because it must bear a portion of the cost of production before it receives payment from its customers. The Company's average days sales outstanding, excluding the effect of unbilled revenue, increased from 67 days for the year ended December 31, 2010 to 91 days for the nine months ended September 30, 2011. The increase in days sales outstanding is attributable to several large contracts requiring monies be retained until final inspection and payment schedules which sometimes requires payment to be made to the general contractor by the project owner prior to payment to the Company. In addition, the current economic conditions have lengthened the

average time to pay. Although no assurances can be given, the Company believes that anticipated cash flow from operations and the anticipated lines of credits will be sufficient to finance the Company's operations for at least the next twelve months.

The Company's inventory was \$2,252,383 at September 30, 2011 and at December 31, 2010 was \$1,844,667 or an increase of \$407,716. Inventory turnover was 8.4 for the nine months ended September 30, 2011 and 7.3 for the nine months ended December 31, 2010, annualized.

#### 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, 2010. The preparation of financial statements in conformity with accounting principles generally accepted within the United States requires management

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

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

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

#### Seasonality

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

#### Inflation

Raw material costs for the Company, steel, cement, aggregates and other direct materials used in production remained relatively stable during 2010; however, the Company has experienced some increases in steel and fuel costs during the first nine months of 2011.

#### Sales Backlog

As of November 7, 2011, the Company's sales backlog was approximately \$9.7 million, as compared to approximately \$12.0 million at the same date in 2010. 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

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

18

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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, 2011.

(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, 2011 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. Removed and Reserved

ITEM 5. Other Information

None

ITEM 6. Exhibits

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

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.\*

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

19

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SIGNATURES

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

SMITH-MIDLAND CORPORATION  
(Registrant)

Date: November 14, 2011

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

Date: November 14, 2011

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 nine months ended September 30, 2011

| 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.     |
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| 101.LAB    | XBRL Taxonomy Extension Label Linkbase Document.*                                                                                   |
| 101.PRE    | XBRL Taxonomy Extension Presentation Linkbase Document.*                                                                            |

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