

SMITH MIDLAND CORP  
Form 10-Q/A  
January 08, 2016

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

FORM 10-Q/A

(Amendment No. 1)

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

For the quarterly period ended June 30, 2015

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  
incorporation or organization)

54-1727060

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

5119 Catlett Road, P.O. Box 300

Midland, VA 22728

(Address, zip code of principal executive offices)

(540) 439-3266

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

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

Common Stock, \$.01 par value, outstanding as of August 5, 2015 : 4,852,628 shares, net of treasury shares

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## EXPLANATORY NOTE

The Company has prepared this Amendment No. 1 (“Amendment”) on Form 10-Q/A to amend its Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 (the “Original Form 10-Q”), which was originally filed on August 14, 2015. This Amendment is being filed solely to correct an inadvertent misstatement of the periodic report referenced in the first paragraph of the certifications on Exhibits 31.1 and 31.2 and the certifying period contained in the certifications on Exhibit 32. These revised certifications are currently dated, refer to this Form 10-Q/A and the correct certifying period and are included as exhibits to this Amendment.

Except as described above, the Company has not modified or updated disclosures made in the Original Form 10-Q in this Amendment. Accordingly, this Amendment does not reflect events occurring after the filing of the Original Form 10-Q or modify or update any disclosures affected by subsequent events.

## 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,<br>2015 | December 31,<br>2014 |
|--|------------------|----------------------|
| Current assets   |                  |                      |
| Cash and cash equivalents  | \$1,941,740      | \$3,572,405          |
| Investment securities, available-for-sale, at fair value                         | 1,011,853        | 1,013,417            |
| Accounts receivable, net   |                  |                      |
| Trade - billed (less allowance for doubtful accounts of \$295,246 and \$267,985) | 6,394,261        | 4,092,924            |
| Trade - unbilled   | 95,896           | 240,635              |
| Inventories  |                  |                      |
| Raw materials  | 738,119          | 353,089              |
| Finished goods   | 1,144,443        | 1,373,455            |
| Prepaid expenses and other assets  | 212,797          | 126,047              |
| Refundable income taxes  | 754,753          | 722,948              |
| Deferred taxes   | 576,000          | 441,000              |
| Total current assets   | 12,869,862       | 11,935,920           |
| Property and equipment, net  | 4,283,280        | 4,106,611            |
| Other assets   | 261,040          | 255,385              |
| Total assets   | \$17,414,182     | \$16,297,916         |

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,<br>2015 | December 31,<br>2014 |
|--|------------------|----------------------|
| Current liabilities  |                  |                      |
| Accounts payable - trade   | \$1,833,230      | \$1,152,506          |
| Accrued expenses and other liabilities   | 732,854          | 539,549              |
| Accrued compensation   | 589,555          | 442,651              |
| Current maturities of notes payable  | 361,514          | 363,821              |
| Customer deposits  | 1,012,509        | 432,274              |
| <br>Total current liabilities  | <br>4,529,662    | <br>2,930,801        |
| Notes payable - less current maturities  | 2,048,692        | 2,230,364            |
| Deferred tax liability   | 640,000          | 663,000              |
| <br>Total liabilities  | <br>7,218,354    | <br>5,824,165        |
| <br>Commitments and contingencies  | <br>—            | <br>—                |
| Stockholders' equity   |                  |                      |
| Preferred stock, \$.01 par value; authorized 1,000,000 shares, none outstanding                            | —                | —                    |
| Common stock, \$.01 par value; authorized 8,000,000 shares; 4,893,548 and 4,881,548 issued and outstanding | 48,935           | 48,815               |
| Additional paid-in capital   | 5,062,418        | 5,041,438            |
| Accumulated other comprehensive loss, net  | (26,139          | ) (6,629 )           |
| Retained earnings  | 5,212,914        | 5,492,427            |
|  | 10,298,128       | 10,576,051           |
| Treasury stock, at cost, 40,920 shares   | (102,300         | ) (102,300 )         |
| <br>Total stockholders' equity   | <br>10,195,828   | <br>10,473,751       |
| <br>Total liabilities and stockholders' equity   | <br>\$17,414,182 | <br>\$16,297,916     |

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

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

|   | Three Months Ended<br>June 30, |             |
|---|--------------------------------|-------------|
|   | 2015                           | 2014        |
| Revenue   |                                |             |
| Products sales and leasing                            | \$5,600,996                    | \$4,666,367 |
| Shipping and installation revenue                     | 813,894                        | 1,393,336   |
| Royalties   | 482,675                        | 368,613     |
| Total revenue   | 6,897,565                      | 6,428,316   |
| Cost of goods sold                                    | 5,229,992                      | 5,022,910   |
| Gross profit  | 1,667,573                      | 1,405,406   |
| Operating expenses                                    |                                |             |
| General and administrative expenses                   | 746,357                        | 806,931     |
| Selling expenses                                      | 514,760                        | 546,889     |
| Total operating expenses                              | 1,261,117                      | 1,353,820   |
| Gain on sale of assets                                | 6,373                          | 22,102      |
| Other income  | 3,949                          | 22,596      |
| Operating income                                      | 416,778                        | 96,284      |
| Interest income (expense)                             |                                |             |
| Interest expense                                      | (23,737)                       | (29,847)    |
| Interest income                                       | 816                            | 1,544       |
| Total other expense                                   | (22,921)                       | (28,303)    |
| Income before income tax expense                      | 393,857                        | 67,981      |
| Income tax expense                                    | 149,000                        | 38,000      |
| Net income  | \$244,857                      | \$29,981    |
| Basic earnings per share                              | \$0.05                         | \$0.01      |
| Diluted earnings per share                            | \$0.05                         | \$0.01      |
| Weighted average number of common shares outstanding: |                                |             |
| Basic   | 4,892,686                      | 4,881,548   |
| Diluted   | 4,938,234                      | 4,928,652   |

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





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

|  | Three Months Ended<br>June 30, |          |
|--|--------------------------------|----------|
|  | 2015                           | 2014     |
| Net income                                   | \$244,857                      | \$29,981 |
| Other comprehensive gain (loss), net of tax: |                                |          |
| Net unrealized holding gain (loss) (1)       | (10,438                        | ) 11,631 |
| Comprehensive income                         | \$234,419                      | \$41,612 |

(1) Unrealized gains (losses) on available for sale securities are shown net of income tax benefit of \$6,000 for June 30, 2015 and an income tax expense of \$8,000 for June 30, 2014.

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<br>June 30, |             |
|---|------------------------------|-------------|
|   | 2015                         | 2014        |
| Revenue   |                              |             |
| Products sales and leasing                            | \$8,869,733                  | \$8,736,705 |
| Shipping and installation revenue                     | 1,413,147                    | 2,508,240   |
| Royalties   | 814,810                      | 820,779     |
| Total revenue   | 11,097,690                   | 12,065,724  |
| Cost of goods sold                                    | 8,900,125                    | 9,930,312   |
| Gross profit  | 2,197,565                    | 2,135,412   |
| Operating expenses                                    |                              |             |
| General and administrative expenses                   | 1,621,064                    | 1,576,002   |
| Selling expenses                                      | 1,018,774                    | 1,086,369   |
| Total operating expenses                              | 2,639,838                    | 2,662,371   |
| Gain on sale of assets                                | 11,627                       | 34,079      |
| Other income (expense)                                | 14,556                       | 52,673      |
| Operating loss  | (416,090)                    | (440,207)   |
| Interest income (expense)                             |                              |             |
| Interest expense                                      | (50,730)                     | (58,604)    |
| Interest income                                       | 1,308                        | 7,256       |
| Total other expense                                   | (49,422)                     | (51,348)    |
| Loss before income tax benefit                        | (465,512)                    | (491,555)   |
| Income tax benefit                                    | (186,000)                    | (193,000)   |
| Net loss  | \$(279,512)                  | \$(298,555) |
| Basic loss per share                                  | \$(0.06)                     | \$(0.06)    |
| Diluted loss per share                                | \$(0.06)                     | \$(0.06)    |
| Weighted average number of common shares outstanding: |                              |             |
| Basic   | 4,892,686                    | 4,881,548   |
| Diluted   | 4,892,686                    | 4,881,548   |

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



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

|  | Six Months Ended |                |
|--|------------------|----------------|
|  | June 30,         |                |
|  | 2015             | 2014           |
| Net loss                                     | \$(279,512       | ) \$(298,555 ) |
| Other comprehensive gain (loss), net of tax: |                  |                |
| Net unrealized holding gain (loss) (1)       | (16,206          | ) 28,513       |
| Comprehensive loss                           | \$(295,718       | ) \$(270,042 ) |

(1) Unrealized gains (losses) on available for sale securities are shown net of income tax benefit of \$10,000 for June 30, 2015 and an income tax expense of \$19,000 for June 30, 2014.

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)

|  | Six Months Ended |                |
|--|------------------|----------------|
|  | June 30,         |                |
|  | 2015             | 2014           |
| Reconciliation of net loss to cash provided (absorbed) by operating activities             |                  |                |
| Net loss   | \$(279,512       | ) \$(298,555 ) |
| Adjustments to reconcile net loss to net cash provided (absorbed) by operating activities: |                  |                |
| Depreciation and amortization  | 333,931          | 312,066        |
| Gain on disposal of fixed assets   | (11,627          | ) (34,079 )    |
| Deferred taxes   | (165,505         | ) (47,000 )    |
| (Increase) decrease in:  |                  |                |
| Accounts receivable - billed   | (2,301,337       | ) 748,418      |
| Accounts receivable - unbilled   | 144,739          | (164,166 )     |
| Inventories  | (156,018         | ) 410,994      |
| Prepaid expenses and other assets  | (92,405          | ) (276,288 )   |
| Prepaid income taxes   | (31,805          | ) 89,303       |
| Increase (decrease) in:  |                  |                |
| Accounts payable - trade   | 680,725          | (116,661 )     |
| Accrued expenses and other   | 193,304          | (54,650 )      |
| Accrued compensation   | 146,904          | —              |
| Accrued income taxes payable   | —                | (302,263 )     |
| Customer deposits  | 580,235          | (203,881 )     |
| Net cash provided (absorbed) by operating activities                                       | (958,371         | ) 63,238       |
| Cash flows from investing activities:  |                  |                |
| Purchases of investment securities available-for-sale                                      | (17,943          | ) (36,217 )    |
| Purchases of property and equipment  | (506,893         | ) (217,599 )   |
| Proceeds from sale of fixed assets   | 15,421           | 35,619         |
| Net cash absorbed by investing activities  | (509,415         | ) (218,197 )   |
| Cash flows from financing activities:  |                  |                |
| Proceeds from long-term borrowings   | —                | 55,160         |
| Repayments of long-term borrowings   | (183,979         | ) (187,700 )   |
| Proceeds from options exercised  | 21,100           | —              |
| Net cash absorbed by financing activities  | (162,879         | ) (132,540 )   |
| Net decrease in cash and cash equivalents  | (1,630,665       | ) (287,499 )   |
| Cash and cash equivalents  |                  |                |
| Beginning of period  | 3,572,405        | 3,136,063      |
| End of period  | \$1,941,740      | \$2,848,564    |

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

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

NOTE 1. – INTERIM FINANCIAL REPORTING

Basis of Presentation

The accompanying condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, we have condensed or omitted certain information and footnote disclosures that are included in our annual financial statements. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2014. The December 31, 2014 balance sheet was derived from audited financial statements included in the Form 10-K.

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

Reclassifications

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

Use of Estimates

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

Revenue Recognition

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

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

Royalties are recognized as a percent of sales of the licensed product sold by the licensee on a monthly basis. 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.

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.

#### Cash and Cash Equivalents

Cash and cash equivalents includes money market accounts.

#### Investments

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

#### NOTE 2. – NET INCOME (LOSS) PER COMMON SHARE

Basic earnings per common share exclude all dilutive stock options and are computed using the weighted average number of common shares outstanding during the period. The diluted earnings per common share calculation reflect the potential dilutive effect of securities that could share in earnings of an entity. Outstanding options were excluded from the diluted earnings per share calculation because they would have an anti-dilutive effect were 81,166 for the three months ended June 30, 2015 and 254,166 for the three months ended June 30, 2014.

|   | Three Months Ended June 30, |           |
|---|-----------------------------|-----------|
|   | 2015                        | 2014      |
| Basic income per share                    |                             |           |
| Income available to common shareholders   | \$244,857                   | \$29,981  |
| Weighted average shares outstanding       | 4,892,686                   | 4,881,548 |
| Basic income per share                    | \$0.05                      | \$0.01    |
| Diluted income per share                  |                             |           |
| Income available to common shareholders   | \$244,857                   | \$29,981  |
| Weighted average shares outstanding       | 4,892,686                   | 4,881,548 |
| Dilutive effect of stock options          | 45,548                      | 47,104    |
| Total weighted average shares outstanding | 4,938,234                   | 4,928,652 |
| Diluted income per share                  | \$0.05                      | \$0.01    |

|   | Six Months Ended June 30, |              |
|---|---------------------------|--------------|
|   | 2015                      | 2014         |
| Basic loss per share                      |                           |              |
| Loss available to common shareholders     | \$(279,512 )              | \$(298,555 ) |
| Weighted average shares outstanding       | 4,892,686                 | 4,881,548    |
| Basic loss per share                      | \$(0.06 )                 | \$(0.06 )    |
| Diluted loss per share                    |                           |              |
| Loss available to common shareholders     | \$(279,512 )              | \$(298,555 ) |
| Weighted average shares outstanding       | 4,892,686                 | 4,881,548    |
| Dilutive effect of stock options          | —                         | —            |
| Total weighted average shares outstanding | 4,892,686                 | 4,881,548    |
| Diluted loss per share                    | \$(0.06 )                 | \$(0.06 )    |

## NOTE 3. – STOCK OPTIONS

In accordance with ASC 718, the Company had no stock option expense for the three and six months ended June 30, 2015 and June 30, 2014. The Company uses the Black-Scholes option-pricing model to measure the fair value of stock options granted to employees. The Company did not issue any stock options for the three and six months ended June 30, 2015 or for the three and six months ended June 30, 2014.

The following table summarized options outstanding at June 30, 2015

|  | Number of<br>Shares | Weighted<br>Average<br>Exercise Price |
|--|---------------------|---------------------------------------|
| Balance, December 31, 2014                       | 305,099             | \$ 1.97                               |
| Granted  | —                   | —                                     |
| Forfeited  | —                   | —                                     |
| Exercised  | (12,000             | ) 1.76                                |
| Outstanding options at June 30, 2015             | 293,099             | \$ 1.98                               |
| Outstanding exercisable options at June 30, 2015 | 293,099             | \$ 1.98                               |

The intrinsic value of outstanding and exercisable options at June 30, 2015 was approximately \$100,000

## 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, 2015 and has determined that there have been no significant events or transactions that provide additional evidence about conditions of the Company that existed as of the balance sheet date.

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

## Forward-Looking Statements

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

no assurance of profitable operations; in this respect, while the Company reported net income for the three months ended June 30, 2015, it reported a net loss for the year ended December 31, 2014, the six months ended June 30, 2015 and the quarter ended March 31, 2015, while our debt level is decreasing, the ability to satisfy the same cannot be assured,

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

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

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

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

adverse weather, which inhibits the demand for our products,

our compliance with governmental regulations,

the outcome of future litigation, if any,

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

the cyclical nature of the construction industry,

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

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

the other factors and information disclosed and discussed in other sections of this Report, and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

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

## Overview

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

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

The Company recorded a net loss for the six months ended June 30, 2015 in the amount of \$279,512. This result stemmed mainly from a loss incurred by the Company for the three months ended March 31, 2015 in the amount of \$524,369. As a result of our continually growing backlog over the past eight months, management was able to reduce this loss by almost half with net income of \$244,857 for the quarter ended June 30, 2015. July production and sales showed a significant

improvement over the prior months which leads management to believe that the third quarter will discharge the remainder of the first quarter loss and put the Company in a positive position for the year.

The Company's expectation for the fourth and final quarter of 2015 is to produce another positive quarter of earnings as a result of our current backlog, making 2015 a significant turnaround over 2014. It is management's belief that the positive quarterly earnings of the 2015 will continue into 2016.

## Results of Operations

Three and six months ended June 30, 2015 compared to the three and six months ended June 30, 2014

### Revenue By Type

|                                       | Three Months Ended June 30, |                    |                  |             | Six Months Ended June 30, |                     |                    |               |
|---------------------------------------|-----------------------------|--------------------|------------------|-------------|---------------------------|---------------------|--------------------|---------------|
|                                       | 2015                        | 2014               | Change           | % of Change | 2015                      | 2014                | Change             | % of Change   |
| <b>Product Sales:</b>                 |                             |                    |                  |             |                           |                     |                    |               |
| Soundwall Sales                       | \$571,905                   | \$663,156          | \$(91,251)       | (13.8)%     | \$862,948                 | \$920,880           | \$(57,932)         | (6.3)%        |
| Architectural Panel Sales             | 1,047,436                   | 182,408            | 865,028          | 474.2%      | 1,628,741                 | 533,546             | 1,095,195          | 205.3%        |
| Slenderwall Sales                     | 708,293                     | 975,126            | (266,833)        | (27.4)%     | 1,204,165                 | 1,240,627           | (36,462)           | (2.9)%        |
| Miscellaneous Wall Sales              | 206,734                     | 74,714             | 132,020          | 176.7%      | 338,060                   | 271,275             | 66,785             | 24.6%         |
| Total Wall Sales                      | 2,534,368                   | 1,895,404          | 638,964          | 33.7%       | 4,033,914                 | 2,966,328           | 1,067,586          | 36.0%         |
| Barrier Sales                         | 812,111                     | 604,239            | 207,872          | 34.4%       | 1,248,409                 | 1,695,623           | (447,214)          | (26.4)%       |
| Easi-Set and Easi-Span Building Sales | 773,600                     | 1,189,699          | (416,099)        | (35.0)%     | 1,154,958                 | 2,077,602           | (922,644)          | (44.4)%       |
| Utility and Farm Product Sales        | 828,246                     | 412,387            | 415,859          | 100.8%      | 1,205,318                 | 774,574             | 430,744            | 55.6%         |
| Miscellaneous Product Sales           | 468,516                     | 327,691            | 140,825          | 43.0%       | 865,631                   | 772,193             | 93,438             | 12.1%         |
| Total Product Sales                   | 5,416,841                   | 4,429,420          | 987,421          | 22.3%       | 8,508,230                 | 8,286,320           | 221,910            | 2.7%          |
| Royalty Income                        | 482,675                     | 368,613            | 114,062          | 30.9%       | 814,810                   | 820,779             | (5,969)            | (0.7)%        |
| Barrier Rentals                       | 184,155                     | 236,947            | (52,792)         | (22.3)%     | 361,503                   | 450,385             | (88,882)           | (19.7)%       |
| Shipping and Installation Revenue     | 813,894                     | 1,393,336          | (579,442)        | (41.6)%     | 1,413,147                 | 2,508,240           | (1,095,093)        | (43.7)%       |
| Total Service Revenue                 | 1,480,724                   | 1,998,896          | (518,172)        | (25.9)%     | 2,589,460                 | 3,779,404           | (1,189,944)        | (31.5)%       |
| <b>Total Revenue</b>                  | <b>\$6,897,565</b>          | <b>\$6,428,316</b> | <b>\$469,249</b> | <b>7.3%</b> | <b>\$11,097,690</b>       | <b>\$12,065,724</b> | <b>\$(968,034)</b> | <b>(8.0)%</b> |

Wall Panel Sales - Wall sales are generally large contracts issued by general contractors for production and delivery of a specific wall panel for a specific construction project. Changes in the mix of wall sales depend on what contracts are being bid and what projects are in production during the period. Overall wall panel sales increased significantly during the three and six months ended June 30, 2015, compared to the same period in 2014. The following describes the changes by product types:

Soundwall sales decreased slightly during the three and six month period ended June 30, 2015 when compared to the same period in 2014. The decrease in revenue was due to a large soundwall project which was being produced in 2014 that was completed during the fourth quarter of 2014. While production was slightly lower in the first half of 2015 we expect this trend to turn around in the second half of 2015 as three new soundwall projects will begin in the latter half of 2015. Management expects that Soundwall revenue should remain relatively strong during the remainder of the year and into 2016.

Architectural panel sales increased significantly during the three and six month period ended June 30, 2015, compared to the same period in 2014. The increase was due mainly to a large contract that started in first quarter of 2015 and will continue into the fall of 2015. While the construction economy is trending up, the volume of architectural projects continues to be less than that of other wall panel projects and also while not as competitive as last year, are still the most competitive bids.



Slenderwall panel sales showed a slight decline during the three and six month period ended June 30, 2015 when compared to the same periods in 2014. There are two new Slenderwall projects starting during the second half of 2015 which will add significantly to the Slenderwall revenues during the period. Slenderwall sales should remain strong throughout 2015 and well into the next year.

Miscellaneous wall panels had a significant increase for the three and six month period ended June 30, 2015 when compared to the same period in 2014. The Company was awarded two large miscellaneous projects in excess of \$3.0 million, of which one has already begun, with the other beginning in mid-August of 2015. Accordingly, we should see higher revenue for the remainder of the year and into 2016.

Barrier Sales - Barrier sales increased significantly during the three months ended June 30, 2015 compared to the same period in 2014. There was not specific reason why sales were higher in the three months ended June 30, 2015 other than more barrier sales requests were made. Sales for the six months ended June 30, 2015 were 26.4% lower than the same period in 2014 as the Company was producing two large contracts for barrier during 2014. Management is not sure at this time how much barrier will be produced and sold during the remainder of year; however, it has bid on several contracts which, if awarded, should help improve the overall sales for the year.

Easi-Set® and Easi-Span® Building Sales - Building and restroom sales decreased 35.0% for the three months ended June 30, 2015, compared to the same period in 2014 and 44.4% for the six months ended June 30, 2015 compared to the same period in 2014. The decrease in sales resulted primarily from higher demand for buildings in 2014 as compared to the demand in 2015. Management believes that the Company may see a slight increase in building sales over the remainder of 2015 based on its current building backlog, but customer installation demands will control when final installation will be made.

Utility and Farm Product Sales - Utility and farm products sales increased significantly during the three and six month periods ended June 30, 2015, compared to the same period in 2014. The Company received a large project for manholes on a local highway project for which delivery began in the fourth quarter of 2014 and will continue production through most of 2015. Utility products are tied closely with infrastructure spending by federal, state and local governments which seems to be improving.

Miscellaneous Product Sales - Miscellaneous products are products produced and sold that do not meet the criteria defined for other revenue categories. Miscellaneous product sales increased significantly for the three months ended June 30, 2015, compared to the same periods in 2014. These products increased slightly for the six months ended June 30, 2015, compared to the same period in 2014. The Company is producing three related projects for slabs to be used as balconies and other areas for a building project in the amount of \$1.3 million. The project started production in April 2015 so most of the production was in the second quarter of 2015 which showed a bigger increase in that quarter as opposed to year-to-date. Production on the project will last into the fourth quarter of 2015. Management believes that miscellaneous sales will increase slightly over the remainder of the year.

Royalty Income - Royalty revenue increased by 30.9% for the three months ended June 30, 2015 compared to the same period in 2014. Royalty revenue decreased by 0.7% for the six months ended June 30, 2015 compared to the same period in 2014. Barrier royalties were up slightly during the second quarter while they were slightly down for the six month period ended June 30, 2015 when compared to the same periods in 2014. Building royalties were up significantly during the three and six month periods ended June 30, 2015 when compared to the same period in 2014. Management believes that royalties will continue to increase moderately over the remainder of 2015 as a result of the continuing improvement in the construction industry.

Barrier Rentals - Barrier rentals decreased moderately for the three and six month periods ended June 30, 2015 compared to the same periods in 2014. The decrease resulted primarily from lower overall projects being bid during the three and six month periods being reported for 2015 and 2014 on a comparative basis. The Company has bid on two large projects in Washington DC and Philadelphia, PA which will take place in late September of this year. Management believes the Company has an excellent chance to be awarded these projects which will result in a significant increase in sales for 2015.

Shipping and Installation - Shipping revenue results from shipping our products to the customers' final destination and is recognized when the shipping services take place. Installation activities include installation of our products at the customers' construction site. Installation revenue results when attaching architectural wall panels to a building, installing an Easi-Set® building at a customers' site or setting any of our other precast products at a site specific to the requirements of the owner. Shipping and installation revenue decreased by 41.6% for the three months ended June 30, 2015, compared to the same period in 2014, and decreased by 43.7% for the six months ended June 30, 2015, compared to the same period in 2014. The Company is currently in a production phase in which more of our product being produced is being stored at our facilities. We will begin shipping and installing much of the customers stored material in the third and fourth quarter of 2015. Because of this activity in

the second half of 2015, management believes that shipping and installation revenue levels will increase over the remainder of 2015.

**Cost of Goods Sold** – Total cost of goods sold for the three months ended June 30, 2015 increased by \$207,082, or 4%, from the same period in 2014. Total cost of goods sold, as a percentage of total revenue, not including royalties, was 82% for the three months ended June 30, 2015 and 83% for the same period in 2014. The cost of goods sold were higher for the three month period because of the increase in total revenue in the amount of \$469,249, however, because of the increase in volume, the cost of goods sold as a percentage of total revenue, not including royalties, decreased by one percentage point. Effectively, for the first quarters of 2015 and 2014, the Company was operating below its break-even point resulting in substantial losses. During the second quarter of 2015 the Company began to operate above the break-even point which allowed it to show a small profit for the three months ended June 30, 2015. Total cost of goods sold for the six months ended June 30, 2015 decreased by \$1,030,187, or 10%, from the same period in 2014. Total cost of goods sold, as a percentage of total revenue, not including royalties, was 87% for the six months ended June 30, 2015 and 88% for the same period in 2014. The decrease in cost of goods sold was due mainly to reduced sales and a one percentage point decrease in the cost of goods sold, as a percentage of total revenue, not including royalties. While there has been some small price increases in some raw materials, inflation continues to remain relatively low and management believes inflation will continue to remain relatively low for the remainder of the 2015. The Company anticipates that with our current sales backlog, production will remain above the break-even point for the remainder of the year and well into 2016.

**General and Administrative Expenses** – For the three months ended June 30, 2015, the Company's general and administrative expenses decreased \$60,574, or 8%, to \$746,357 from \$806,931 during the same period in 2014. The decrease for the three month comparative periods was primarily due to a reduction in use tax which was due to a reduction in installation revenue, offset in part by an increase in salaries. For the six months ended June 30, 2015, the Company's general and administrative expenses increased \$45,062, or 3% to \$1,621,064 from \$1,576,002 during the same period in 2014. The increase in general and administrative expenses was due an increase in salaries partially offset by a decrease in use tax which was due to a reduction in installation revenue. General and administrative expense as a percentage of total revenue was 11% and 13% for the three months ended June 30, 2015 and 2014, respectively, and 15% and 13% for the six months ended June 30, 2015 and 2014, respectively.

**Selling Expenses** – Selling expenses for the three months ended June 30, 2015 decreased to \$514,760 from \$546,889 for the same period in 2014 or 6%. The decrease was due mainly to decreased advertising expenses during the winter months. Selling expenses for the six months ended June 30, 2015 decreased to \$1,018,774 from \$1,086,369 for the same period in 2014 or 6%. The reduction in selling expenses was due to a planned decrease in advertising expense, which expense should increase slightly over the remainder of the year.

**Operating Income (Loss)** – The Company had operating income for the three months ended June 30, 2015 of \$416,778 compared to operating income of \$96,284 for the same period in 2014. The increase in operating income for the three months ended June 30, 2015 compared to the same period in 2014 was primarily the result of increased sales and a decrease in general and administrative expenses and selling expenses. The Company had an operating loss for the six months ended June 30, 2015 of \$416,090 compared to an operating loss of \$440,207 for the same period in 2014.

**Interest Expense** – Interest expense was slightly lower for the three and six months ended June 30, 2015, compared to the same period in 2014. The decrease for the three and six months ended June 30, 2015 was due primarily to the payment of notes payable during the comparative periods.

**Income Tax Expense (Benefit)** – The Company had tax expense of \$149,000, with an effective rate of 38%, for the three months ended June 30, 2015 compared to tax expense of \$38,000 with an effective rate of 56% for the same period in 2014. The Company had a tax benefit of \$186,000, with an effective rate of 40%, for the six months ended June 30, 2015 compared to a tax benefit of \$193,000 with an effective rate of 39% for the same period in 2014. The changes in the tax expense (benefit) for the periods correlated to the change in pre-tax income (loss).

**Net Income (Loss)** – The Company had net income of \$244,857 for the three months ended June 30, 2015, compared to net income of \$29,981 for the same period in 2014. The Company had a net loss of 279,512 for the six months ended June 30, 2015, compared to a net loss of \$298,555 for the same period in 2014.



### Liquidity and Capital Resources

The Company has financed its capital expenditures and its operating requirements for the first six months of 2015 primarily from cash balances. The Company had \$2,410,206 of debt obligations at June 30, 2015, of which \$361,514 was scheduled to mature within twelve months. During the six months ended June 30, 2015, the Company made repayments of outstanding debt in the amount \$183,979.

The Company has a note payable to Summit Community Bank (the "Bank"), with a balance of \$2,410,206 as of June 30, 2015. The note has a term of approximately eight years and a fixed interest rate of 3.99% annually with monthly payments of \$25,642 and is secured by principally all of the assets of the Company. Under the terms of the note, the Bank will permit chattel mortgages on purchased equipment not to exceed \$250,000 for any one individual loan so long as the Company is not in default. Also, the Company is limited to \$1,000,000 for annual capital expenditures. At June 30, 2015, the Company was in compliance with all covenants pursuant to the loan agreement as amended.

The Company also has a \$2,000,000 line of credit, of which none was outstanding at June 30, 2015. The line is evidenced by a commercial revolving promissory note with the Bank, which carries a variable interest rate of prime and matures on September 12, 2015. In addition, the Company has a commitment from the Bank in the amount of \$1,000,000 for an equipment line of credit.

At June 30, 2015, the Company had cash totaling \$1,941,740 and \$1,011,853 of investment securities available for sale compared to cash totaling \$3,572,405 and \$1,013,417 of investment securities available for sale at December 31, 2014. Investment securities available for sale at June 30, 2015 consist of 89,229 shares of USVAX (a Virginia Bond Fund). The decrease in cash is primarily the result of a significantly higher level of accounts receivable at June 30, 2015 than at December 31, 2014, the purchase of capital items and the net loss for the period.

Capital spending totaled \$506,893 for the three months ended June 30, 2015, as compared to \$217,599 for the same period in 2014. The 2015 expenditures were for land improvements, new construction vehicles and miscellaneous manufacturing equipment. The Company plans to make additional capital purchases of approximately \$300,000 over the remainder of the year.

The Company's mortgage loan is financed at a fixed rate of 3.99% per annum. This leaves the Company almost impervious to fluctuating interest rates. Increases in such rates will only slightly affect the interest paid by the Company annually. Each 1% increase in the interest rates of the Company's outstanding debt will reduce income by approximately \$7,000 annually.

The Company's cash flow from operations is affected by production schedules set by contractors, which generally provide for payment 35 to 90 days after the products are produced. This payment schedule may result in liquidity problems for the Company because it must bear a portion of the cost of production before it receives payment from its customers. The Company's average days sales outstanding, excluding the effect of unbilled revenue, increased from 88 days for the year ended December 31, 2014 to 105 days for the six months ended June 30, 2015. The increase in days sales outstanding is due to the increased retainage being held by customers as well as slower than normal collection during the winter months. Although no assurances can be given, the Company believes that anticipated cash flow from operations and the availability under the lines of credits will be sufficient to finance the Company's operations for at least the next twelve months.

The Company's inventory was \$1,882,562 at June 30, 2015 and at December 31, 2014 was \$1,726,544, or an increase of \$156,018. Inventory turnover was 9.0 for the six months ended June 30, 2015, compared to 5.8 for the same period in 2014.

### 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, 2014. The preparation of consolidated financial statements in conformity with accounting principles generally accepted within the United States of America requires management to make estimates and assumptions in certain circumstances that affect

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

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

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

#### Seasonality

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

#### Inflation

Raw material costs for the Company, steel, cement, aggregates and other direct materials used in production increased slightly in 2014 and the first six months of 2015 and the Company anticipates prices will increase only slightly over the remainder of 2015.

#### Sales Backlog

As of June 30, 2015, the Company's sales backlog was approximately \$17.8 million, as compared to approximately \$9.6 million at the same time in 2014. 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

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The Company carried out our evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, the chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures were effective at June 30, 2015.

(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 June 30, 2015 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

Not required

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

None

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Mine Safety Disclosures

Not applicable

ITEM 5. Other Information

None

ITEM 6. Exhibits

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

\* Filed herewith.

\*\* Included in original filing of the Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 and incorporated herein by reference.

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: January 8, 2016

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

Date: January 8, 2016

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/A  
For The Three Months Ended June 30, 2015

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