

SMITH MIDLAND CORP  
Form 10QSB  
November 13, 2007

U. S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

Quarterly Report under Section 13 or 15(d) of  
the Securities Exchange Act of 1934

For the quarterly period ended  
September 30, 2007

Commission File Number  
1-13752

SMITH-MIDLAND CORPORATION  
(Exact Name of Small Business  
Issuer as Specified in Its Charter)

Delaware  
(State of Incorporation)

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

5119 Catlett Road, P.O. Box 300, Midland, Virginia 22728  
(Address of Principal Executive Offices)

(540) 439-3266  
(Issuer's Telephone Number, Including Area Code)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of November 12, 2007, the Company had outstanding 4,670,882 shares of Common Stock, \$.01 par value per share.

Transitional Small Business Disclosure Format: Yes  No

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SMITH-MIDLAND CORPORATION

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(a) Condensed consolidated balance sheet as of December 31, 2006 has been derived from audited consolidated financial statements.

**PART I - Financial Information - Unaudited****Item 1. Financial Statements (Unaudited)**

SMITH-MIDLAND CORPORATION AND SUBSIDIARIES  
Condensed Consolidated Balance Sheets

Assets	September 30, 2007 Unaudited	December 31, 2006 Audited
<b>Current assets</b>		
Cash and cash equivalents	\$ 642,224	\$ 482,690
Accounts receivable		
Trade - billed (less allowance for doubtful accounts of \$174,401 and \$208,100)	6,843,904	5,417,475
Trade - unbilled	206,921	825,524
<b>Inventories</b>		
Raw materials	689,390	903,674
Finished goods	1,536,468	2,213,798
Prepaid expenses and other assets	102,651	516,442
Deferred taxes	343,292	351,000
<b>Total currents assets</b>	<b>10,364,850</b>	<b>10,710,603</b>
Property and equipment, net	4,144,447	3,729,537
Other assets	223,096	214,703
<b>Total assets</b>	<b>\$ 14,732,393</b>	<b>\$ 14,654,843</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable - trade	\$ 2,193,652	\$ 2,733,974
Accrued expenses and other liabilities	773,479	1,884,386
Accrued income taxes	220,051	—
Line of Credit	—	250,000
Current maturities of notes payable	409,634	427,022
Customer deposits	1,068,394	614,127
<b>Total current liabilities</b>	<b>4,665,210</b>	<b>5,909,509</b>
Notes payable - less current maturities	4,079,045	3,918,041
Deferred taxes	221,000	221,000
<b>Total liabilities</b>	<b>8,965,255</b>	<b>10,048,550</b>
Stockholders' equity	—	—

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Preferred stock, \$.01 par value; authorized 1,000,000 shares, none outstanding		
Common stock, \$.01 par value; authorized 8,000,000 shares; 4,670,882 and 4,634,615 issued and outstanding, respectively	46,709	46,346
Additional paid-in capital	4,539,835	4,415,363
Retained earnings	1,282,894	246,884
Treasury stock, at cost, 40,920 shares	(102,300)	(102,300)
Total stockholders' equity	5,767,138	4,606,293
Total liabilities and stockholders' equity	\$ 14,732,393	\$ 14,654,843

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

SMITH-MIDLAND CORPORATION AND SUBSIDIARIES  
Condensed Consolidated Statements of Operations  
(Unaudited)

	Three Months Ended September 30,	
	2007	2006
Revenue		
Product sales and leasing	\$ 6,499,930	\$ 6,699,860
Shipping and installation	1,289,047	1,136,253
Royalties	429,671	151,271
Total revenue	8,218,648	7,987,384
Cost of goods sold	6,419,523	6,152,584
Gross profit	1,799,125	1,834,800
Operating expenses:		
General and administrative expenses	724,774	765,839
Selling expenses	485,542	508,445
Total operating expenses	1,210,316	1,274,284
Operating income	588,809	560,516
Other income (expense):		
Interest expense	(111,599)	(98,490)
Interest income	10,314	6,701
Gain (Loss) on sale of fixed assets	1,504	(989)
Other, net	(1,208)	(1,484)
Total other income (expense)	(100,989)	(94,262)
Income before income tax	487,820	466,254
Income taxes	208,733	213,913
Net income	\$ 279,087	\$ 252,341
Basic earnings per share	\$ .06	\$ .06
Diluted earnings per share	\$ .06	\$ .05

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

SMITH-MIDLAND CORPORATION AND SUBSIDIARIES  
Condensed Consolidated Statements of Operations  
(Unaudited)

	Nine months Ended September 30,	
	2007	2006
Revenue		
Product sales and leasing	\$ 19,487,207	\$ 16,689,736
Shipping and installation	4,004,181	3,910,016
Royalties	1,123,110	752,729
Total revenue	24,614,498	21,352,481
Cost of goods sold	18,914,131	17,004,557
Gross profit	5,700,367	4,347,924
Operating expenses:		
General and administrative expenses	2,366,084	2,063,741
Selling expenses	1,348,335	1,369,147
Total operating expenses	3,714,419	3,432,888
Operating income	1,985,948	915,036
Other income (expense):		
Interest expense	(323,682)	(289,847)
Interest income	19,196	23,188
Gain (Loss) on sale of fixed assets	(11,523)	(1,036)
Other, net	(3,196)	(3,594)
Total other income (expense)	(319,205)	(271,289)
Income before income taxes	1,666,743	643,747
Income taxes	630,733	270,733
Net income	\$ 1,036,010	\$ 373,014
Basic earnings per share	\$ .22	\$ .08
Diluted earnings per share	\$ .22	\$ .08

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

SMITH-MIDLAND CORPORATION AND SUBSIDIARIES  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

	Nine months ended Sept 30,	
	2007	2006
Cash flows from operating activities:		
Cash received from customers	\$ 24,260,939	\$ 19,593,459
Cash paid to suppliers and employees	(23,363,252)	(19,831,971)
Income taxes paid, net	(10,242)	(434,110)
Interest paid	(323,682)	(289,847)
Other	620,091	458,308
Net cash provided (absorbed) by operating activities	1,183,854	(504,161)
Cash flows from investing activities:		
Purchases of property and equipment	(971,198)	(444,085)
Proceeds from sale of fixed assets	15,209	8,526
Net cash absorbed by investing activities	(955,989)	(435,559)
Cash flows from financing activities:		
Change from line of credit borrowings	(250,000)	200,000
Proceeds from long-term borrowings	566,375	283,852
Repayments of long-term borrowings	(422,760)	(312,913)
Proceeds from options exercised	38,054	16,031
Net cash provided (absorbed) by financing activities	(68,331)	186,970
Net increase (decrease) in cash and cash equivalents	159,534	(752,750)
Cash and cash equivalents at beginning of period	482,690	1,003,790
Cash and cash equivalents at end of period	\$ 642,224	\$ 251,040
Reconciliation of net income to net cash provided (absorbed) by operating activities:		
Net income	\$ 1,036,010	\$ 373,014
Adjustments to reconcile net income to net cash provided (absorbed) by operating activities:		
Depreciation and amortization	517,309	384,254
Loss on sale/disposal of fixed assets	11,523	1,036
Expenses (net) related to pay down on officer note receivable	—	89,727
Deferred taxes	7,708	(112,609)
Stock option compensation expense	86,781	54,460
Decrease (increase) in:		
Accounts receivable - billed	(1,426,429)	(1,631,131)
Accounts receivable - unbilled	618,603	(253,795)
Inventories	891,614	(674,526)
Prepaid expenses and other	417,646	(48,528)
Increase (decrease) in:		
Accounts payable - trade	(540,322)	1,131,259

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Accrued expenses and other liabilities	(1,110,907)	107,541
Accrued income taxes	220,051	(50,767)
Customer deposits	454,267	125,904
Net cash provided (absorbed) by operating activities	\$ 1,183,854	\$ (504,161)

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

SMITH-MIDLAND CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2007

(Unaudited)

**Basis of Presentation**

As permitted by the rules of the Securities and Exchange Commission applicable to quarterly reports on Form 10-QSB, these notes are condensed and do not contain all disclosures required by generally accepted accounting principles. Reference should be made to the consolidated financial statements and related notes included in Smith-Midland Corporation's Annual Report on Form 10-KSB for the year ended December 31, 2006.

In the opinion of the management of Smith-Midland Corporation (the "Company"), the accompanying condensed consolidated financial statements reflect all adjustments of a normal recurring nature, which were necessary for a fair presentation of the Company's results of operations for the three and nine months ended September 30, 2007 and 2006.

The results disclosed in the condensed consolidated statements of operations are not necessarily indicative of the results to be expected for any future periods.

**Principles of Consolidation**

The accompanying condensed consolidated financial statements include the accounts of Smith-Midland Corporation and its wholly owned subsidiaries. The Company's wholly owned subsidiaries consist of Smith-Midland Corporation, a Virginia corporation, Smith-Carolina Corporation, a North Carolina corporation, Easi-Set Industries, Inc., a Virginia corporation, Concrete Safety Systems, Inc., a Virginia corporation, Midland Advertising and Design, Inc., doing business as Adventures, a Virginia corporation, and Smith-Columbia Corporation, a South Carolina corporation. All material intercompany accounts and transactions have been eliminated in consolidation.

**Reclassifications**

Certain reclassifications have been made to prior periods to conform to the 2007 presentation.

**Inventories**

Inventories are stated at the lower of 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	10-30
Rental Barrier	7
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 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 2002. The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

### **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 collectability 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.

## Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

## Earnings Per Share

Basic earnings per share are computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilutive effect of securities that could share in earnings of an entity. Earnings per share was calculated as follows:

	Three Months ended September 30,	
	2007	2006
Net income (loss)	\$ 279,087	\$ 252,341
Average shares outstanding for basic earnings per share	4,669,436	4,627,149
Dilutive effect of stock options and warrants	160,657	170,744
Average Shares Outstanding for Diluted Earnings per Share	4,830,093	4,797,893
Basic earnings per share	\$ .06	\$ .06
Diluted earnings per share	\$ .06	\$ .05

	Nine months ended September 30,	
	2007	2006
Net income	\$ 1,036,010	\$ 373,014
Average shares outstanding for basic earnings per share	4,641,716	4,619,826
Dilutive effect of stock options and warrants	147,476	204,098
Average Shares Outstanding for Diluted Earnings per Share	4,789,192	4,823,924
Basic earnings per share	\$ .22	\$ .08
Diluted earnings per share	\$ .22	\$ .08

## Stock Options

In accordance with SFAS 123R, stock option expense for the three months ended September 30, 2007 and 2006 was \$34,854 and \$21,490, respectively, and for the nine months ended September 30, 2007 and 2006 was \$86,781 and \$54,460, respectively. The Company has approximately \$240,000 remaining to expense related to non-vested stock options outstanding at September 30, 2007. The Company currently utilizes the Black-Scholes option pricing model to measure the fair value of stock options granted to employees. The fair values of options granted in 2007 were estimated at grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	4.42%
Dividend yield	0%
Volatility factor	73%
Weighted average expected life	6.0 years

The following table summarizes options outstanding:

Nine months Ended  
Sept 30, 2007

	Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	511,424	\$ 1.49
Granted	92,500	2.15
Forfeited	—	—
Exercised	(36,267)	\$ 1.05
Options outstanding at end of period	567,657	\$ 1.63
Options exercisable at end of period	380,430	\$ 1.32

## Item 2. Management's Discussion and Analysis or Plan of Operation

### General

The Company generates revenues primarily from the sale, licensing, leasing, shipping and installation of precast concrete products for the construction, utility and farming industries. The Company's operating strategy has involved producing innovative and proprietary products, including Slenderwall™, a patented, lightweight, energy efficient concrete and steel exterior wall panel for use in building construction; J-J Hooks™ Highway Safety Barrier, a patented, positive-connected highway safety barrier; Sierra Wall, a sound barrier primarily for roadside use; and Easi-Set® transportable concrete buildings. In addition, the Company produces custom order precast concrete products with various architectural surfaces, typically used in commercial building construction, as well as utility vaults, farm products such as cattleguards, and water and feed troughs.

This Form 10-QSB contains forward-looking statements, which involve risks and uncertainties. The Company's actual results may differ significantly from the results discussed in the forward-looking statements and the results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results for the Company's operations for the year ending December 31, 2007. Factors that might cause such a difference include, but are not limited to, product demand, the impact of competitive products and pricing, capacity and supply constraints or difficulties, general business and economic conditions, the effect of the Company's accounting policies and other risks detailed in the Company's Annual Report on Form 10-KSB and other filings with the Securities and Exchange Commission.

In June 2006, the Company entered into a non-binding letter of intent to purchase a manufacturing facility in Columbia, South Carolina and, pursuant to a month to month operating and rental agreement, began operating the plant, on an interim basis, while completing the due diligence and acquisition activities. For the period from July 1, 2006 to December 31, 2006, the Company reported a pre-tax net loss on operations for the Columbia plant of \$362,930. On March 14, 2007, the Company terminated the agreement and ended negotiations to purchase the facility. As a result of this decision, the Company recorded a pre-tax loss of \$613,374 in 2006, which included the loss from operations and expensing capitalized acquisition related costs and other costs incurred for the potential acquisition. The Company recognized additional losses of approximately \$72,000 during the nine months ended September 30, 2007 related to operations and termination of the agreement.

## Results of Operations

Three months ended September 30, 2007 compared to the three months ended September 30, 2006

For the three months ended September 30, 2007, the Company had total revenue of \$8,218,648 compared to total revenue of \$7,987,384 for the three months ended September 30, 2006, an increase of \$231,264 or 3%. Total product sales were \$6,368,155 for the three months ended September 30, 2007 compared to \$6,605,823 for the same period in 2006, a decrease of \$237,668, or 4%. Highway safety barrier revenues increased significantly due to increased highway construction around the DC Metro area. Utility product revenues also increased while Slenderwall™ and architectural revenues and production declined. We expect this trend of strong highway safety barrier and utility sales to continue through the end of 2007. Soundwall revenues also increased for the third quarter of 2007 and are expected to continue to be strong for the remainder of 2007. Slenderwall™ revenues declined resulting in a net decrease in product sales compared to the three months ended September 30, 2006. Shipping and installation revenue was \$1,289,047 for the three months ended September 30, 2007 compared to \$1,136,253 for the same period in 2006, an increase of \$152,794, or 13%. The increase was primarily related to the increased shipping activity across all product categories. Royalty revenue was \$429,671 for the three months ended September 30, 2007 compared to \$151,271 for the same period in 2006, an increase of \$278,400, or 184%. The increase was due to higher barrier sales by licensees.

Total cost of goods sold for the three months ended September 30, 2007 was \$6,419,523, an increase of \$266,939, or 4%, from \$6,152,584 for the three months ended September 30, 2006. Cost of goods sold as a percentage of total revenue increased from 77% for the three months ended September 30, 2006 to 78% for the three months ended September 30, 2007. Also, included in cost of goods sold were shipping and installation expenses of \$1,164,350 for the three months ended September 30, 2007 and \$985,195 for the same period in 2006, an increase of \$179,155, or 18%. The increase related mainly to overall increased shipping activity.

For the three months ended September 30, 2007, the Company's general and administrative expenses decreased \$41,065, or 5%, to \$724,774 from \$765,839 during the same period in 2006. This was primarily due to reduced Virginia Use Tax stemming from reduction in Slenderwall™ sales.

Selling expenses for the three months ended September 30, 2007 decreased \$22,903 or 5%, to \$485,542 from \$508,445. The decrease was primarily due to decreased advertising expense.

The resulting operating income of \$588,809 for the three months ended September 30, 2007 represented an improvement of \$28,293 over the operating income of \$560,516 for the three months ended September 30, 2006. The improved operating income was primarily the result of lower operating expenses.

Interest expense was \$111,599 for the three months ended September 30, 2007, compared to \$98,490 for the three months ended September 30, 2006. The increase of \$13,109, or 13%, was due primarily to higher interest rates in 2007 as compared to 2006.

The Company had net income of \$279,087 for the three months ended September 30, 2007, compared to a net income of \$252,341 for the same period in 2006. The basic and diluted net income per share for the current three-month period was \$.06 compared to basic and diluted net income per share of \$.06 and \$.05, respectively, for the three months ended September 30, 2006.

Nine months ended September 30, 2007 compared to the nine months ended September 30, 2006

For the nine months ended September 30, 2007, the Company had total revenue of \$24,614,498 compared to total revenue of \$21,352,481 for the nine months ended September 30, 2006, an increase of \$3,262,017, or 15%. This increase related primarily to: highway barrier sales which increased \$2,132,078 to \$4,493,446 from \$2,361,369; utility product sales which increased \$1,922,875 to \$4,698,938 from \$2,776,063; soundwall sales which increased \$1,847,990 to \$3,099,323 from \$1,251,333; and royalties which increased \$370,381 to \$1,123,110 from \$752,729. This was offset in part by Slenderwall™ sales which decreased \$2,723,219 to \$1,986,675 from \$4,709,894. Slenderwall sales declined due to the industry-wide softness in commercial construction. Management expects each of these sales trends to continue through year-end.

Total cost of goods sold for the nine months ended September 30, 2007 was \$18,914,131, an increase of \$1,909,574, or 11%, from \$17,004,557 for the nine months ended September 30, 2006. Cost of goods sold as a percentage of total revenue decreased from 80% for the nine months ended September 30, 2006 to 77% for the nine months ended September 30, 2007. Also, included in cost of goods sold were shipping and installation expenses of \$3,673,619 for the nine months ended September 30, 2007 and \$3,680,354 for the same period in 2006.

For the nine months ended September 30, 2007, the Company's general and administrative expenses increased \$302,343, or 15%, to \$2,366,084 from \$2,063,741 during the same period in 2006. The increase was primarily due to increased bad debt expense, personnel-related expenses, insurance costs, and depreciation. General and administrative expense from Columbia operations of \$81,144 also contributed to the increase.

Selling expenses for the nine months ended September 30, 2007 decreased \$20,812, or 2%, to \$1,348,335 from \$1,369,147 for the nine months ended September 30, 2006.

The Company's operating income for the nine months ended September 30, 2007 was \$1,985,948 compared to \$915,036 for the nine months ended September 30, 2006, an increase of \$1,070,912, or 117%. The increased operating income was primarily the result of increased production and sales volume combined with reductions in direct labor and better pricing on raw materials.

Interest expense was \$323,682 for the nine months ended September 30, 2007, compared to \$289,847 for the nine months ended September 30, 2006. The increase of \$33,835, or 12%, was due primarily to higher interest rates over the past 12 months.

Net income was \$1,036,010 for the nine months ended September 30, 2007, compared to a net income of \$373,014 for the same period in 2006. The basic and diluted net income per share for the current nine-month period was \$.22 compared to basic and diluted net income per share of \$.08 for the nine months ended September 30, 2006.

### **Liquidity and Capital Resources**

The Company has financed its capital expenditures, operating requirements and growth to date primarily with proceeds from operations and bank and other borrowings. The Company had \$4,488,679 of contractual obligations at September 30, 2007, of which \$409,634 was scheduled to mature within twelve months.

The Company also had a revolving \$1,500,000 Working Capital Line of Credit with Greater Atlantic Bank which was not in use at September 30, 2007 and matures on June 15, 2008. The Working Capital Line of Credit is evidenced by a commercial revolving promissory note, which, when utilized, carries a variable interest rate of prime, is collateralized by a second priority lien on all accounts receivable, inventory and certain other assets of the Company, and contains certain restrictive and financial covenants. The Company also had an Equipment Line of Credit with Greater Atlantic Bank for \$700,000 which was not in use at September 30, 2007 and matures August 8, 2008. The Equipment Line of Credit, when utilized, carries a variable interest rate based upon the Three Year Constant Maturity Yield Index for United States Treasury Securities, and is collateralized by equipment purchased under the Equipment Line of Credit.

The Company is in compliance with all restrictive covenants on the debt agreements discussed above.

At September 30, 2007, the Company had cash totaling \$642,224 compared to cash totaling \$482,690 at December 31, 2006. During the period, financing activities absorbed \$68,331 (net) and the Company used \$955,989 in its investing activities, primarily for the purchase of new equipment and tractors. The Company's operating activities provided cash of \$1,183,854 (net), primarily due to improved profitability and decreased inventory levels.

Capital spending totaled \$971,198 for the nine months ended September 30, 2007 versus \$444,085 in the comparable period of the prior year, mainly because of routine equipment replacements, purchase of a 50 ton yard crane, plant modernization, and the purchase of real estate located directly adjacent to the North Carolina plant. The Company plans to make additional capital expenditures, including new computerized batching equipment, and other routine equipment replacement, productivity improvements and plant upgrades, which are planned for the next twelve months based on the achievement of operating goals and the availability of funds.

As a result of the Company's debt burden, the Company is especially sensitive to changes in the prevailing interest rates. Increases in such interest 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 45 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 assurance can be given, the Company believes that anticipated cash flow from operations with adequate project management on jobs would be sufficient to finance the Company's operations for at least the next 12 months.

### **Significant Accounting Policies and Estimates**

The Company's significant accounting policies are more fully described in its Summary of Accounting Policies to the Company's annual consolidated financial statements. 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 consideration of the general strength of the economy, 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 and Slenderwall™ 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.

## **Other Comments**

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

As of November 8, 2007 the Company's production backlog was approximately \$11,900,000 as compared to approximately \$15,400,000 at the same time in 2006. Selling and bidding activity, as well as, the economic condition of the construction industry in our service area, remains strong. The majority of the projects relating to the backlog as of November 8, 2007 are scheduled to be produced and erected in the last quarter of 2007 and first half of 2008.

The Company also enjoys 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 \$8 million annually.

However, the risk still exist that these improved economic conditions within the construction industry may not continue and future sales levels may be adversely affected.

Management believes that the Company's operations have not otherwise been materially affected by inflation.

## **Item 3. Controls and Procedures**

Our principal executive and financial officers have concluded, based on their evaluation as of the end of the period covered by this Form 10-QSB, that our disclosure controls and procedures under Rule 13a-15 of the Securities Exchange Act of 1934 are effective to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2007 that have materially affected or are reasonably likely to materially affect the Company's 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 2. Unregistered Sales of Equity Securities and Use of Proceeds. None.

Item 3. Defaults Upon Senior Securities. None.

Item 4. Submission of Matters to a Vote of Security Holders.

On September 6, 2007, the Company held its Annual Meeting of Stockholders. The Stockholders voted on and approved the following:

1. The election of the following individuals to serve as directors until the next annual meeting or until their successors are duly elected and qualified.

Name	Shares Voted	
	For	To Withhold Authority
Rodney I. Smith	3,900,475	76,864
Ashley B. Smith	3,889,475	77,864
Wesley A. Taylor	3,899,084	78,255
Andrew G. Kavounis	3,893,586	83,753

Item 5. Other Information. None

Item 6. Exhibits.

The following exhibits are filed herewith or were filed during the three months ended September 30, 2007:

Exhibit No.

31.1	Section 302 Certification of Chief Executive Officer
31.2	Section 302 Certification of Chief Financial Officer
32.1	Section 906 Certification of Chief Executive Officer
32.2	Section 906 Certification of Chief Financial Officer

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SMITH-MIDLAND CORPORATION

Date: November 13, 2007

By: /s/ Rodney I. Smith

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Rodney I. Smith  
Chairman of the Board,  
Chief Executive Officer and President  
(Principal Executive Officer)

Date: November 13, 2007

By: /s/ Alan D. Shutt

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Alan D. Shutt  
Chief Financial Officer  
(Principal Financial Officer)