SMITH MIDLAND CORP
Form 10-Q
August 14, 2008

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

FORM 10-Q

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

For the quarterly period ended June 30, 2008

or

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

For the transition period from __________ to __________

Commission File Number 1-13752

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

Delaware	**54-1727060**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5119 Catlett Road, P.O. Box 300
Midland, VA 22728

(Address, zip code of principal executive offices)
(540) 439-3266

(Registrant's telephone number, including area code)

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

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ

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

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

Common Stock, $.01 par value, outstanding as of August 6, 2008: 4,629,962 shares

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SMITH-MIDLAND CORPORATION

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PART I — CONDENSED CONSOLIDATED FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements (unaudited)

SMITH-MIDLAND CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

		June 30, 2008		December 31, 2007
Assets:				
Current Assets:				
Cash and cash equivalents	$	**1,654,122**	$	282,440
Accounts receivable				
Trade- billed (less allowance for doubtful accounts of $272,704, and $243,318, respectively)		**4,935,482**		5,900,684
Trade - unbilled		**503,661**		316,059
Inventories				
Raw Materials		**965,514**		825,328
Finished Goods		**2,078,619**		1,968,978
Prepaid expenses and other assets		**248,138**		152,289
Refundable income taxes		**-**		322,835
Deferred tax assets		**372,000**		367,000
Total current assets		**10,757,536**		10,135,613
Property and equipment, net		**4,055,383**		4,102,181
Other assets		**165,344**		200,090
Total assets	$	**14,978,263**	$	14,437,884
Liabilities and Shareholders' Equity:				
Current Liabilities:				
Accounts payable - trade	$	**1,845,126**	$	1,776,594
Accrued income taxes payable		**65,174**		656,370
Accrued expenses and other liabilities		**513,071**		587,399
Current maturities of notes payable		**1,456,934**		605,376
Customer deposits		**762,395**		643,509
Total current liabilities		**4,642,700**		4,269,248
Notes payable - less current maturities		**3,844,866**		3,991,036
Deferred taxes		**175,000**		175,000
Total liabilities		**8,662,566**		8,435,284
Commitments and Contingencies				

Shareholders’ Equity:		
Preferred stock, par value $.01 per share; authorized 1,000,000 shares; none issued and outstanding		
Common stock, par value $.01 per share; authorized 8,000,000 shares; issued and outstanding 4,670,882	**46,709**	46,709
Additional paid-in capital	**4,621,020**	4,558,947
Retained earnings	**1,750,268**	1,499,244
Treasury Stock, at cost, 40,920 shares	**(102,300)**	(102,300)
Total shareholders’ equity	**6,315,697**	6,002,600
Total liabilities and shareholders’ equity	$ **14,978,263**	$ 14,437,884

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

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

	Three Months Ended June 30,	
	2008	2007
Revenue		
Product sales and leasing	**$ 5,388,218**	$ 6,117,834
Shipping and installation revenue	**1,066,227**	1,392,149
Royalties	**425,933**	388,962
Total revenue	**6,880,378**	7,898,945
Cost of goods sold	**5,114,634**	6,179,638
Gross profit	**1,765,744**	1,719,307
Operating expenses		
General and administrative expenses	**745,048**	665,995
Selling expenses	**617,636**	404,034
Total operating expenses	**1,362,684**	1,070,029
Operating income	**403,060**	649,278
Other income (expense):		
Interest expense	**(84,477)**	(101,784)
Interest income	**17,608**	5,782
Gain (Loss) on sale of fixed assets	**(8,574)**	(12,026)
Other, net	**(80)**	(1,555)
Total other income (expense)	**(75,523)**	(109,583)
Income before income tax expense	**327,537**	539,695
Income tax expense	**128,000**	176,000
Net income	**$ 199,537**	$ 363,695
Net income per common share (Note 2):		
Basic	**$ .04**	$ 0.08
Diluted	**$ .04**	$ 0.08
Weighted average number of common shares outstanding:		
Basic	**4,670,882**	4,638,219
Diluted	**4,789,818**	4,777,491

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

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SMITH-MIDLAND CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(Continued)

	Six Months Ended June 30,	
	2008	2007
Revenue		
Product sales and leasing	**$ 11,322,630**	$ 12,987,277
Shipping and installation revenue	**1,750,727**	2,705,913
Royalties	**699,662**	693,439
Total revenue	**13,773,019**	16,386,629
Cost of goods sold	**10,380,495**	12,485,386
Gross profit	**3,392,524**	3,901,243
Operating expenses		
General and administrative expenses	**1,526,217**	1,641,311
Selling expenses	**1,263,608**	862,792
Total operating expenses	**2,789,825**	2,504,103
Operating income	**602,699**	1,397,140
Other income (expense):		
Interest expense	**(183,857)**	(212,083
Interest income	**19,998**	8,882
Gain (Loss) on sale of fixed assets	**(6,559)**	(13,027
Other, net	**(257)**	(1,989
Total other income (expense)	**(170,675)**	(218,217
Income before income tax expense	**432,024**	1,178,923
Income tax expense	**181,000**	422,000
Net income	**$ 251,024**	$ 756,923
Net income per common share (Note 2):		
Basic	**$ .05**	$ 0.16
Diluted	**$ .05**	$ 0.16
Weighted average number of common shares outstanding:		
Basic	**4,670,882**	4,636,014
Diluted	**4,790,008**	4,777,862

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	
	2008	2007
Reconciliation of net income to cash provided by operating activities		
Net income	$ **251,024**	$ 756,923
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**333,011**	295,112
Stock option compensation expense	**62,073**	51,927
Gain on sale of fixed assets	**6,559**	13,027
Deferred taxes	**(4,000)**	(61,000)
(Increase) decrease in:		
Accounts receivable - billed	**965,202**	(672,148)
Accounts receivable - unbilled	**(187,602)**	360,454
Inventories	**(249,827)**	544,820
Prepaid taxes and other assets	**294,475**	338,256
Increase (decrease) in:		
Accounts payable - trade	**68,535**	(550,758)
Accrued expenses and other	**(74,328)**	(809,354)
Accrued income taxes payable	**(617,566)**	80,086
Customer deposits	**118,886**	97,207
Net cash provided by operating activities	**966,442**	444,552
Cash flows from investing activities:		
Purchases of property and equipment	**(308,779)**	(320,157)
Proceeds from sale of fixed assets	**8,632**	11,743
Net cash absorbed by investing activities	**(300,147)**	(308,414)
Cash flows from financing activities:		
Proceeds from line of credit, net	**800,000**	1,150,000
Proceeds from long-term borrowing	**138,008**	46,125
Repayments of long-term borrowings and capital leases	**(232,621)**	(320,836)
Proceeds from exercise of stock options	-	36,554
Net cash provided by financing activities	**705,387**	911,843
Net increase in cash and cash equivalents	**1,371,682**	1,047,981
Cash and cash equivalents		
Beginning of period	**282,440**	482,690
End of period	$ **1,654,122**	$ 1,530,671
Supplemental Disclosure of Cash Flow information:		
Cash payments for interest	$ **206,368**	$ 110,299
Cash payments for income taxes	$ **657,000**	$ -

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

Smith-Midland Corporation
Notes to Interim Unaudited Condensed Consolidated Financial Statements
June 30, 2008
(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, 2007.

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.

Principles of Consolidation

The Company’s condensed consolidated financial statements include the accounts of Smith-Midland Corporation, a Delaware corporation, and its wholly owned subsidiaries: Smith-Midland Corporation, a Virginia corporation; Easi-Set Industries, Inc., a Virginia corporation; Smith-Carolina Corporation, a North Carolina corporation; Smith-Columbia Corporation, a South Carolina corporation; Concrete Safety Systems, a Virginia corporation; and Midland Advertising & Design, Inc., a Virginia corporation. All material inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of these financial statements require management to make certain estimates and assumptions which affect the reported amounts of assets, liabilities, revenues, and expenses we have reported, at the date of the financial statements. Actual results could differ materially from these estimates and assumptions.

Reclassifications

Certain immaterial reclassifications have been made to the prior year’s condensed consolidated financial statements to conform to the 2008 presentation.

Inventories

Inventories are stated at lower or cost or market, using the first-in, first -out (FIFO) method.

Property and Equipment

Property and equipment, net is stated at depreciated cost. Expenditures for ordinary maintenance and repairs are charged to expense as incurred. Costs of betterments, renewals, and major replacements are capitalized. At the time properties are retired or otherwise disposed of, the related cost and allowance for depreciation are eliminated from the accounts and any gain or loss on disposition is reflected in income.

Depreciation is computed using the straight-line method over the following estimated useful lives:

	Years
Buildings	10-33
Trucks and automotive equipment	3-10
Shop machinery and equipment	3-10
Land improvements	10-15
Office equipment	3-10

Income Taxes

The provision for income taxes is based on earnings reported in the financial statements. A deferred income tax asset or liability is determined by applying currently enacted tax laws and rates to the expected reversal of the cumulative temporary differences between the carrying value of assets and liabilities for financial statement and income tax purposes. Deferred income tax expense is measured by the change in the deferred income tax asset or liability during the year.

The provision for income taxes differs from the amount determined by applying the federal statutory tax rate to the pre-tax income primarily due to the effect of state income taxes and non-deductible stock compensation.

The Company adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”) effective January 1, 2007. FIN 48 provides a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return. The Company did not have any unrecognized tax benefits and there was no effect on our financial condition or results of operations as a result of implementing FIN 48.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company is no longer subject to U.S. or state tax examinations for years before 2003. The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months. Penalties are accrued in the first period in which the position was taken (or is expected to be taken) on a tax return that would give rise to the penalty. Such penalties would be charged to General and Administrative Expense in the Statement of Operations.

Revenue Recognition

The Company primarily recognizes revenue on the sale of its standard precast concrete products at shipment date, including revenue derived from any projects to be completed under short-term contracts. Installation services for precast concrete products, leasing and royalties are recognized as revenue as they are earned on an accrual basis. Licensing fees are recognized under the accrual method unless collectibility is in doubt, in which event revenue is recognized as cash is received. Certain sales of Soundwall, architectural precast panels and Slenderwall™ concrete products are recognized upon completion of production and customer site inspections. Provisions for estimated losses on contracts are made in the period in which such losses are determined.

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 reflects the potential dilutive effect of securities that could share in earnings of an entity.

Earnings per share is calculated as follows with 405,816 and 277,991 dilutive options excluded from the basic 2008 and 2007 earnings per share, respectively.

	Three Months ended June 30			
		2008		2007
Basic earnings per share				
Income available to common shareholder	**$**	**199,537**	$	363,695
Weighted average shares outstanding		**4,670,882**		4,638,219
Basic earnings per share	**$**	**0.04**	$	0.08
Diluted earnings per share				
Income available to common shareholder	**$**	**199,537**	$	363,695
Weighted average shares outstanding		**4,670,882**		4,638,219
Dilutive effect of stock options		**118,936**		139,272
Diluted weighted average shares outstanding		**4,789,818**		4,777,491
Diluted earnings per share	**$**	**0.04**	$	0.08

	Six Months ended June 30			
		2008		2007
Basic earnings per share				
Income available to common shareholder	**$**	**251,024**	$	756,923
Weighted average shares outstanding		**4,670,882**		4,636,014
Basic earnings per share	**$**	**0.05**	$	0.16
Diluted earnings per share				
Income available to common shareholder	**$**	**251,024**	$	756,923
Weighted average shares outstanding		**4,670,882**		4,636,014
Dilutive effect of stock options		**119,126**		141,848
Diluted weighted average shares outstanding		**4,790,008**		4,777,862

Diluted earnings per share	**$**	**0.05**	$	0.16

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NOTE 3. Property and Equipment

Property and equipment consist of the following:

		June 30, 2008		December 31, 2007
Land and improvements	$	**514,601**	$	514,601
Buildings		**2,801,792**		2,739,460
Machinery and equipment		**7,399,821**		7,189,672
Rental equipment		**688,671**		711,368
Subtotal		**11,404,885**		11,155,101
Less: accumulated depreciation		**7,349,502**		7,052,920
Property and equipment, net	$	**4,055,383**	$	4,102,181

Depreciation expense was approximately $331,000 for the six months ended June 30, 2008 and $295,000 for the six months ended June 30, 2007.

NOTE 4. Notes Payable

Notes Payable consist of the following:

		June 30, 2008		December 31, 2007
Note payable to Greater Atlantic Bank, maturing June 2021; with monthly payments of approximately $36,000 of principal and interest at prime plus .5% adjusted quarterly (5.5% at June 30, 2008); collateralized by principally all assets of the Company.	$	**3,085,114**	$	3,168,126
Note payable to Greater Atlantic Bank, maturing on October 15, 2010; with monthly payments of approximately $8,400 of principal and interest at 8.25% fixed rate; collateralized by a second priority lien on Company assets.		**219,691**		253,317
$1,500,000 line of credit with Greater Atlantic Bank. The line matures June 15, 2009 and bears interest at the Wall Street Journal daily prime rate (5.0% at June 30, 2008); collateralized by a second priority lien on all accounts receivable, inventory, and certain other assets of the Company.		**1,000,000**		200,000
Capital lease obligations for machinery and equipment maturing through 2012, with interest at 7% through 10%.		**439,819**		505,354
Installment notes, collateralized by certain machinery and equipment maturing at various dates, primarily through 2010, with interest at 6.5% through 8.375%.		**557,176**		469,615
		5,301,800		4,596,412

Less: current maturities		**1,456,934**		605,376
	$	**3,844,866**	$	3,991,036

The Company's mortgage loan is guaranteed in part by the U.S. Department of Agriculture Rural Business - Cooperative Services (USDA). The loan agreement includes certain restrictive covenants, which require the Company to maintain minimum levels of tangible net worth and limits on annual capital expenditures. At June 30, 2008, the Company was in compliance with all covenants. The Company's line of credit with Greater Atlantic Bank matured on June 15, 2008, and renewal of the line by the participating banks and the USDA was in process as of June 30, 2008. On August 12, 2008 the line was renewed, effective June 15, 2008, until June 15, 2009 with no additional changes in terms. In addition to the $1.5 million line of credit, Smith-Midland has an Equipment/Vehicle Commitment from Greater Atlantic Bank (GAB). This commitment is annual and matured on July 30, 2008. The Equipment/Vehicle commitment was extended to July 23, 2009 but the line was reduced from $700,000 to $400,000 to reflect a lower legal lending limit for GAB. The agreements for the lines now include an additional term: "Advances may never exceed the Bank's legal lending limit."

NOTE 5. Stock Options

In accordance with SFAS 123R, stock option expense for the three months ended June 30, 2008 and 2007 was $31,538 and $23,662 respectively, and for the six months ended June 30, 2008 and 2007 was $62,073 and $51,927,respectively. The Company uses the Black-Scholes option-pricing model to measure the fair value of stock options granted to employees.

On June 30, 2008, the Company issued 127,825 incentive stock options at an exercise price of $1.21. The following Black-Scholes assumptions were used:

Dividend Yield	0%
Volatility	72%
Risk Free Rate	3.34%
Expected Life	6 years

Accordingly, the fair value per option at the date of grant for the options granted on June 30, 2008 is $0.80.

The following table summarized options outstanding at June 30, 2008:

	Number of Shares		Weighted Average Exercise Price
Outstanding options at beginning of period	542,157	$	1.60
Granted	127,825		1.21
Forfeited	(1,500)		2.43
Exercised	-		-
Outstanding options at end of period	668,482	$	1.52
Outstanding exercisable at end of period	424,602	$	1.41

The intrinsic value of outstanding and exercisable options at June 30, 2008 is approximately $78,000.

NOTE 6. RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements." (SFAS 157). This statement establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures

about fair value measurements. While the Statement applies under other accounting pronouncements that require or permit fair value measurements, it does not require any new fair value measurements. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. In addition, the Statement establishes a fair value hierarchy, which prioritizes the inputs to the valuation techniques used to measure fair value into three broad levels. Lastly, SFAS 157 requires additional disclosures for each interim and annual period separately for each major category of assets and liabilities. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, FASB Staff Position (FSP)FAS 157-2 was issued, which defers the effective date of SFAS 157 until January 1, 2009 for nonfinancial assets and liabilities except those items recognized or disclosed at fair value on an annual or more frequently recurring basis. The adoption of this statement did not have a material effect on the Company’s financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement 115". SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007 provided the entity also elects to apply the provisions of SFAS 157. The Company did not elect the fair value option for any financial assets or liabilities.

In December 2007, the FASB issued SFAS 141 (R), "Business Combinations", to create greater consistency in the accounting and financial reporting of business combinations. SFAS 141 (R) requires a company to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired entity to be measured at their fair values as of the acquisition date. SFAS 141 (R) also requires companies to recognize and measure goodwill acquired in a business combination or a gain from a bargain purchase and how to evaluate the nature and financial effects of the business combination. SFAS 141 (R) applies to fiscal years beginning after December 15, 2008 and is adopted prospectively. Earlier adoption is prohibited. Management does not expect the adoption of this statement will have a material effect on the Company's results of operations or financial position.

In December 2007, the FASB issued SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements - an Amendment of ARB 51", to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 requires the company to clearly identify and present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section but separate from the company's equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; changes in ownership interest be accounted for similarly, as equity transactions; and when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary be measured at fair value. SFAS160 applies to fiscal years beginning after December 15, 2008. Earlier adoption is prohibited. Management does not expect the adoption of this Statement will have a material effect on the Company's results of operations or financial position.

In March 2008, the FASB issued SFAS 161,"Disclosures about Derivative Instruments and Hedging Activities". The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, results of operations and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with earlier application encouraged. Management does not expect the adoption of this Statement will have a material effect on the Company's results of operations or financial position.

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

our high level of indebtedness and ability to satisfy the same,

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

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

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

changes in general economic conditions,

adverse weather which inhibits the demand for our products,

our compliance with governmental regulations,

the outcome of future litigation,

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

the cyclical nature of the construction industry,

our exposure to increased interest expense payments should interest rates change

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

the Company does not have an audit committee; the Board of Directors functions in that role,

- the Company's Board of Directors does not have a member that qualifies as an audit committee financial expert as defined in the regulations,

- the Company has experienced a high degree of employee turnover, and

- the other factors and information disclosed and discussed in other sections of this report.

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

Overview

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

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

Results of Operations

Three Months ended June 30, 2008 compared to the three months ended June 30, 2007

Revenue: For the three months ended June 30, 2008, the Company had total revenue of $6,880,378 compared to total revenue of $7,898,945 for the three months ended June 30, 2007, a decrease of $1,018,567 or 13%. Total product sales and leasing were $5,388,218 for the three months ended June 30, 2008 compared to $6,117,834 for the three months ended June 30, 2007, a decrease of $729,616 or 12%. Lower revenues from the utility products category accounted for $713,173 of the decrease. In the wall sales category, Soundwall sales increased by $1,093,900 from the prior year while Slenderwall™/architectural sales declined by $1,008,631 so that combined wall sales increased about $85,269 or 4%. The Slenderwall™ products also generate installation revenue and the related decrease in Shipping and installation revenue of $325,922 is primarily attributable to the decrease in Slenderwall™ product sales. Royalty revenue for the three months ended June 30, 2008 was $425,933 compared to $388,962 for the three months ended June 30, 2007, an increase of $36,971 or 10%.

Cost of Goods Sold: Total cost of good sold for the three months ended June 30, 2008 was $5,114,634, a decrease of $1,065,004 or 17%. The decrease was due in large part to the decreased production of Slenderwall™ and Architectural products and the associated expenses for shipping and installation of these products. Manufacturing efficiencies also contributed to the decrease, although significant increases in the cost of steel used in production and delivery costs including fuel surcharges offset in part the areas of decrease. Cost of Goods Sold as a percentage of total revenue not including royalties for the three months ended June 30, 2008 was 79% as compared to 82% for the same period in 2007. The Company is looking at various options to deal with cost increases it is experiencing with steel and fuel surcharges.

General and Administrative Expenses: For the three months ended June 30, 2008, the Company's general and administrative expenses increased $79,053 or 12% to $745,048 from $665,995 during the same period in 2007. The increase was largely due to increased professional fees.

Selling Expenses: Selling expenses for the three months ended June 30, 2008 were $617,636, an increase of $213,602 or 53% from $404,034 in 2007. The increase was primarily the result of increases in advertising costs and increased headcount in the licensing department.

Operating Income: The Company had operating income of $403,060 for the three months June 30, 2008, compared to operating income of $649,278 for the same period in 2007, a decrease of $246,218 or 38%. The decrease in operating income was primarily the result of an increase in operating expenses as lower revenues were accompanied by comparable lower cost of goods sold.

Interest expense: Interest expense was $84,477 for the three months ended June 30, 2008, compared to $101,784 in 2007, a decrease of $17,307 or 17%. The decrease was due primarily to lower use of the Line of Credit and lower interest rates on variable rate obligations.

Net Income: The Company had net income of $199,537 for the three months ended June 30, 2008, as compared to net income of $363,695 for the same period in 2007. The basic and diluted net income net income per common share for the three month period ending June 30, 2008 was $.04 and $.04, respectively as compared to $.08 and $.08 respectively for the same period in 2007.

Six Months ended June 30, 2008 compared to the six months ended June 30, 2007

Revenue: For the six months ended June 30, 2008, the Company had total revenue of $13,773,019 compared to total revenue of $16,386,629 for the six months ended June 30, 2007, a decrease of $2,613,610 or 16%. Total product sales were $11,322,630 for the six months ended June 30, 2008 compared to $12,987,277 for the six months ended June 30, 2007, a decrease of $1,664,647 or 13%. Lower revenues from the utility products category accounted for $1,396,829 of the decrease. In the wall sales category, Soundwall sales increased by $3,078,799 from the prior year while Slenderwall™/architectural sales declined by $2,359,272 so that combined wall sales increased about $719,527 or 16%. The Slenderwall™ products also generate installation revenue and the related decrease in Shipping and installation revenue of $955,186 is primarily attributable to the decrease in Slenderwall™ product sales. Royalty revenue for the six months ended June 30, 2008 was $699,662 compared to $693,439 for the six months ended June 30, 2007, an increase of $6,223 or about 1%.

Cost of Goods Sold: Total cost of good sold for the six months ended June 30, 2008 was $10,380,495, a decrease of $2,104,891 or 17%. The decrease was due in large part to the decreased production of Slenderwall™ and Architectural products and the associated expenses for shipping and installation of these products. Manufacturing efficiencies also contributed to the decrease, although significant increases in the cost of steel used in production and delivery costs including fuel surcharges offset in part the areas of decrease. Cost of Goods Sold as a percentage of total revenue not including royalties for the six months ended June 30, 2008 was 79% as compared to 80% for the same period in 2007. The Company is looking at various options to deal with cost increases it is experiencing with steel and fuel surcharges.

General and Administrative Expenses: For the six months ended June 30, 2008, the Company's general and administrative expenses decreased $115,094 or 7% to $1,526,217 from $1,641,311 during the same period in 2007. The decrease was largely due to reduction in bad debt expense as a result of aggressive collection of older accounts receivable.

Selling Expenses: Selling expenses for the six months ended June 30, 2008 were $1,263,608, an increase of $400,816 or 46% from $862,792 in 2007. The increase was primarily the result of increases in advertising costs and increased headcount in the licensing department.

Operating Income: The Company had operating income of $602,699 for the six months ended June 30, 2008, compared to operating income of $1,397,140 for the same period in 2007, a decrease of $794,441 or 57%. The decrease in operating income was primarily the result the decrease in gross profit and the increase in operating expenses.

Interest expense: Interest expense was $183,857 for the six months ended June 30, 2008, compared to $212,083 in 2007, a decrease of $28,226 or 13%. The decrease was due primarily to lower use of the Line of Credit and lower interest rates on variable rate obligations.

Net Income: The Company had net income of $251,024 for the six months ended June 30, 2008, as compared to net income of $756,923 for the same period in 2007. The basic and diluted net income net income per common share for the current three month period was $.05 and $.05 respectively, as compared to $.16 and $.16 respectively for the same period in 2007.

Liquidity and Capital Resources

The Company has financed its capital expenditures and operating requirements to date in 2008 primarily from net cash generated from operating activities. The Company had $5,301,800 of debt obligations at June 30, 2008, of which $1,456,934 was scheduled to mature within twelve months. The Company has a $1,500,000 line of credit, of which $1,000,000 was outstanding at June 30, 2008. The line of credit is evidenced by a commercial revolving promissory note, which carries a variable interest rate of prime and matured on June 15, 2008. On August 12, 2008, such line of credit was renewed until June 15, 2009, which renewal was effective June 15, 2008. In order to ensure the availability of liquid funds for general operating purposes and unexpected events, the Company borrowed $1,000,000 against the line of credit and invested the funds in a short term liquid interest paying account. In view of the renewal of the line, the Company anticipates repaying the line with the invested funds.

At June 30, 2008, the Company had cash totaling $1,654,122 compared to cash totaling $282,440 on December 31, 2007. During the period, operating activities contributed $966,442, investing activities absorbed $300,147, and financing activities provided $705,387. One of the largest individual items contributing to the absorption of cash was the payment of income taxes related to the profit earned in 2007.

Capital spending totaled $308,779 for the six months ended June 30, 2008, as compared to $320,157 for the same period in 2007. The 2008 expenditures are primarily for the routine upgrade and replacement of equipment in the precast plant. The Company plans to make additional capital expenditures for routine equipment replacement, productivity improvements, and plant upgrades, which are planned through 2008 based on the achievement of operating goals and the availability of funds.

As a result of the Company’s existing debt burden, the Company is sensitive to changes in the prevailing interest rates. Increases in such rates may materially and adversely affect the Company’s ability to finance its operations either by increasing the Company’s cost to service its current debt, or by creating a more burdensome refinancing environment.

The Company’s cash flow from operations is affected by production schedules set by contractors, which generally provide for payment 35 to 75 days after the products are produced. This payment schedule has resulted in liquidity problems for the Company because it must bear the cost of production for its products before it receives payment. Although no assurances can be given, the Company believes that anticipated cash flow from operations and the available line of credit, with adequate project management on jobs would be sufficient to finance the Company’s operations for at least the next twelve months.

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

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

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

Seasonality

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

Inflation

Management believes that the Company's operations were not materially affected by inflation in 2008, except for the effect of increased fuel prices, which affected the cost of some raw materials and delivery costs of manufactured products.

Production Backlog

As of August 3, 2008, the Registrant's unaudited production backlog was approximately $16,155,000, as compared to approximately $11,480,000 at the same date in 2007. The Company also maintains a regularly occurring repeat customer business, which should be considered in addition to the ordered production backlog described above. These orders typically have a quick turn around and represent purchases of a significant portion of the Company's inventoried

standard products, such as highway safety barrier, utility and Easi-Set® building products. Historically, this regularly occurring repeat customer business is equal to approximately $7,000,000 (unaudited) 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, 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. As disclosed in our 2007 annual report, the Company was unable to complete a testing phase of the operating effectiveness of our controls due to the unexpected departure of our Chief Financial Officer and our controller going on medical leave. Based on that evaluation and the remaining testing phase to be completed, our principal executive officer and principal financial officer can only conclude that our disclosure controls and procedures as of the end of the period covered by this report were not effective.

The Company anticipates the hiring of a permanent Chief Financial Officer on or before September 1, 2008. In the interim, the Company has utilized the services of an interim financial officer and has been utilizing the services of a consulting firm to develop a plan to test the effectiveness of our internal controls. In view of the foregoing, we anticipate that we will be in a position to provide a full and complete evaluation of the effectiveness of our internal control over financial reporting during the fourth quarter of 2008.

(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, 2008 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting except as disclosed above.

PART II — OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 5. Other Information

Subsequent Event

On August 12, 2008, the Company received signed documents for a one year extension to the existing $1.5 million line of credit at the existing line amount and note rate through June 15, 2009. In addition to the $1.5 million line of credit, Smith-Midland has an Equipment/Vehicle Commitment from Greater Atlantic Bank (GAB). This commitment is annual and matured on July 30, 2008. The Equipment/Vehicle commitment was extended to July 23, 2009 but the line was reduced from $700,000 to $400,000 to reflect a lower legal lending limit for GAB. The agreements for the lines now include an additional term: "Advances may never exceed the Bank's legal lending limit."

ITEM 6. Exhibits

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: August 14, 2008	By:	/s/ Rodney I. Smith Rodney I. Smith, President (Principal Executive Officer)
Date August 14, 2008	By:	/s/ Wesley A. Taylor Wesley A. Taylor (Principal Financial Officer)

Smith-Midland Corporation
Exhibit Index to Quarterly Report on Form 10-Q
For the Three Months and Six Months Ended June 30, 2008

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32.1	Certification pursuant 18 U.S.C. Section 1350 as adapted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002