

SMITH MIDLAND CORP
Form 10-K
March 29, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2017

or
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

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 (I.R.S. Employer)
Incorporation or Organization) Identification No.)
P.O. Box 300, 5119 Catlett Road
Midland, Virginia 22728
(Address of Principal Executive Offices, Zip Code)
(540) 439-3266

(Registrant's Telephone Number, Including Area Code)
Securities Registered Under Section 12(b) of the Act: None
Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, \$.01 par value per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (check one)

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the shares of the voting and non-voting common equity held by non-affiliates computed by reference to the average bid and asked price of such common equity as of June 30, 2017 (the last business day of the Company's most recently completed second fiscal quarter) was \$27,299,668. For the sole purpose of making this calculation, the term "non-affiliate" has been interpreted to exclude directors, officers, and holders of 10% or more of the Company's common stock.

As of March 5, 2018, the Company had outstanding 5,074,395 shares of Common Stock, \$.01 par value per share, net of treasury shares.

Documents Incorporated By Reference

None

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FORWARD-LOOKING STATEMENTS

This Annual Report and related documents include “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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:

- While the Company reported net income for the year ended December 31, 2017 and 2016, there are no assurances the Company can remain profitable in future periods,
- our debt level significantly increased in 2016, and decreased during 2017, and our 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 in the Company's primary service areas,
- 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 five members, has only two outside, independent directors, 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.

PART I

Item 1 Business

General

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, highway, utilities and farming industries through its six wholly-owned subsidiaries. The Company's precast, licensing and barrier rental customers are primarily general contractors and federal, state, and local transportation authorities located in the Mid-Atlantic, Northeastern, Midwestern and Southeastern regions of the United States. The Company's operating strategy has involved producing innovative and proprietary products, including SlenderWall®, a patented, lightweight, energy efficient concrete and steel exterior wall panel for use in building construction; J-J Hooks® Highway Safety Barrier, a patented, positive-connected highway safety barrier; SoftSound™, a proprietary sound absorptive finish used on the face of sound barriers to absorb some of the traffic noise; Sierra Wall™, a sound barrier primarily for roadside use; Easi-Set® and Easi-Span® transportable concrete buildings with patented features; and Beach Prisms™ erosion mitigating modules. In addition, the Company's precast subsidiaries produce farm products such as cattleguards and water and feed troughs as well as custom order precast concrete products with various architectural surfaces, as well as generic highway sound barriers, retaining walls and utility vaults.

The Company was incorporated in Delaware on August 2, 1994. Prior to a corporate reorganization completed in October 1994, the Company conducted its business primarily through Smith-Midland Virginia, which was incorporated in 1960 as Smith Cattleguard Company, a Virginia corporation, and which subsequently changed its name to Smith-Midland Corporation in 1985. The Company's principal offices are located at 5119 Catlett Road, Midland, Virginia 22728 and its telephone number is 540-439-3266. As used in this report, unless the context otherwise requires, the term the "Company" refers to Smith-Midland Corporation and its subsidiaries. The Company's wholly owned subsidiaries consist of Smith-Midland Corporation, a Virginia corporation; Smith-Carolina Corporation, a North Carolina corporation; Smith-Columbia Corporation, a South Carolina corporation, Easi-Set Industries Worldwide, Inc., a Virginia corporation; Concrete Safety Systems, Inc., a Virginia corporation; and Midland Advertising and Design, Inc., a Virginia corporation doing business as Midland Advertising + Design.

Market

The Company's precast and barrier rental market primarily consists of general contractors performing public and private construction contracts, including the construction of commercial buildings, public and private roads and highways, and airports, municipal utilities, and federal, state, and local transportation authorities, primarily located in the Mid-Atlantic, Northeastern, Midwestern and Southeastern states. Due to the lightweight characteristics of the SlenderWall® exterior cladding system, the Company has expanded its competitive services outside of the Mid-Atlantic states. The Company's licensing subsidiary licenses its proprietary products to precast concrete manufacturers nationwide and internationally in Canada, Belgium, New Zealand, Australia, Mexico, Trinidad, Spain, and Chile.

The precast concrete products market is affected by the cyclical nature of the construction industry. In addition, the demand for construction varies depending upon weather conditions, the availability of financing at reasonable interest rates, overall fluctuations in the national and regional economies, past overbuilding, labor relations in the construction industry, and the availability of material and energy supplies. A substantial portion of the Company's business is derived from local, state, and federal building projects, which are further dependent upon budgets and, in some cases,

voter-approved bonds.

Products

The Company's precast concrete products are cast in manufacturing facilities and delivered to a site for installation, as contrasted to ready-mix concrete, which is produced offsite in a "batch plant," and delivered with a concrete mixer truck where it is mixed and delivered to a construction site to be poured and set at the site. Precast concrete products are used primarily as parts of buildings or highway structures, and may be used architecturally, as in a decorative wall of a building. Structural uses include building walls, frames, floors, or roofs. The Company currently manufactures and sells a wide variety of products for use in the construction, transportation and utility industries.

Easi-Set SlenderWall® Lightweight Construction Panels

The SlenderWall® system is a prefabricated, energy-efficient, lightweight exterior cladding system that is offered as a cost-effective alternative to the traditional cladding used for the exterior walls of buildings. The Company's SlenderWall® system combines the essential components of a wall system into a single panel ready for interior dry wall mounting immediately upon installation. The base components of each SlenderWall® panel consists of a galvanized or stainless steel stud frame with an exterior surface of approximately two-inch thick, steel reinforced, high-density, precast concrete (with integral water repellent) and various architectural surfaces. The exterior architectural concrete facing is attached to the interior steel frame by use of coated stainless steel anchors that position the exterior concrete away from the steel frame to provide improved thermal performance.

SlenderWall® panels are approximately one-third the weight of traditional precast concrete walls of equivalent size, permanence and durability, and are also significantly improved as to permanence and durability. The lighter weight translates into reduced construction costs resulting from less onerous structural and foundation requirements as well as lower shipping costs. Additional savings result from reduced installation time and ease of erection and from the use of smaller cranes for installation. Closed-cell foam insulation and windows can be plant-installed further reducing cost and construction schedules.

The Company custom designs, manufactures, installs and licenses the SlenderWall® exterior cladding system. The exterior of the SlenderWall® system can be produced in a variety of attractive architectural finishes, such as concrete, exposed stone, granite or thin brick.

Easi-Set Sierra Wall™

The Easi-Set Sierra Wall™ ("Sierra Wall") combines the strength and durability of precast concrete with a variety of finishes to provide an effective and attractive sound and sight barrier for use alongside highways around residential, industrial, and commercial properties. With additional reinforcement, Sierra Wall can also be used as a retaining wall to retain earth in both highway and residential construction. Sierra Wall is typically constructed of four-inch thick, steel-reinforced concrete panels with an integral column creating a tongue and groove connection system. This tongue and groove connection system and its foundation connection make Sierra Wall easy to install and move if boundaries change or highways are relocated after the completion of a project. The patent-pending Sierra Wall II one-piece extended post and panel design reduces installation time and cost.

The Company custom designs and manufactures Sierra Wall components to conform to the specifications provided by the contractor. The width, height, strength, and exterior finish of each wall varies depending upon the terrain and application. The Company also produces generic post and panel design sound barrier wall systems. These systems are constructed of steel or precast concrete columns (the Company manufactures the precast or prestressed columns) with precast concrete panels which slide down into the groove in each column.

Sierra Wall is used primarily for highway projects as a noise barrier as well as for residential purposes, such as privacy walls between homes, security walls or windbreaks, and for industrial or commercial purposes, such as to screen and protect shopping centers, industrial operations, institutions or highways. The variety of available finishes enables the Company to blend the Sierra Wall with local architecture, creating an attractive, as well as functional, barrier.

Easi-Set J-J Hooks® Highway Safety Barrier

The Easi-Set J-J Hooks® highway safety barriers (the "J-J Hooks Barriers") are crash-tested (privately funded), positively connected, safety barriers that the Company sells, rents, delivers, installs and licenses for use on roadways to separate lanes of traffic, either temporarily (free-standing, bolted, or pinned) for construction work zone purposes or for traffic control. Barriers are deemed to be positively connected when the connectors on each end of the barrier sections are interlocked with one another. J-J Hooks Barriers interlock without the need for a separate locking device. The primary advantage of a positive connection is that a barrier with such a connection can withstand vehicle crashes at higher speeds without separating. The Federal Highway Administration (the "FHWA") requires that states use only positively connected barriers, which meet NCHRP-350 or MASH crash test requirements. J-J Hooks Barriers meet NCHRP-350 and MASH TL3 requirements and are deemed eligible by the FHWA for federal-aid reimbursement. In October 2009, the Company was issued a U.S. patent which contains deflection limitation blocks which improve the J-J Hooks connection performance and was issued a U.S. patent on the bolt pocket steel reinforcement. Patents were also issued for the deflection limitation blocks in Canada (November 2015), Australia (October 2013) and New Zealand (May 2010).

The Company has received "design protection" in the U.S for the "end taper" on each end of the barrier sections. The United States has issued a "trade dress" registration for the "end taper" design feature. Accordingly, in the United States, these features cannot be legally copied by others.

The proprietary feature of J-J Hooks Barriers is the design of its positive connection. Protruding from each end of a J-J Hooks Barrier section is a fabricated bent steel connector; rolled in toward the end of the barrier, it resembles the letter "J" when viewed from directly above. The connector protruding from each end of the barrier is rolled identically so that when one end of a barrier faces the end of another, the resulting "hooks" face each other. To connect one section of a J-J Hooks Barrier to another, a contractor merely positions the hook of an elevated section of the barrier above the hook of a set section and lowers the elevated section into place. The positive connection is automatically engaged.

The Company believes that the J-J Hooks Barrier connection design is superior to those of earlier highway safety barriers that were positively connected through the "eye and pin" technique. Barriers incorporating this technique have eyes or loops protruding from each end of the barrier, which must be aligned during the setting process. Once set, a crew inserts pins or long bolts through the eyes which connects and bolts the barrier sections together. Compared to this technique, the J-J Hooks Barriers are easier and faster to install and remove, requires a smaller crew, and eliminates the need for loose hardware to make the connection.

In March 1999, the FHWA approved the free-standing J-J Hooks Barrier (tested in accordance with NCHRP-350 Test Level 3) following successful crash testing in accordance with National Cooperative Highway Research Program requirements. In December 2012 the FHWA approved the pinned and bolted J-J Hooks and in March 2018 approved the free-standing J-J Hooks (tested in accordance with MASH Test Level 3) for use on federally aided highway projects following the successful completion of crash testing based on criteria from the AASHTO Manual for Assessing Safety Hardware.

J-J Hooks NCHRP-350 free-standing barrier has been approved for use on state and federally funded projects by 42 states, plus Washington, D.C. The Company is in various stages of the application process in additional states and believes that approval in some of the states will be granted; however no assurance can be given that approval will be received from any or all of the remaining states or that such approval will result in the J-J Hooks Barrier being used in such states. In addition, J-J Hooks Barrier has been approved by the appropriate authorities for use in the countries of Canada (Alberta, Nova Scotia, New Brunswick and Ontario), Australia, New Zealand, Spain, Portugal, Belgium, Germany and Chile.

J-J Hooks restrained (pinned or bolted) barrier successfully passed the MASH TL3 tests in August of 2012 and received FHWA Eligibility Letters in December 2012. Currently 24 states have approved the MASH barrier as an alternate to their state standard. In Canada, the province of Alberta has approved the MASH tested barrier. The new J-J Hooks free standing barrier successfully passed the two required MASH TL3 tests and in January 2018 received the FHWA federal-aid eligibility letter. The FHWA Eligibility letter B300 letter has been issued as of February 2018.

Easi-Set Precast Building and Easi-Span® Expandable Precast Building

Easi-Set Precast Buildings are transportable, prefabricated, single-story, all concrete building designed to be adaptable to a variety of uses ranging from housing communications operations, traffic control systems, mechanical and electrical stations, to inventory or supply storage, restroom facilities or kiosks. Easi-Set Precast Buildings and Restrooms are available in a variety of exterior finishes and in 38 standard sizes, or can be custom sized. The roof and floor of each Easi-Set Building is manufactured using the Company's patented second generation post-tensioned system, which helps seal the buildings against moisture. As freestanding units, the Easi-Set Buildings require no poured foundations or footings and can be easily installed within a few hours. After installation the buildings can be moved, if desired, and reinstalled in a new location.

The Company also offers Easi-Span® a line of expandable precast concrete buildings. Easi-Span® incorporates the technology of the Easi-Set Buildings, but are available in larger sizes and, through its modular construction, can be combined in varied configurations to permit expansion capabilities. Since these larger buildings have less competition from other materials and methods, they produce higher profit margins. Both the Easi-Span and Easi-Set Buildings offer lines of fully-outfitted restrooms with over a dozen standard models.

The Company has sold its Easi-Set® and Easi-Span® Precast Buildings for the following uses:

Communications Operations — to house fiber optics regenerators, switching stations and microwave transmission shelters, cellular phone sites, and cable television repeater stations.

Government Applications — to federal, state and local authorities for uses such as weather and pollution monitoring stations; military storage, housing and operations; park vending enclosures; rest rooms; kiosks; traffic control systems; school maintenance and athletic storage; airport lighting control and transmitter housing; and law enforcement evidence and ammunition storage.

Utilities Installations — for electrical switching stations and transformer housing, gas control shelters and valve enclosures, water and sewage pumping stations, and storage of contaminated substances or flammable materials which require spill containment.

Commercial and Industrial Locations — for electrical and mechanical housing, cemetery maintenance storage, golf course vending enclosures, mechanical rooms, rest rooms, emergency generator shelters, gate houses, automobile garages, hazardous materials storage, food or bottle storage, animal shelters, and range houses.

Easi-Set Utility Vault

The Company produces a line of precast concrete underground utility vaults ranging in size from 27 to 1,008 cubic feet. Each Easi-Set utility vault normally comes with a manhole opening on the top for ingress and egress and openings around the perimeter, in accordance with the customer's specifications, to access water and gas pipes, electrical power lines, telecommunications cables, or other such media of transfer. The utility vaults may be used to house equipment such as cable, telephone or traffic signal equipment, and for underground storage. The Company also manufactures custom-built utility vaults for special needs.

SoftSound™ Soundwall Panels

SoftSound™ soundwall panels utilize a “wood chip aggregate” sound absorptive material applied to the face of soundwall panels, which is used to absorb highway noise. SoftSound™ is a proprietary product developed and tested by the Company and is currently approved for use in Virginia, Maryland, seven additional states, and the provinces of Ontario and Quebec, Canada. Approvals are still pending in a number of additional states. The Company introduced this product line into its licensing program and is in the process of seeking to obtain approvals in all 50 states and the Canadian Provinces.

Beach Prisms™ Erosion Control Modules

In 2006, the Company began production and launched full-scale advertising and promotional efforts for its product, Beach Prisms™, a shoreline erosion control product that uses the preferred natural "soft" approach as opposed to the "hard" approach of seawalls and jetties, to solve this worldwide problem. This product is expected to provide a higher margin than many of the Company's other product lines. Beach Prisms™ work by reducing the amount of energy in incoming waves before the waves reach the shoreline. Waves pass through the specially designed slots in the triangular 3 - 4 foot tall by 10 foot long Beach Prisms™ modules. The success of a Beach Prisms™ installation is dependent on the prevailing wind in relation to the shoreline, the tides, the fetch and the availability of sand in the surf. Beach Prisms™ are primarily for river- and bay-front property owners who want an alternative to traditional armor stone, or groins and jetties. The Company received “design protection” in the United States for the Beach Prisms™ in 2010.

The Company currently has orders and is also accepting new orders with deposits for the Beach Prism product, and the Company is working with the states of Virginia and Maryland to secure approval of each state's environmental

agency. Each project must apply for approval by the appropriate state to obtain a permit to install the Beach Prism. Such approvals are meeting resistance from the environmental agencies, however, the Company believes approval is forthcoming. One permit was recently received from the State of Maryland, and the Company is hopeful to begin production to fulfill a potential order. In the event that approvals are not timely received, these orders may be canceled.

H2Out™ Secondary Drainage System

The Company was issued a patent in February 2010 for H2Out™, the first "in the caulk joint" secondary drainage and street level leak detection product for panelized exterior cladding. A second line of caulking and drainage strip located behind the exterior line of caulking exits all water leakage to the exterior of the building preventing moisture and mold, and hence deterring lawsuits from tenants and owners of buildings. H2Out™ has been added as a feature of the SlenderWall® system and is being included in the product literature, website, and all sales presentations.

Although the Company is optimistic about the success of Beach Prisms™ and H2Out™, there can be no assurance of the commercial acceptance of these products. The Company has its first commercial project to provide the H2Out secondary drainage system on the recladding of an existing building using the SlenderWall panel system.

Sources of Supply

All of the raw materials necessary for the manufacture of the Company's products are available from multiple sources. To date, the Company has not experienced significant delays in obtaining materials and believes that it will continue to be able to obtain required materials from a number of suppliers at commercially reasonable prices.

Licensing

The Company presently grants licenses through its wholly-owned subsidiary Easi-Set Industries Worldwide for the manufacturing and distribution rights of certain proprietary products, such as the J-J Hooks® Barrier, Easi-Set® and Easi-Span® Precast Buildings, SlenderWall®, SoftSound™ and Beach Prisms™ as well as certain non-proprietary products, such as the Company's cattleguards. Generally, licenses are granted for a point of manufacture. The Company receives an initial one-time training and administration license fee ranging from approximately \$25,000 to \$60,000. License royalties vary depending upon the product licensed, but the range is typically 4% to 6% of the net sales of the licensed product. In addition, Easi-Set®/Easi-Span® buildings and SlenderWall® licensees pay the Company a monthly fee for co-op advertising and promotional programs. The Company produces and distributes advertising and promotional materials and promotes the licensed products through its own advertising subsidiary, Midland Advertising + Design.

The Company maintains 54 licensing agreements in the United States, eight in Canada, two in Mexico and one each in Belgium, New Zealand, Australia and Trinidad, for a total of 68 licensees worldwide. In 2017 the Company sold one building license and one J-J Hooks license, although losing two licenses, and is still maintaining a total of 68 active licenses.

The Company is continually discussing new license arrangements with potential precast companies and, although no assurance can be given, expects to increase its licensing activities.

Marketing and Sales

The Company's precast subsidiaries use an in-house sales force and, to a lesser extent, independent sales representatives to market its precast concrete products through trade show attendance, sales presentations, advertisements in trade publications, and direct mail to end users. Currently, our South Carolina production facility is utilizing the sales force from the Virginia production facility as their sales force until they fully establish their own.

The Company has also established a cooperative advertising program in which the Company and its Easi-Set®/Easi-Span® buildings and SlenderWall® licensees combine resources to promote certain precast concrete products. Licensees pay a monthly fee and the Company pays any additional amounts required to advertise the

products across the country. Although the Company advertises nationally, the Company's precast subsidiaries marketing efforts are concentrated on the region within a 250-mile radius from its facilities, which includes most of Virginia, Delaware, the District of Columbia, Maryland, North Carolina, South Carolina, Georgia, and parts of Florida, Pennsylvania, New York, New Jersey and West Virginia.

The Company's precast and barrier rental sales result primarily from the submission of estimates or proposals to general contractors who then include the estimates in their overall bids to various government agencies and other end users that solicit construction contracts through a competitive bidding process. In general, these contractors solicit and obtain their construction contracts by submitting the most attractive bid to the party desiring the construction. The Company's role in the bidding process is to provide estimates to the contractors desiring to include the Company's products or services in the contractor's bid. If a contractor who accepts the Company's bid is selected to perform the construction, the Company provides the agreed upon products or services. In many instances, the Company provides estimates to more than one of the contractors bidding on a single project. The Company also occasionally negotiates with and sells directly to end-users.

Competition

The precast concrete industry is highly competitive and consists of a few large companies and many small to mid-size companies, several of which have substantially greater financial and other resources than the Company. Nationally, several large companies dominate the precast concrete market. However, due to the weight and costs of delivery of precast concrete products, competition in the industry tends to be limited by geographical location and distance from the construction site and is fragmented with numerous manufacturers in a large local area.

The Company believes that the principal competitive factors for its precast products are price, durability, ease of use and installation, speed of manufacture and delivery time, ability to customize, FHWA and state approval, and customer service. The Company believes that its plants in Midland, Virginia, Reidsville, North Carolina and Columbia, South Carolina compete favorably with respect to each of these factors in the Mid-Atlantic and Southeastern regions of the United States. Our South Carolina plant has less competition than our other two plants as the Company purchased one of the two largest plants in the region while the other plant providing products in South Carolina filed for Chapter 7 bankruptcy in 2016. Finally, the Company believes it offers a broad range of products that are very competitive in these markets.

Patents and Proprietary Information

The Company currently owns U.S., Canadian, Australian and New Zealand patents for J-J Hooks® highway barrier and U.S. and Canadian patents for Easi-Set® Precast Building features and for SlenderWall® exterior cladding system features and a U.S. patent for H2Out™. The original patents on the J-J Hooks barrier and SlenderWall have recently expired, however, the Company has filed new patent applications for the crash tested J-J Hooks barrier and the newest version of SlenderWall. The current status for both products is "Patent Pending". The Easi-Set Precast Building patent will expire mid 2018. Additionally, the Company has "trade dress" applications for J-J Hooks features filed in the U.S., Australia, and New Zealand and "distinguishing guise" applications for J-J Hooks features filed in Canada. A U.S. "trade dress" application for Beach Prisms and the J-J Hooks "end taper" have been issued in the U.S.

The Company owns U.S. registered trademarks for Smith-Midland (logo), Smith Cattleguard (words), Excellence in Precast Concrete (words), Easi-Set (logo & words), Easi-Span (words), Easi-Set Industries (words), J-J Hooks (logo), SlenderWall (logo), Thermaguard (words) and J-J Hooks "V" taper (trade-dress). The J-J Hooks logo is registered in Canada, European Community, Australia, and New Zealand.

While the Company intends to vigorously enforce its patent rights against infringement by third parties, no assurance can be given that the patents or the Company's patent rights will be enforceable or provide the Company with meaningful protection from competitors or that its patent applications will be allowed. Even if a competitor's products were to infringe patents held by the Company, enforcing the patent rights in an enforcement action would be very costly, and assuming the Company has sufficient resources, would divert funds and resources that otherwise could be used in the Company's operations. No assurance can be given that the Company would be successful in enforcing such rights, that the Company's products or processes do not infringe the patent or intellectual property rights of a third party, or that if the Company is not successful in a suit involving patents or other intellectual property rights of a third party, that a license for such technology would be available on commercially reasonable terms, if at all.

Government Regulation

The Company frequently supplies products and services pursuant to agreements with general contractors who have entered into contracts with federal or state governmental agencies. The successful completion of the Company's obligations under such contracts is often subject to the satisfactory inspection or approval of such products and services by a representative of the contracting agency. Although the Company endeavors to satisfy the requirements of

each such contract to which it is a party, no assurance can be given that the necessary approval of its products and services will be granted on a timely basis or at all and that the Company will receive any payments due to it. Any failure to obtain such approval and payment may have a material adverse effect on the Company's business.

The Company's operations are subject to extensive and stringent governmental regulations including regulations related to the Occupational Safety and Health Act (OSHA) and environmental protection. The Company believes that it is substantially in compliance with all applicable regulations. The cost of maintaining such compliance is not considered by the Company to be significant.

The Company's employees in its manufacturing division operate complicated machinery that may cause substantial injury or death upon malfunction or improper operation. The Company's manufacturing facilities are subject to the workplace safety rules and regulations of OSHA. The Company believes that it is in compliance with the requirements of OSHA.

During the normal course of its operations, the Company uses and disposes of materials, such as solvents and lubricants used in equipment maintenance, that are classified as hazardous by government agencies that regulate environmental quality. The Company attempts to minimize the generation of such waste as much as possible, and to recycle such waste where possible. Remaining wastes are disposed of in permitted disposal sites in accordance with applicable regulations.

In the event that the Company is unable to comply with the OSHA or environmental requirements, the Company could be subject to substantial sanctions, including restrictions on its business operations, monetary liability and criminal sanctions, any of which could have a material adverse effect upon the Company's business.

Employees

As of March 5, 2018, the Company had a total of 242 employees, of which 189 are full-time, 14 are part-time and 39 are temporary workers, with 160 located at the Company's Midland, Virginia facility, 29 are located at the Company's facility in Reidsville, North Carolina and 53 are located at the Company's facility in Hopkins, South Carolina. None of the Company's employees are represented by labor organizations and the Company is not aware of any activities seeking such organization. The Company considers its relationships with its employees to be satisfactory.

Item 1A. Risk Factors

Not applicable

Item 1B Unresolved Staff Comments

Not applicable

Item 2. Properties

Facilities

The Company operates three manufacturing facilities. The largest manufacturing operations facility is a 44,000 square foot manufacturing plant located on approximately 28 acres of land in Midland, Virginia, of which the Company owns approximately 25 acres and 3 acres are leased from Rodney I. Smith, the Company's Chief Executive Officer, at an annual rental rate of \$24,000. The manufacturing facility houses two concrete mixers and one concrete blender. The plant also includes two environmentally controlled casting areas, two batch plants, a form fabrication shop, a welding and metal fabrication facility, a carpentry shop, a quality control center and a covered steel reinforcing fabrication area of approximately 8,000 square feet. The Company's Midland facility also includes a large storage yard for inventory and stored materials.

The Company's second manufacturing facility is located in Reidsville, North Carolina on ten acres of owned land and includes an 8,000 square foot manufacturing plant and administrative offices. The Company purchased an additional

46 acres in 2017 and is reviewing plans to build a new facility as the current facility has little room to expand beyond its current size. The decision to expand the facility should be made during 2018.

In July, 2016, the Company purchased the land, building and fixtures of a facility located in Hopkins (Columbia), South Carolina for a purchase price of \$1.55 million. The facility is located on 39 acres of land and has approximately 40,000 square feet of production space. The purchase of the South Carolina facility gives the Company sufficient capacity to cover additional territory from the Atlantic Coast region to the northern part of Florida.

The Company's present facilities will be adequate for its current needs.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's Common Stock trades on the OTCQX Markets under the symbol "SMID".

As of March 5, 2018, there were approximately 45 record holders of the Company's Common Stock. Management believes there are at least 400 beneficial owners of the Company's Common Stock.

The following table sets forth the high and low closing prices on the OTC Markets for the Company's Common Stock for the periods indicated. The prices were obtained from the NASDAQ website. These market quotations reflect inter-dealer prices, without retail markup, markdown, or commission.

	High	Low
2017		
First Quarter	\$6.50	\$5.30
Second Quarter	9.00	6.05
Third Quarter	8.00	6.60
Fourth Quarter	8.37	6.06
2016		
First Quarter	\$3.30	\$1.77
Second Quarter	2.64	2.26
Third Quarter	3.80	2.49
Fourth Quarter	5.45	3.24

Dividends

On December 5, 2017, the Company declared a special dividend of \$0.05 per share of Common Stock for holders of record as of December 27, 2017, which was paid on January 9, 2018. On December 14, 2016, the Company declared a special dividend of \$0.01 per share of Common Stock for holders of record as of December 30, 2016, which was paid on January 13, 2017. Although the Company paid a dividend for the preceding five years, the Company cannot guarantee the continued payment of dividends due to the internal need for funds in the development and expansion of its business. The declaration of dividends in the future will be at the election of the Board of Directors and will depend upon earnings, capital requirements and financial position of the Company, general economic conditions and other pertinent factors.

Item 6. Selected Financial Data

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Consolidated Financial Statements of the Company (including the Notes thereto) included elsewhere in this report.

The Company generates revenues primarily from the sale, shipping, licensing, leasing 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® Barrier, a positive-connected highway safety barrier; Sierra Wall™, a sound barrier primarily for roadside use; transportable concrete buildings; and SoftSound™, a highway sound attenuation system. In addition, the Company produces utility vaults; farm products such as cattleguards; and custom order precast concrete products with various architectural surfaces.

As a part of the construction industry, the Company's sales and net income may vary greatly from quarter to quarter over a given year. Because of the cyclical nature of the construction industry, many factors not under our control, such as weather and project delays, affect the Company's production schedule, possibly causing a momentary slowdown in sales and net income. As a result of these factors, the Company is not always able to earn a profit for each period, therefore, please read Management's Discussion and Analysis of Financial Condition and Results of Operations and the accompanying financial statements with these factors in mind.

Overview

Overall, the Company's financial performance was similar in 2017 when compared to 2016. The Company had net income (in thousands) in 2017 in the amount of \$2,684 compared to a net income of \$2,835 for 2016. The primary reasons for the decrease in net profit was the increase in non-cash stock compensation of \$411, and a general increase in salary expense. Sales were particularly strong in the first quarter of 2017 due to one large short-term barrier rental project, which produced profits slightly higher than our normal rental projects because of the large amount of preparation, installation and removal and follow through that was accomplished in a short period of time. Sales continue to look strong for 2018, with letters of intent on soundwall and Slenderwall projects already received, which would substantially increase the backlog. Based on current market activity and the Company's backlog of \$29.5 million as of March 5, 2018, management believes that 2018 will be another strong financial year for the Company, although no assurance can be given.

Results of Operations

Year ended December 31, 2017 compared to the year ended December 31, 2016 (in thousands, except per share data)

For the year ended December 31, 2017, the Company had total revenue of \$41,717 compared to total revenue of \$40,050 for the year ended December 31, 2016, an increase of \$1,667, or 4%. Sales include revenues from product sales, royalty income, barrier rental income and shipping and installation income. Product sales are further divided into Soundwall, architectural and Slenderwall™ panels, highway barrier, beach prisms, Easi-Set® and Easi-Span® buildings, utility and farm products and miscellaneous precast products. The following table summarizes the revenue by product type and a comparison for the years ended December 31, 2017 and 2016 (in thousands):

Revenue by Type

	2017	2016	Change	% of Change
Soundwall Sales	\$7,571	\$7,840	\$(269)	(3.4)%
Architectural Sales	829	688	141	20.5%
Slenderwall Sales	2,048	1,658	390	23.5%
Miscellaneous Sales	2,793	3,134	(341)	(10.9)%
Barrier Sales	11,276	9,356	1,920	20.5%
Easi-Set and Easi-Span Building Sales	2,484	2,508	(24)	(1.0)%
Utility and Farm Product Sales	1,492	2,065	(573)	(27.7)%
Miscellaneous Product Sales	562	356	206	57.9%
Barrier Rentals	4,267	3,378	889	26.3%
Total Product Sales and Leasing	33,322	30,983	2,339	7.5%
Shipping and Installation	6,510	7,273	(763)	(10.5)%
Royalty Revenue	1,885	1,794	91	5.1%
Total Shipping, Installation, and Royalty Revenue	8,395	9,067	(672)	(7.4)%
Total Revenue	\$41,717	\$40,050	\$1,667	4.2%

Soundwall Sales – Soundwall panel sales slightly decreased by 3.4% in 2017 compared to 2016 due primarily to the larger number of projects in production during 2016 as compared to 2017. The Company now has soundwall sales out of Reidsville, North Carolina and Columbia, South Carolina to expand the customer base for highway soundwall panel production. As soundwall sales were down in the Midland, VA facility, our other two locations provided additional production so that soundwall sales for 2017 were just slightly down from 2016. Soundwall bid projects continue to remain strong in 2018 and management believes that it will be able to obtain a sizable share of the projects available, although no assurance can be given. There are several very large soundwall projects in the bid process at the current time which could add a significant amount of production and sales to the Company's backlog for the years 2018 and 2019. The bids should be awarded in the near future.

Architectural Sales – Architectural panel sales increased by 20.5% in 2017 compared to 2016 as the Company was awarded more architectural wall panels to produce during 2017, which coincided with Slenderwall production (see the Slenderwall section below). The architectural product line is lagging far behind our other product lines, as it becomes a more of a commodity product in the market, but still continues to be a complimentary product to the Company's proprietary Slenderwall panel system. Management does believe, however, that 2018 architectural sales should increase over the 2017 sales volume.

Slenderwall Sales – Slenderwall panel sales increased by 23.5% in 2017 when compared to 2016. The Company had a total of two Slenderwall projects in production in 2017 while there was only one major Slenderwall project in production in 2016. Slenderwall sales should be up in 2018 as the Company currently has a letter of intent on a large Slenderwall project that is in the final steps of being awarded to the Company. The Company has received authorization to begin production by the project owner. Management believes the Slenderwall project has a high probability of being awarded to the Company, which will provide the proprietary product with major visibility in the marketplace, although no assurance can be given.

Miscellaneous Sales – Miscellaneous sales are highly customized precast concrete products that don't fit other standard revenue types. Miscellaneous sales decreased by 10.9% in 2017 when compared to 2016, due mainly to one large order for a highly customized noise deflection wall produced in 2016. Miscellaneous projects are difficult to predict from year to year, however, based on the Company's current backlog of orders and our bid outlook, management believes that production and sales of miscellaneous products in 2018 will be somewhat less than 2017 levels.

Barrier Sales – Barrier sales are dependent on the number of highway projects active during the period and whether customers are more prone to buy barrier than to rent. In 2017 barrier sales increased by 20.5% as compared to 2016. During 2017 there was an overall increase in barrier sales when compared to the previous year. The Virginia production plant accounted for an increase in barrier sales of \$3.2 million with the award of the I-395 job in Northern Virginia as a major factor, while barrier sales dropped slightly at the North Carolina and South Carolina facilities. A large amount of barrier will be required to be delivered in 2018 with the recent award of barrier for the I-66 expansion project in Northern Virginia. The Company continues to take barrier orders to fulfill customer needs at all three manufacturing facilities. As a result of the anticipated increase in federal and state highway and infrastructure improvements, management believes barrier sales will continue to be strong over the next several years, although no assurance can be given.

Beach Prisms – There were no sales of beach prisms in 2017 nor 2016. The Company still struggles to obtain the necessary permits from the states of Maryland and Virginia, even though where beach prisms have been installed, they have performed better than expected by the Company and the customer. One permit was recently received from the State of Maryland, and the Company is hopeful to begin production to fulfill a potential order. Future sales of beach prisms cannot be accurately predicted because of continued difficulty in obtaining the needed state permits, however, management still believes that beach prisms are a viable product and will continue to push for licensing approval.

Easi-Set® and Easi-Span® Building Sales – The Easi-Set® buildings program includes Easi-Set®, plant assembled and Easi-Span®, site assembled, and an extensive line of pre-engineered restrooms. Building sales decreased by 1.0% in 2017 compared to 2016. The Company hired an additional building salesperson in 2017, and also started producing buildings out of the Columbia, SC plant during the year. With these two new additions, the Company is hopeful that building sales will increase in 2018 with the potential increase in market reach.

Utility and Farm Product Sales – Utility and farm products are mainly underground utility vaults used in infrastructure construction. Utility and farm product sales decreased by 27.7% in 2017 compared to 2016. The utility market is extremely competitive, with many competitors who specialize in lower priced utility products. The Company is much more competitive on larger quantity projects, but did not receive significant orders during 2017. As the recently funded highway projects also require utility vaults for underground placement of utilities, management believes that manhole sales should improve for 2018.

Miscellaneous Product Sales – Miscellaneous products are products that are produced or sold that do not meet the criteria defined for other revenue categories. Examples would include precast concrete slabs, waste blocks or small add-on items. For 2017, miscellaneous product sales increased by 57.9% when compared to 2016. The increase in sales was due to a sizable order for precast concrete slabs. Management expects miscellaneous product sales to remain flat or decrease in 2018, as these products are typically small in nature and the Company focuses its priorities on larger, more profitable jobs.

Barrier Rentals – Barrier rentals increased by 26.3% in 2017 when compared to 2016. The increase resulted primarily from one large rental contract awarded the Company for a short-term barrier rental project. While the Company had several short-term barrier rental projects in 2016, the total revenue from these projects were less than the one in 2017. The Company's standard highway barrier rentals remained strong in 2017 with a slight increase over the year 2016. Management believes standard highway barrier rentals will continue to be strong in 2018 as the outlays for infrastructure spending by federal and state governments continues to increase. The Company increased its barrier rental fleet during 2017 and continues to pursue its rental barrier expansion plans for its local geographical sales areas and expects its core rental business to increase.

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, setting highway barrier, or setting any of our other precast products at a site specific to the requirements of the owner. Shipping and installation revenues decreased by 10.5% during 2017 when compared to 2016. The decrease was mainly due to a decrease in installation revenue with less Slenderwall projects installed at the job-site during 2017 as compared to 2016. With the large order for the I-66 expansion project in Northern Virginia that includes installation, management believes that shipping and installation revenues for 2018 will be slightly higher than 2017.

Royalty Revenue – Royalty revenues increased by 5.1% in 2017 as compared to 2016. The Company signed two new licenses during 2017, one for buildings and one for barrier. Slenderwall royalties increased during 2017, with two licensees producing and erecting the product, while 2016 had zero Slenderwall royalties. The Company also lost two licenses during 2017 that were only producing minimum royalties in the recent years, which now allows for potential new licensees in those geographic areas. The Company continues to explore opportunities around the world to expand the reach of Slenderwall. Management believes that overall royalties will increase during 2018 as the construction industry continues to expand, especially in the infrastructure section of the market. The Company believes that in addition to the increase in royalties from licensees, the sale of new licenses will also improve in 2018.

Cost of Goods Sold – Total cost of goods sold for the year ended December 31, 2017 was \$30,136, an increase of \$435, or 1.5%, from \$29,701 for the year ended December 31, 2016. Total cost of goods sold, as a percentage of total revenue decreased to 72% for the year ended December 31, 2017 from 74% for the year ended December 31, 2016. The decrease in the cost of goods sold as a percentage of total revenue was, in part, product mix and an increase in barrier rental sales. Raw material costs increased slightly in 2017 over 2016 with some inflationary pressures for the Company. Prices for steel products, one of our largest purchases, remained relatively flat during 2017, but is expected to rise slightly in 2018. In addition, the Company had one large short-term barrier rental project in 2017, which was larger than the several short-term barrier projects in 2016 combined and, as these types of short-term projects are sold at higher margins than many of our normal precast product sales, it had a favorable effect on margins. The Company continues to seek new vendor partnerships to help develop a price advantage for its raw materials as well as a continuous supply of these materials and has changed several vendors due to better supply sources and better pricing.

General and Administrative Expenses – For the year ended December 31, 2017, the Company's general and administrative expenses increased by \$1,479, or 38.0%, to \$5,370 from \$3,891 during the same period in 2016. The

increase in general and administrative expenses resulted primarily from an increase in stock compensation, an increase in salaries, and an increase in general and administrative expenses associated with the full year operation in Columbia, SC. Salaries increase because the Company had to hire a few additional people to help generate the current backlog, while also competing in a tough employment market. The stock compensation increased to reward and retain key performers for continuous improvement and Company earnings.

Selling Expenses – Selling expenses for the year ended December 31, 2017 increased by \$374, or 17.6%, to \$2,496 from \$2,122 for the year ended December 31, 2016. The increase was due to an increase in salary expense, and minor increases in office expense and travel. The Company is currently searching for an additional sales persons to be located in Columbia, South Carolina. With the current increase in sales and continued anticipation of increases in future years, additional sales persons remain a priority for the Company.

Operating Income – The Company had operating income for the year ended December 31, 2017 of \$3,715 compared to operating income of \$4,336 for the year ended December 31, 2016, a decrease of \$621. The decrease in operating income was primarily the result of an increase in stock compensation and an increase in salaries for year ended December 31, 2017 as compared to 2016.

Interest Expense – Interest expense was \$184 for the year ended December 31, 2017 compared to \$162 for the year ended December 31, 2016. The increase of \$22, or 14%, was due primarily to the \$1.3 million note payable for the acquisition of the Columbia, South Carolina facility during 2016, as the Company did not add significant debt in 2017.

Income Tax Expense – The Company had income tax expense of \$1,057 for the year ended December 31, 2017 compared to income tax expense of \$1,462 for the year ended December 31, 2016. The Company had an effective rate of 28.3% for the year ended December 31, 2017 compared to an effective rate of 34.0% for the same period in 2016. The decrease in the tax expense and effective rate was mainly impacted by the new tax reform, which concurrently impacted deferred tax balances.

Net Income – The Company had net income of \$2,684 for the year ended December 31, 2017, compared to net income of \$2,835 for the same period in 2016. The basic and diluted income per share was \$0.53 for 2017, compared to basic income per share of \$0.57 and diluted income per share of \$0.56 for the year ended December 31, 2016. There were 5,042 basic and 5,079 diluted weighted average shares outstanding in 2017 and 4,934 basic and 5,066 diluted weighted average shares outstanding in the 2016.

Liquidity and Capital Resources (in thousands)

The Company financed its capital expenditures requirements for 2017 with cash flows from operations, cash balances on hand and notes payable to a bank. The Company had \$3,533 of debt obligations at December 31, 2017, of which \$637 was scheduled to mature within twelve months. During the twelve months ended December 31, 2017, the Company made repayments of outstanding debt in the amount \$584.

The Company has a note payable to Summit Community Bank (the “Bank”) with a balance of \$1,071 as of December 31, 2017. The note has a remaining term of approximately five years and a fixed interest rate of 3.99% annually with monthly payments of \$26 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 for any one individual loan so long as the Company is not in default. On August 3, 2017, the Company increased its limit of \$1.5 million to \$3.5 million for annual capital expenditures for calendar year 2017. At December 31, 2017, the Company was in compliance with all covenants pursuant to the loan agreement, as amended.

On March 27, 2016, the Company executed an agreement to purchase the land, building and fixtures of a facility located in Hopkins, South Carolina (“Smith-Columbia”) for a purchase price of \$1.55 million. The facility is located on 39 acres of land and has approximately 40,000 square feet of production space. The agreement was completed in July 2016, and was financed by a new 10 year term facility from the Bank. The note has a remaining term of approximately nine and one-half years and a fixed interest rate of 5.29% annually with monthly payments of \$11 and is secured by all of the assets of Smith-Columbia and a guarantee by the Company. The balance of the note payable at December 31, 2017 was \$1,234. The acquisition of Smith-Columbia was approved by the Bank, and as such, was excluded from the \$1.5 million capital expenditures limit during 2016.

In addition to the notes payable discussed above, the Company also has a \$2 million line of credit with the Bank, of which there was no outstanding balance at December 31, 2017. The line of credit is evidenced by a commercial revolving promissory note which carries a variable interest rate of prime and matures on September 12, 2018. The

loan is collateralized by a first lien position on the Company's accounts receivable and inventory and a second lien position on all other business assets. Key provisions of the line of credit require the Company, (i) to obtain bank approval for capital expenditures in excess of \$1.5 million during the term of the loan; and (ii) to obtain bank approval prior to its funding any acquisition. On November 30, 2017 the Company received a Commitment Letter from the Bank to provide a guidance line of credit specifically to purchase business equipment in an amount up to \$1.5 million. The commitment provides for the purchase of equipment with minimum advances of \$50 for which a note payable will be executed with a term not to exceed five years with an interest rate at the Wall Street Journal prime rate plus .5% with a floor of 4.49% per annum. The loan is collateralized by a first lien position on all equipment purchased under the line. The commitment for the guidance line of credit matures on November 29, 2018. As of December 31, 2017, the Company had not purchased any equipment pursuant to the \$1.5 million commitment.

At December 31, 2017, the Company had cash totaling \$3,390 and \$1,098 of investment securities available for sale compared to cash totaling \$3,523 and \$1,050 of investment securities available for sale at December 31, 2016. During 2017, the Company's operating activities provided \$2,926 of cash due mainly to the net income and continued aggressive collections of accounts receivable during 2017. In 2017, investing activities used \$2,727 in cash primarily for the purchase of property and capital equipment. Financing activities used \$332 in cash in 2017, resulting primarily from repayments of long-term debt.

Capital spending, including financed additions, decreased from \$3,745 in 2016 to \$2,741 in 2017 (including the Columbia, South Carolina facility in 2016). Capital expenditures in 2017 included spending for rental barrier, manufacturing equipment and capital upgrades. In 2018, the Company intends to continue to make capital improvements which include cranes, vehicles, manufacturing equipment and other items as necessary. The Company anticipates capital spending for 2018 to be approximately \$2 million, excluding acquisitions. The Company expects to purchase assets in excess of the \$1.5 million limitation, which was temporarily increased to \$3.5 million for 2017 only, and is in discussion with the Bank to increase the limitations again for 2018.

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 and with some architectural contracts, retainage may be held until the entire project is completed. This payment schedule could result in liquidity problems for the Company because it must bear the cost of production for its products before it receives payment. The Company's days sales outstanding (DSO) in 2017 was 75 days compared to 74 days in 2016. The DSO has remained low due to continued aggressive collection activities during the year. Although no assurance can be given, the Company believes that anticipated cash flow from operations with adequate project management on jobs will be sufficient to finance the Company's operations and necessary capital expenditures for at least the next 12 months.

The Company's inventory at December 31, 2017 was \$3,515 and at December 31, 2016 was \$2,578, an increase of \$937. The annual inventory turns for 2017 and 2016 were 7.1 and 7.7, respectively. The inventory turns for 2017 have been reduced primarily because of an increase in raw materials for planned production. Finished goods inventory increased in order to fulfill the backlog of large barrier orders expected to be delivered in 2018. The Columbia, South Carolina facility is carrying higher raw materials inventory at the end of 2017, as materials for current production demands have increased.

Critical Accounting Policies

The Company's significant accounting policies are more fully described in its Summary of Accounting Policies to the Company's consolidated financial statements. The preparation of 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 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. Percent-of-completion contracts are estimated based on the number of units produced during the period multiplied by the unit rate stated in the contract. 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 significantly affected by inflation in 2017 and 2016, particularly in the purchases of certain raw materials such as cement, steel and fuel. The Company believes that raw material pricing will likely increase in 2018 as the economy continues its recovery, although no assurance can be given regarding future pricing.

US Tax Reform

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to record/pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. At December 31, 2017, the Company has not completed its accounting for the tax effects of enactment of the Act; however, the Company has made a reasonable estimate of the effects on its existing deferred tax balances. The Company recognized a provisional net tax benefit of \$664,000, which is included as a component of income tax expense from continuing operations.

Backlog

As of March 5, 2018 the Company's sales backlog was approximately \$29.5 million as compared to approximately \$22.4 million at approximately the same time in 2017. It is estimated that most of the projects in the sales backlog will be produced within 12 months, but a few will be produced through the year 2019. In the past, the Company excluded from the backlog structural products, which backlog of structural products had been insignificant in amount. With the increase in the backlog of structural products, the Company is now including structural products in the backlog for the amounts set forth above. There has been an increase in the backlog for 2018 when compared to the approximately the same time in 2017, and the Company expects it to continue to grow as the Company has letters of intent on two large projects, which they are expected to receive orders in the near future, although no assurance can be given.

The risk exists that recessionary economic conditions may adversely affect the Company more than it has experienced to date. To mitigate these economic and other risks, the Company has a broader product offering than most competitors and has historically been a leader in innovation and new product development in the industry. The Company is continuing this strategy through the development, marketing and sales efforts for its new products.

The Company continues to evaluate its processes, both production and administrative processes, and has streamlined many of these processes through lean activities. During 2017 and 2016, the Company, through lean activities, has begun to see positive effects to the bottom line. It is management's intention to continue in this effort on a significant level to help reach our goals for 2018 which are to substantially reduce quality issues, significantly reduce design and drawing issues and to increase production and sales. In order to meet these goals, substantial improvements through lean tools and lean thinking must be implemented company wide.

The Company is continuing its marketing, advertising and promotional efforts for both Beach Prisms™, a shoreline erosion control product that uses the preferred natural "soft" approach as opposed to the "hard" approach of seawalls and jetties, to solve this worldwide problem and H2Out™, the world's first "in the caulk joint" secondary drainage and street level leak detection product for panelized exterior cladding. While the Company has received a permit to install Beach Prisms™ at a specific site in Virginia and other states, and recently has received one permit in Maryland, it is still in the process of seeking to secure additional site permit approvals in Virginia and Maryland and the support of the appropriate environmental agencies in neighboring states for its Beach Prisms™. Although the Company is optimistic about the success of Beach Prisms™ and H2Out™, there can be no assurance of the commercial acceptance of these products.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements table of contents, which appears on page F-2, are filed as part of this report.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. This process includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

The Chief Executive Officer and Chief Financial Officer of the Company assessed the effectiveness of our internal control over financial reporting based on the framework in "Internal Control – Integrated Framework (1992)" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") as of December 31, 2017, and concluded that its controls were effective as of such date.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the Securities and Exchange Commission rules that permit the Company to provide only management's report in this annual report.

Disclosure controls and procedures

We carried out our evaluation, under the supervision and with the participation of our management, including our chief executive officer and our 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 our evaluation, our principal executive officer and chief financial officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective.

Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the quarter ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Certain information with respect to our Directors and executive officers is set forth below.

Name	Age	Director or Executive Officer Since	Position
Rodney I. Smith	79	1970	Chief Executive Officer and Chairman of the Board of Directors
Ashley B. Smith	55	1994	President and Director
Wesley A. Taylor	70	1994	Director
G. E. "Nick" Borst	77	2013	Director
Richard Gerhardt	51	2016	Director
Adam J. Krick	32	2018	Chief Financial Officer

Background

The following is a brief summary of the background of each Director and executive officer of the Company:

Rodney I. Smith. Chairman of the Board of Directors, Chief Executive Officer. Rodney I. Smith co-founded the Company in 1960 and became its President and Chief Executive Officer in 1965. He has served on the Board of Directors and has been its Chairman since 1970. Mr. Smith is the principal developer and inventor of the Company's proprietary and patented products. He is the past President of the National Precast Concrete Association. Mr. Smith has served on the Board of Trustees of Bridgewater College in Bridgewater, Virginia since 1986. The Company believes that Mr. Smith's extensive experience in the precast concrete products industry and his knowledge of the marketplace gives him the qualifications and skills necessary to serve in the capacity as the Chairman of the Board of Directors.

Ashley B. Smith. President and Director. Ashley B. Smith has served as President of the Company since 2012 and as the Vice President of the Company from 1990 to 2011 and as a Director since 1994. He is currently the President of the National Precast Concrete Association. Mr. Smith holds a Bachelor of Science degree in Business Administration from Bridgewater College. Mr. Ashley B. Smith is the son of Mr. Rodney I. Smith. The Company believes that Mr. Smith's education, experience in the precast concrete industry and business experience give him the qualifications and skills necessary to serve in the capacity as a director.

Wesley A. Taylor. Director. Wesley A. Taylor served as Vice President of Administration of the Company from 1989 until 2017 and has served as a Director since 1994, and previously held positions as Controller and Director of Personnel and Administration. Mr. Taylor holds a Bachelor of Arts degree from Northwestern State University. The Company believes that Mr. Taylor's education, business experience and his extensive experience in the precast concrete industry gives him the qualifications and skills necessary to serve in the capacity as a director.

G. E. (Nick) Borst. Director. G. E. Nick Borst served as a member of the Board of Directors of the Company since 2013. For more than the past five years, Mr. Borst has been engaged in the private practice of law, advising clients in business organization and corporate governance. Prior to entering private practice, Mr. Borst served as a trial attorney and as a federal prosecutor with the government. Mr. Borst previously served as president of the Fauquier County Bar Association and as a three-year treasurer of the Fauquier County Chamber of Commerce. In private law practice, Mr. Borst advised clients on business organization and governance. Mr. Borst is also a co-founder and past president of Hospice of Fauquier County and is co-founder and long-time board member of Verdun Adventure Bound, an organization that provides experiential learning programs to over 2,000 young people a year. The Company believes that Mr. Borst's current and past business-related experience provides him with the knowledge and skills necessary to serve in the capacity as a director of the Company.

Richard Gerhardt. Director. Mr. Gerhardt has served as a member of the Board of Directors of the Company since 2016. He currently is Chief Operating Officer of Old Dominion Spirits Corporation in Warrenton, Virginia, and is serving his first term as a Fauquier County, Virginia Supervisor for the Cedar Run Magisterial District. Mr. Gerhardt presently serves on the boards of Path Foundation (formally Fauquier Health Foundation), Virginia Gold Cup Association and Fauquier Free Clinic. From 2003 to 2014, Mr. Gerhardt served in an escalating succession of positions for three global shipping and logistic companies: DHL Global Mail, ESI Global Logistic and MSI Worldwide. His eight years as President, COO, and a shareholder of MSI Worldwide culminated in its acquisition by Belgian Post. Mr. Gerhardt holds a Bachelor of Arts in Business Administration with a minor in Economics from Washington College in Chestertown, Maryland. The Company believes that Mr. Gerhardt's current and past business-related experience provides him with the knowledge and skills necessary to serve in the capacity as a director of the Company.

Adam J. Krick. Chief Financial Officer. Adam J. Krick has served as Chief Financial Officer of the Company since January 2018. Prior to becoming the Chief Financial Officer, Mr. Krick served as the Accounting Manager for the Company since 2014. Prior to joining the Company, Mr. Krick worked in public accounting focusing on tax and business consulting. Mr. Krick is a Certified Public Accountant and holds a Bachelor of Business Administration degree in Accounting from James Madison University.

On December 5, 2017, the Board of Directors of the Company elected Ashley B. Smith as the new Chief Executive Officer of the Company, effective September 23, 2018, until which time he will continue to serve as President. It is anticipated that Rodney I. Smith will remain Chief Executive Officer of the Company until September 23, 2018, after which he will continue as Chairman of the Board of Directors of the Company and continue to engage in research and development activities on behalf of the Company.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) ("Section 16(a)") of the Securities Exchange Act of 1934, as amended, requires executive officers and Directors and persons who beneficially own more than ten percent (10%) of the Company's Common Stock to file initial reports of ownership on Form 3 and reports of changes in ownership on Form 4 with the Securities and Exchange Commission and any national securities exchange on which the Corporation's securities are registered.

Based solely on a review of the copies of such forms furnished to the Company, the Company believes that all Section 16(a) filing requirements applicable to its executive officers, Directors and greater than ten percent (10%) beneficial owners were satisfied during 2017, except for the following late filings: Form 4 filed May 30, 2017 for Wesley A. Taylor (3 transactions); Form 4 filed June 20, 2017 for Rodney I. Smith (1 transaction); Form 4 filed July 27, 2017 for Rodney I. Smith (2 transactions); Form 4 filed August 4, 2017 for Rodney I. Smith (1 transaction); Form 4 filed September 22, 2017 for Rodney I. Smith (2 transactions); and Form 4 filed November 6, 2017 for Rodney I. Smith (1

transaction).

Code of Ethics

The Company adopted a code of ethics that applies to the Chief Executive Officer, Chief Financial Officer, Accounting Manager and persons performing similar functions. The Board of Directors approved the code of ethics at their meeting on December 17, 2003. A copy of the code of ethics was filed as an exhibit to the Company's Form 10-KSB for the year ended December 31, 2003, and a copy may be obtained without charge by requesting one in writing from Secretary, Smith-Midland Corporation, P.O. Box 300, 5119 Catlett Road, Midland, VA 22728.

Audit Committee

The Company does not currently have a separately designated standing Audit Committee or a committee performing similar functions. The board of directors as a whole performs the required functions of an audit committee. With the relatively recent addition of second independent director, the Company is considering the formation of an audit committee in the near future. The Company does not have an "audit committee financial expert" due to its limited resources as a small public company.

Item 11. Executive Compensation

The following table sets forth the compensation paid by the Company for services rendered for 2017 and 2016 to the principal executive officer and the Company's two most highly compensated executive officers other than the principal executive officer (the "named executive officers") as of the end of 2017:

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)(1)	Bonus (\$)(2)	Stock Awards (\$)	Option Awards (\$)	Non Eq-uity Incentive Plan Compensation (\$)	Non qual-ified Deferred Compensation Earning (\$)	All Other Compensation (\$)	Total (\$)
Rodney I. Smith Chief Executive Officer and Chairman of the Board (3)	2017	116,774	64,230	228,900				102,000	511,904
	2016	108,788	4,375					102,000	215,163
Ashley B. Smith President (4)	2017	201,994	59,808					3,000	264,802
	2016	192,423	3,385	158,400				3,000	357,208
William A. Kenter (retired) Chief Financial Officer (5)	2017	124,834	28,284	81,750				—	234,868
	2016	112,357	2,300					—	114,657

(1) Represents salaries paid in 2017 and 2016 for services provided by each named executive officer serving in the capacity listed.

(2) Represents amounts paid for annual performance-based bonus related to operations for the prior year.

(3) Mr. Rodney Smith was paid \$99,000 in each of 2017 and 2016, which is included in the column titled "All Other Compensation", for royalty payments due under his employment contract with the Company, which is more fully described in the following section titled "Employment Contracts and Termination of Employment and Change in Control Arrangements". In addition, Mr. Rodney Smith received director's compensation in the amount of \$3,000 for the years 2017 and 2016. Includes, under Stock Awards, 42,000 restricted shares granted to Mr. Smith in January 2017, vesting ratably, on an annual basis, over a three year vesting period. The value of the common stock shares at

the grant date was \$228,900

(4) Mr. Ashley Smith received director's compensation in the amount of \$3,000 for each of the years 2017 and 2016. Mr. Ashley Smith was granted 32,000 shares of restricted common stock on December 14, 2016, pursuant to the Company's 2016 Equity Incentive Plan, as reflected under Stock Awards. These grants vest ratably, on an annual basis, over a three year vesting period. The value of the common stock shares at the grant date was \$158,400.

(5) Includes 15,000 restricted shares granted in January 2017 pursuant to the Company's 2016 Equity Incentive Plan, which shares vested in full immediately on the grant date. The value of the common stock shares at the grant date was \$81,750. Mr. Kenter retired as Chief Financial Officer of the Company as of December 31, 2017; he continues employment on a part-time basis in an advisory role.

Outstanding Equity Awards At Fiscal Year-End

The following table sets forth information for the named executive officers regarding any common share purchase options, stock awards or equity incentive plan awards that were outstanding as of December 31, 2017.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$/Sh)	Option Expiration Date	Number of Shares or Units of Stock that have not Vested (#)(1)	Market Value of Shares or Units of Stock that have not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights that have not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights that have not Vested (\$)
Rodney I. Smith	—	—	—	—	42,000	228,900	—	—
Ashley B. Smith	—	—	—	—	21,333	105,598	—	—
William A. Kenter	—	—	—	—	—	—	—	—
TOTAL	—	—	—	—	63,333	334,498	—	—

All stock options vest on a prorated basis annually over three years from the date of grant and the options expire ten years from the date of grant.

(1) Restricted shares granted vest, ratably, on an annual basis, over three years from the date of grant.

Compensation of Directors

All Directors receive \$1,000 per meeting as compensation for their services as Directors and are reimbursed for expenses incurred in connection with the performance of their duties.

Fiscal 2017 Director Compensation

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)(2)	Option Awards (\$)	Non-Equity Incentive Plan Compensation	Non-Qualified Deferred Compensation Earnings	All Other Compensation	Total (\$)
Rodney I. Smith	3,000	10,900	—	—	—	—	13,900 (1)
Ashley B. Smith	3,000	—	—	—	—	—	3,000 (1)
Wesley A. Taylor	3,000	10,900	—	—	—	—	13,900
G. E. "Nick" Borst	3,000	—	—	—	—	—	3,000
Richard Gerhardt	2,000	—	—	—	—	—	2,000

(1) Reflected in Summary Compensation Table above.

(2) Mr. Rodney I. Smith and Mr. Wesley A. Taylor each received 2,000 shares of restricted stock granted pursuant to the Company's 2016 Equity Incentive Plan for additional compensation as directors. Messrs. Ashley B. Smith, G.E. "Nick" Borst, and Richard Gerhardt each received 2,000 shares of restricted stock pursuant to such Plan in December 2016.

Employment Contracts and Termination of Employment and Change in Control Arrangements.

The Company entered into a four-year Employment Agreement with Rodney I. Smith, its current Chief Executive Officer, effective as of September 30, 2002. The term of employment automatically renews commencing on the date one year after the effective date, and on an annual basis thereafter, for an additional one year, unless earlier terminated or not renewed as provided for therein. The agreement provides for an annual base salary of \$99,000 (“Base Salary”), which is reviewed at least annually and adjusted from time to time at the determination of the Board of Directors. It also provides for an annual royalty fee of \$99,000 payable as consideration for Mr. Smith’s assignment to the Company of all of his rights, title and interest in and to the Patents (as defined in the agreement). Payment of the royalty continues only for as long as the Company is using the inventions underlying the Patents. Mr. Smith is also entitled to a performance-based bonus as determined by the Board each calendar year.

Mr. Smith’s employment agreement provides further that if Mr. Smith (i) voluntarily leaves the employ of the Company within six months of his becoming aware of a Change of Control (as defined in the agreement) of the Company, then he shall be entitled to receive a lump sum amount equal to three times the five-year average of his combined total annual compensation, which includes the Base Salary and bonus, less one dollar (\$1.00), and certain other unpaid accrued amounts as of the date of his termination, or (ii) is terminated by the Company without Cause (as defined in the agreement) or leaves the Company with Good Reason (as defined in the agreement), Mr. Smith shall be entitled to a lump sum payment equal to three times the combined Base Salary and bonus paid during the immediately preceding calendar year, and such other unpaid accrued amounts. In any of such cases, the Company will provide Mr. Smith with certain Company fringe benefits for two years, subject to certain conditions as provided for in the agreement, and all of Mr. Smith’s unvested options to purchase Company stock shall become fully vested and exercisable on the date of termination. Mr. Smith will be entitled to exercise all such options for three years from the date of termination and all restricted stock shall become fully vested on the date of termination, if any. The Company will have no further obligations to Mr. Smith, other than with respect to the payment of royalties.

In the event Mr. Smith’s employment by the Company is terminated as a result of Mr. Smith’s (i) death, his estate shall be entitled to a lump sum payment of one times the combined Base Salary and bonus, and certain other accrued and unpaid amounts, or (ii) disability, Mr. Smith shall be entitled to Base Salary and bonus for a period of one year commencing with the date of termination, and all other unpaid accrued amounts.

In the event Mr. Smith’s employment is terminated for cause or Mr. Smith voluntarily leaves the employ of the Company for no reason, Mr. Smith shall be entitled to accrued but unpaid Base Salary and Bonus up to the date of termination, and all other unpaid amounts.

The employment agreement also contains non-competition and non-solicitation covenants for one year following Mr. Smith’s termination of employment for any reason.

On December 31, 2008, the board of directors approved an amendment to the Employment Agreement to include changes required to be in compliance with Section 409A, nonqualified deferred compensation.

On December 5, 2017, the Board of Directors of the Company elected Ashley B. Smith as the new Chief Executive Officer of the Company, effective September 23, 2018, until which time he will continue to serve as President. It is anticipated that Rodney I. Smith will remain Chief Executive Officer of the Company until September 23, 2018, after which he will continue as Chairman of the Board of Directors of the Company and continue to engage in research and development activities on behalf of the Company.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth, as of March 5, 2018, certain information concerning ownership of the Company's Common Stock by (i) each person known by the Company to own of record or be the beneficial owner of more than five percent (5%) of the Company's Common Stock, (ii) named executive officers and Directors, and (iii) all Directors and Executive Officers as a group. Except as otherwise indicated, the stockholders listed in the table have sole voting and investment powers with respect to the shares indicated.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned (2)	Percentage of Class
Rodney I. Smith (1)(3)(4)(5)	684,798	13.5%
Ashley B. Smith (1)(3)(4)(6)	171,767	3.4%
Wesley A. Taylor (1)(7)	28,667	*
G. E. "Nick" Borst (8)	83,000	1.6%
Richard Gerhardt (9)	2,000	*
William A. Kenter (1)	15,000	*
Henry Investment Trust, L.P. (10)	294,500	5.8%
Wax Asset Management, LLC (11)	618,412	12.2%
All directors and executive officers as a group (6 persons)(12)	973,232	19.3%

* Less than 1%.

(1) The address for each of Messrs. Rodney I. Smith, Ashley B. Smith, Wesley A. Taylor, and William A. Kenter is c/o Smith-Midland Corporation, P.O. Box 300, 5119 Catlett Road, Midland, Virginia 22728.

(2) Pursuant to the rules and regulations of the Securities and Exchange Commission, shares of Common Stock that an individual or group has a right to acquire within 60 days pursuant to the exercise of options or warrants are deemed to be outstanding for the purposes of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table.

(3) Ashley B. Smith is the son of Rodney I. Smith. Each of Rodney I. Smith and Ashley B. Smith disclaims beneficial ownership of the other's shares of Common Stock.

(4) Does not include options to purchase an aggregate of 1,000 shares held by Roderick Smith and an aggregate of 78,883 shares of Common Stock held by Matthew Smith and Roderick Smith. Matthew Smith and Roderick Smith are sons of Rodney I. Smith, and brothers of Ashley B. Smith. Also, does not include shares held by Merry Robin Bachetti, sister of Rodney I. Smith and aunt of Ashley B. Smith, for which each of Rodney I. Smith and Ashley B. Smith disclaims beneficial ownership.

(5) Does not include 2,500 shares of Common Stock held by Hazel Bowling, former wife of Rodney I. Smith, and mother of Mr. Smith's children. Mr. Smith disclaims beneficial ownership of the shares held by Hazel Bowling. Includes 28,000 unvested restricted shares granted pursuant to the Company's 2016 Equity Incentive Plan.

(6) Includes 21,333 unvested restricted shares granted pursuant to the Company's 2016 Equity Incentive Plan.

(7) Includes 11,333 unvested restricted shares granted pursuant to the Company's 2016 Equity Incentive Plan.

(8) Address of holder is P.O. Box 351, Ophelia, VA 22530. Includes 1,333 unvested restricted shares granted pursuant to the Company's 2016 Equity Incentive Plan.

(9) Address of holder is 8305 Old Dumfries Road, Catlett, VA 20119. Includes 1,333 unvested restricted shares granted pursuant to the Company's 2016 Equity Incentive Plan.

(10) Henry Investment Trust, L.P. is the sole general partner of each of Henry Partners, L.P. and Matthew Partners, L.P. and may be deemed to beneficially own 163,000 shares held by Henry Partners, L.P. and 119,000 shares held by Matthew Partners, L.P. Total includes 12,500 owned personally by David W. Wright. Address of holder is 255 South 17th Street, Suite 1102, Philadelphia, PA 19103.

(11) Address of holder is 44 Cherry Lane, Madison, CT 06443.

(12) Includes 63,332 unvested restricted shares for all directors and executive officers as a group.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth certain information as of December 31, 2017, regarding the Company's equity compensation plans.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(1)
Equity compensation plans approved by security holders (1)	10,333	1.21	—
Equity compensation plans not approved by security holders	—	—	225,000
Total	10,333	1.21	225,000

(1) A brief description of the Company's 2008 Stock Option Plan and the 2016 Equity Incentive Plan are contained in Note 6 of the Notes to Consolidated Financial Statements. The 500,000 options under the 2008 Stock Option Plan have been canceled by the Company's Board of Directors and replaced by the 2016 Equity Incentive Plan, which Equity Incentive Plan has a balance of 225,000 shares of stock unissued and available for award at December 31, 2017.

On October 13, 2016 the Company's Board of Directors adopted the Smith-Midland Corporation 2016 Equity Incentive Plan (the "Equity Incentive Plan"). Employees, directors and consultants of the Company are eligible to participate in the Equity Incentive Plan. The Equity Incentive Plan is administered by the Compensation Committee of the Board of Directors or the full Board during such times as no committee is appointed by the Board or during such times as the Board is acting in lieu of the committee (the "Committee"). The Equity incentive Plan provides for the

grant of equity-based compensation in the form of restricted stock, restricted stock units, performance shares, performance cash and other share-based awards. The Equity Incentive Plan also permits the grant of awards that qualify for "performance-based compensation" within the meaning of Section 162(m) of the U.S. Internal Revenue Code. The Committee has the authority to determine the type of award, as well as the amount, terms and conditions of each award, under the Equity Incentive Plan subject to the limitations and other provisions of the Equity Incentive Plan. An aggregate of 400,000 shares of the Company's common stock, par value \$.01 per share, were authorized for issuance under the Equity Incentive Plan, subject to adjustment for stock splits, dividends, distributions, recapitalizations and other similar transactions or events, of which amount 225,000 remains available for issuance. If any shares subject to an award are forfeited, expire, or otherwise terminate without issuance of such shares, such shares shall, to the extent of such forfeiture, expiration, or termination, again be available for issuance under the Equity Incentive Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence

There are two independent directors of the Company, Mr. G.E. "Nick" Borst and Mr. Richard Gerhardt. The test utilized for the determination of independence is that of the New York Stock Exchange.

On an ongoing basis, the Company reviews all "related party transactions" (those transactions that are required to be disclosed by SEC Regulation S-K, Item 404), if any, for potential conflicts of interest and all such transactions must be approved by the Board of Directors. No transactions meet the criteria for disclosure.

Item 14. Principal Accountant Fees and Services

The aggregate fees billed for each of the past two fiscal years for professional services rendered by BDO USA, LLP, the principal accountant for the audit of the Company; for assurance and related services related to the audit; for tax compliance, tax advice, and tax planning; and for all other fees for products and services are shown in the table below (in thousands). Fees are reported as billed to the Company.

Audit Fees. Fees charged as audit fees are for the audit of the Company's annual financial statements and review of financial statements included in the Company's Forms 10-Q or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements.

Tax Fees. Tax fees are for professional services rendered by BDO USA, LLP for tax compliance, tax advice, and tax planning.

Audit-Related Fees. Fees paid to BDO USA, LLP for the audit of the Company's 401(k) benefit plan.

The Company currently does not have a separate standing Audit Committee as until recently the Company only had one outside board member; the entire board of directors acts as the audit committee. Messrs. Borst and Gerhardt are considered to be independent when using the definition of the New York Stock Exchange.

	2017	2016
Audit Fees	\$186	\$123
Tax Fees	52	—
Audit-Related Fees	10	10
Total Fees	\$248	\$133

PART IV

Item 15. Exhibits and Financial Statements Schedules

(1) The financial statements of the Company are included following Part IV of this Form 10-K.

(2) Schedules have been omitted since they are either not applicable, not required or the information is included elsewhere herein.

(3) The following exhibits are filed herewith:

Exhibit

Number Description

3.1 Certificate of Incorporation, as amended (Incorporated by reference to the Company's Registration Statement on Form SB-2 (No. 33-89312) declared effective by the Commission on December 13, 1995).

3.2 Bylaws of the Company adopted on January 21, 2003 (Incorporated by reference to the Company's Registration Statement on Form 8-A (No. 000-25964) filed with the Commission on January 24, 2003).

4.1 Specimen Common Stock Certificate (Incorporated by reference to the Company's Registration Statement on Form SB-2 (No. 33-89312) declared effective by the Commission on December 13, 1995).

10.1 Lease Agreement, dated January 1, 1995, between the Company and Rodney I. Smith (Incorporated by reference to the Company's Registration Statement on Form SB-2 (No. 33-89312) declared effective by the Commission on December 13, 1995).

10.2 Collateral Assignment of Letters Patent, dated between the Company and Rodney I. Smith (Incorporated by reference to the Company's Registration Form SB-2 (No. 33-89312) declared effective by the Commission on December 13, 1995).

10.3 Employment Agreement, dated September 30, 2002, between the Company and Rodney I. Smith. (Incorporated by reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003).

10.4 Amendment No. 1 to Employment Agreement, dated as of December 31, 2008, between the Company and Rodney I. Smith (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2008).

10.5 2004 Stock Option Plan (Incorporated by reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004).

10.6 2008 Stock Option Plan (Incorporated by reference to the Company's Registration Statement on Form S-8 (No. 333-155920) filed on December 4, 2008).

10.7 Promissory Note, dated April 20, 2011 and executed on April 26, 2011, in the amount of \$575,000 issued by the Company to Summit Community Bank (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2011).

10.8 A Credit Line Deed of Trust, dated April 20, 2011 and executed on April 26, 2011, between the Company and Summit Commit Community Bank (Incorporated by reference to the Company's Current Report on

Form 8-K filed with the Securities and Exchange Commission on April 28, 2011).

10.9 Promissory Note, dated September 12, 2013, in the amount of \$2,100,000 issued by the Company to Summit Community Bank (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 18, 2013).

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- 10.10 Contract for Purchase and Sale, dated February 16, 2016, between Nelson Cherry Properties, LLC and Smith-Columbia Corporation (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 27, 2016).
- 10.11 Promissory Note, dated July 19, 2016, in the amount of \$1,317,500 issued by the Company to Summit Community Bank (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 27, 2016).
- 10.12 Commercial Security Agreement, dated July 19, 2016, between the Company, as debtor, and Summit Community Bank, as secured party, related to Company's note payable in the amount of \$1,317,500 with Summit Community Bank (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 27, 2016).
- 10.13 Promissory Note, dated October 6, 2017, for a line of credit in the amount of \$2,000,000 with Summit Community Bank (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 8, 2017).
- 10.14 Commitment Letter, dated November 28, 2017, for an equipment line of credit in the amount of \$1,500,000 with Summit Community Bank (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 8, 2017).
- 10.15 Promissory Note, dated October 6, 2017, for the acquisition of six acres of land purchased in 2016 in the amount of \$239,232 with Summit Community Bank (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 8, 2017).
- 10.16 2016 Equity Incentive Plan (Incorporated by reference to the Registration Statement on Form S-8 (No. 333-214788) filed on November 23, 2016).
- 14.1 Code of Professional Conduct (Incorporated by reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003).
- 21.1 List of Subsidiaries of the Company (Incorporated by reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 1995).
- 23.1 Consent of BDO USA, LLP.
- 31.1 Certification of Chief Executive Officer.
- 31.2 Certification of Principal Financial Officer.
- 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.

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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

Date: March 29, 2018 By: /s/ Rodney I. Smith
Rodney I. Smith, CEO
(principal executive officer)

Date: March 29, 2018 By: /s/ Adam J. Krick
Adam J. Krick, CFO
(principal financial and accounting officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Name	Capacity	Date
/s/ Rodney I. Smith Rodney I. Smith	Director	March 29, 2018
/s/ Ashley B. Smith Ashley B. Smith	Director	March 29, 2018
/s/ Wesley A. Taylor Wesley A. Taylor	Director	March 29, 2018
/s/ G. E. Borst G. E. Borst	Director	March 29, 2018
/s/ Richard Gerhardt Richard Gerhardt	Director	March 29, 2018

Smith-Midland Corporation
and Subsidiaries

Consolidated Financial Statements
Years Ended December 31, 2017 and 2016

Smith-Midland Corporation
and Subsidiaries

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Smith-Midland Corporation

Midland, Virginia

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Smith-Midland Corporation (the “Company”) and subsidiaries as of December 31, 2017 and 2016, the related consolidated statements of income and comprehensive income, stockholders’ equity, and cash flows for each of the two years in the period ended December 31, 2017, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/BDO USA, LLP

We have served as the Company's auditor since 1996.

McLean, Virginia

March 29, 2018

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Smith-Midland Corporation
and SubsidiariesConsolidated Balance Sheets
(in thousands, except per share data)

	December 31,	
	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$3,390	\$3,523
Investment securities, available-for-sale, at fair value	1,098	1,050
Accounts receivable, net		
Trade - billed (less allowance for doubtful accounts of \$208 and \$347)	8,967	7,188
Trade - unbilled	251	271
Inventories, net		
Raw materials	819	642
Finished goods	2,696	1,936
Prepaid expenses and other assets	452	371
Refundable income taxes	1,359	251
Total current assets	19,032	15,232
Property and equipment, net	9,867	8,007
Other assets	326	173
Total assets	\$29,225	\$23,412

See accompanying summary of accounting policies and notes to consolidated financial statements.

Smith-Midland Corporation
and SubsidiariesConsolidated Balance Sheets
(in thousands, except per share data)
(continued)

	December 31,	
	2017	2016
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable - trade	\$3,059	\$2,091
Accrued expenses and other liabilities	588	294
Deferred revenue	1,144	724
Accrued compensation	1,231	883
Dividend payable	256	49
Current maturities of notes payable	637	587
Customer deposits	919	431
Total current liabilities	7,834	5,059
Notes payable - less current maturities	2,896	3,346
Deferred tax liability	1,290	764
Total liabilities	12,020	9,169
Commitments and contingencies	—	—
Stockholders' equity		
Preferred stock, \$.01 par value; authorized 1,000,000 shares, none issued and outstanding	—	—
Common stock, \$.01 par value; authorized 8,000,000 shares; 5,214,148 and 5,085,348 issued and 5,047,895 and 4,941,428 outstanding, respectively	51	50
Additional paid-in capital	5,719	5,192
Treasury stock, at cost, 40,920 shares	(102)	(102)
Accumulated other comprehensive loss	(19)	(25)
Retained earnings	11,556	9,128
Total stockholders' equity	17,205	14,243
Total liabilities and stockholders' equity	\$29,225	\$23,412

See accompanying summary of accounting policies and notes to consolidated financial statements.

Smith-Midland Corporation
and SubsidiariesConsolidated Statements of Income
(in thousands, except per share data)

	Year Ended	
	December 31,	
	2017	2016
Revenue		
Products sales and leasing	\$33,322	\$30,983
Shipping and installation revenue	6,510	7,273
Royalties	1,885	1,794
Total revenue	41,717	40,050
Cost of goods sold	30,136	29,701
Gross profit	11,581	10,349
General and administrative expenses	5,370	3,891
Selling expenses	2,496	2,122
Total operating expenses	7,866	6,013
Operating income	3,715	4,336
Other income (expense)		
Interest expense	(184)	(162)
Interest income	37	37
Gain on sale of assets	51	32
Other income	122	54
Total other income (expense)	26	(39)
Income before income tax expense	3,741	4,297
Income tax expense	1,057	1,462
Net income	\$2,684	\$2,835
Basic earnings per share	\$0.53	\$0.57
Diluted earnings per share	\$0.53	\$0.56

See accompanying summary of accounting policies and notes to consolidated financial statements.

Smith-Midland Corporation
and Subsidiaries

Consolidated Statements of Comprehensive Income
(in thousands)

	Year Ended December 31,	
	2017	2016
Net income	\$2,684	\$2,835
Other comprehensive income (loss), net of tax: (1)		
Net unrealized holding income (loss)	6	(16)
Comprehensive income	\$2,690	\$2,819

(1) Net unrealized income (loss) on available for sale securities are shown net of income tax expense (benefit) of \$10 and \$(9) for the years ended December 31, 2017 and 2016, respectively.

See accompanying summary of accounting policies and notes to consolidated financial statements.

Smith-Midland Corporation
and SubsidiariesConsolidated Statements of Stockholders' Equity
(in thousands)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Compre-hensive Loss	Retained Earnings	Total
Balance, January 1, 2016	\$ 49	\$ 5,110	\$ (102)	\$ (9)	\$ 6,342	\$ 11,390
Accrued dividends payable	—	—	—	—	(49)	(49)
Net unrealized holding loss	—	—	—	(16)	—	(16)
Proceeds from options exercised 1	—	82	—	—	—	83
Net income	—	—	—	—	2,835	2,835
Balance, December 31, 2016	50	5,192	(102)	(25)	9,128	14,243
Accrued dividends payable	—	—	—	—	(256)	(256)
Net unrealized holding income	—	—	—	6	—	6
Proceeds from options exercised 1	—	116	—	—	—	117
Vesting of restricted stock	1	410	—	—	—	411
Net income	—	—	—	—	2,684	2,684
Balance, December 31, 2017	\$ 52	\$ 5,718	\$ (102)	\$ (19)	\$ 11,556	\$ 17,205

See accompanying summary of accounting policies and notes to consolidated financial statements.

Smith-Midland Corporation
and SubsidiariesConsolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,	
	2017	2016
Reconciliation of net income to net cash provided by operating activities		
Net income	\$2,684	\$2,835
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	926	821
Allowance for doubtful accounts	(139)	(29)
Gain on sale of fixed assets	(51)	(32)
Stock compensation	411	—
Deferred taxes	526	574
(Increase) decrease in		
Accounts receivable - billed	(1,640)	(364)
Accounts receivable - unbilled	20	(73)
Inventories	(937)	(85)
Refundable income taxes	(1,107)	133
Prepaid expenses and other assets	(285)	(116)
Increase (decrease) in		
Accounts payable - trade	969	396
Accrued expenses and other liabilities	294	46
Deferred revenue	420	(52)
Accrued compensation	347	433
Customer deposits	488	(492)
Net cash provided by operating activities	\$2,926	\$3,995

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Smith-Midland Corporation
and SubsidiariesConsolidated Statements of Cash Flows
(in thousands)
(continued)

	December 31,	
	2017	2016
Cash Flows From Investing Activities		
Purchases of investment securities available-for-sale	\$(32)	\$(24)
Purchases of property and equipment	(2,741)	(3,745)
Proceeds from sale of fixed assets	46	58
Net cash absorbed by investing activities	(2,727)	(3,711)
Cash Flows From Financing Activities		
Proceeds from the line-of-credit	—	1,450
Repayments on the line-of-credit	—	(1,802)
Proceeds from long-term borrowings	184	2,233
Repayments of long-term borrowings	(584)	(461)
Dividends paid on common stock	(49)	—
Proceeds from options exercised	117	83
Net cash provided by or (absorbed by) financing activities	(332)	1,503
Net increase (decrease) in cash and cash equivalents	(133)	1,787
Cash and cash equivalents, beginning of year	3,523	1,736
Cash and cash equivalents, end of year	\$3,390	\$3,523
Cash payments for interest	\$184	\$163
Cash payments for income taxes	\$1,292	\$770

See accompanying summary of accounting policies and notes to consolidated financial statements.

Smith-Midland Corporation
and Subsidiaries

Summary of Significant Accounting Policies

Nature of Business

Smith-Midland Corporation and its wholly-owned subsidiaries (the “Company”) develop, manufacture, license, sell and install precast concrete products for the construction, transportation and utilities industries in the Mid-Atlantic, Northeastern, Midwestern and Southeastern regions of the United States.

Principles of Consolidation

The accompanying 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, Smith-Columbia Corporation, a South Carolina corporation, Easi-Set Industries, Inc., a Virginia corporation, Concrete Safety Systems, Inc., a Virginia corporation, and Midland Advertising and Design, Inc., doing business as Midland Advertising + Design, a Virginia corporation. All material intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers all unrestricted cash and money market accounts purchased with an original or remaining maturities of three months or less as cash and cash equivalents.

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.

Inventories

Inventories are stated at the lower of cost, using the first-in, first-out (FIFO) method, or net realizable value. Inventory reserves (in thousands) were approximately \$39 and \$67 at December 31, 2017 and 2016, respectively.

Property and Equipment

Property and equipment is stated at cost. Expenditures for ordinary maintenance and repairs are charged to income 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	10-40
Trucks and automotive equipment	3-10
Shop machinery and equipment	3-10

Land improvements	10-15
Rental equipment	5-10
Office equipment	3-10

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Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

As of December 31, 2017, the Company has not identified any uncertain tax positions. The Company files tax returns in the U.S. Federal and various state jurisdictions. The Company recognizes, when applicable, interest and penalties related to income taxes in other income (expense) in its consolidated statement of income. The Company is no longer subject to U.S. or state tax examinations for the years prior to 2014. The Company does not believe there will be any material changes in unrecognized tax positions over the next twelve months.

Stock Compensation

Stock Options – Stock based compensation is measured based on the fair value of the award on the date of grant and the corresponding expense is recognized over the period during which an employee is required to provide services in exchange for the award. The fair value of each stock option is estimated using a Black-Scholes option pricing model based on certain assumptions including expected term, risk-free interest rate, stock price volatility and dividend yield. The assumption for expected term is based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected term at the grant date. The historical volatility of the Company's stock is used as the basis for the volatility assumption. See Note 6 of Notes to the Consolidated Financial Statements for additional information related to stock based compensation. There have been no option grants since 2008. Substantially all options become vested and exercisable ratably, on an annual basis, over a three-year period.

Restricted Stock – On October 13, 2016, the Board of Directors of the Company adopted the 2016 Equity Incentive Plan which allows the Company to grant up to 400,000 shares of common stock of the Company to employees, officers, directors and consultants. The grants may be in the form of restricted or performance shares of common stock of the Company. The fair value of each restricted stock grant is estimated to be the sales price of the common stock at the close of business on the day of the grant.

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 of the Company's standard products can be performed by the customer; however, the Company will install certain products at the time of delivery and will recognize the installation revenue at that time. The installation activities are usually completed the day of delivery or the following day. In building sales, buildings can be erected on the Company's site and delivered completely installed; or delivered by panel and erected on the job-site, typically within one day.

Leasing fees are paid at the beginning of the lease agreement and are recorded as deferred revenue. The deferred revenue is then recognized each month as lease income for the duration of the lease.

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

Certain sales of Soundwall, architectural precast panels and Slenderwall™ concrete products revenue is recognized using the percentage-of-completion method for recording revenues on long term contracts under ASC 605-35. Percent-of-completion contracts are estimated based on the number of units produced during the period multiplied by the unit rate stated in the contract. 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.

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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 minimal.

Shipping and Handling

Amounts billed to customers are recorded in sales and the costs associated with the shipping and handling are recorded as cost of goods sold.

Sales and Use Taxes

Use taxes on construction materials are reported gross in general and administrative expense.

Segment Reporting

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and assess performance. The Company currently operates in one operating and reportable business segment for financial reporting purposes.

Reclassifications

Certain minor reclassifications have been made to prior year amounts to confirm to current year presentation.

Risks and Uncertainties

The Company sells products to highway contractors operating under government funded highway programs and other customers and extends credit based on an evaluation of the customer's financial condition, generally without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure to credit losses and maintains allowances for anticipated losses. Management reviews accounts receivable on a weekly basis to determine the probability of collection. In performing this evaluation, the Company analyzes the payment history and 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. Management believes the allowance for doubtful accounts at December 31, 2017 is adequate. However, actual write-offs may exceed the recorded allowance. Due to inclement weather, the Company may experience reduced revenue from December through February and may realize the substantial part of its revenue during the other months of the year.

Fair Value of Financial Instruments

The carrying value for each of the Company's financial instruments (consisting of cash and cash equivalents, accounts receivable, accounts payable and short-term line of credit) approximates fair value because of the short-term nature of those instruments. The estimated fair value of the long-term debt approximates carrying value based on current rates offered to the Company for debt of the similar maturities.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting (U.S. GAAP) 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs

The Company expenses all advertising costs as incurred. Advertising expense (in thousands) was approximately \$404 and \$401 in 2017 and 2016, respectively.

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Earnings Per Share

Earnings per share are based on the weighted average number of shares of common stock and dilutive common stock equivalents outstanding. Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of the Company.

Long-Lived Assets

The Company reviews the carrying values of its long-lived and identifiable intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable based on undiscounted estimated future operating cash flows. When any such impairment exists, the related assets will be written down to fair value. No impairment losses have been recorded through December 31, 2017.

Recent Accounting Pronouncement

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). Adoption of this ASU requires that an entity recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard may be applied retrospectively to each prior period presented (full retrospective method) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective method). The Company will adopt the new revenue guidance effective January 1, 2018 using the modified retrospective method. The Company is substantially complete with its evaluation of the effect that the adoption will have on its financial statements. Due to the nature of the business, the Company expects the timing of the revenue recognition to generally remain the same under the new standard. Currently, the Company anticipates the adoption will not have a material effect on the financial statements and have no cumulative-effect adjustment to retained earnings, except for enhanced disclosures.

On February 25, 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Adoption of this ASU requires lessees to recognize assets and liabilities for most leases. For public business entities the guidance is effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within those annual periods and early adoption is permitted. The Company is currently evaluating the impact of adoption on the Company's financial position, results of operations and cash flows.

On August 26, 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230), Classification of Cash Receipts and Cash Payments, which is intended to reduce diversity in practice as it relates to how certain transactions are classified in the statement of cash flows, as previous guidance was either omitted or unclear. The new standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The adoption of this pronouncement did not have a material impact on the Company's consolidated financial statements.

SMITH-MIDLAND CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. - PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands):

	December 31,	
	2017	2016
Land and land improvements	\$1,538	\$1,335
Buildings	5,394	5,265
Machinery and equipment	10,913	9,363
Rental equipment	2,763	1,972
	20,608	17,935
Less: accumulated depreciation and amortization	(10,741)	(9,928)
	\$9,867	\$8,007

Depreciation expense and amortization (in thousands) was approximately \$926 and \$821 for the years ended December 31, 2017 and 2016, respectively.

NOTE 2. - NOTES PAYABLE

Notes payable consist of the following (in thousands):

	December 31,	
	2017	2016
Note payable to a Bank, maturing June 2021; with monthly payments of approximately \$26 of principal and interest fixed at 3.99%; collateralized by principally all assets of the Company.	\$1,071	\$1,329
Note payable to a Bank, maturing July 2031; with monthly payments of approximately \$11 of principal and interest fixed at 5.29%; collateralized by principally all assets of Smith-Columbia Corporation and guaranteed by Smith-Midland Corporation.	1,234	1,293
Note payable to a Bank, maturing April 2021; with monthly payments of approximately \$6.2 of principal and interest at prime at variable rate (5.29% at December 31, 2017); collateralized by certain property of the Company.	227	288
Installment notes, collateralized by certain machinery and equipment maturing at various dates, primarily through 2021; with monthly payments varying from \$0.3 to \$4.1 with weighted average interest at 4.2%.	1,001	1,023

A revolving line-of-credit evidenced by a note payable to a Bank, with the maximum amount of \$2,000,000, maturing September 12, 2018, with interest only payments and an initial rate of 4.49% adjustable monthly (3.99% at December 31, 2017). The line-of-credit is collateralized by a first lien position on the Company's accounts receivable and inventory and a second lien position on all other business assets.

	3,533	3,933
Less current maturities	637	587
	\$2,896	\$3,346

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Smith-Midland Corporation
and Subsidiaries
Notes to Consolidated Financial Statements
(continued)

The Company's note payable, which matures in June 2021, with a balance (in thousands) of \$1,071 at December 31, 2017, is secured by all of the assets of the Company. The commitment letter provided by the bank dated September 12, 2017 includes certain restrictive covenants, which require the Company to maintain minimum levels of tangible net worth, places limits on annual capital expenditures and the payment of cash dividends. At December 31, 2017, the Company was in compliance with all covenants pursuant to the loan agreement, with the increase in the annual capital expenditures limit from \$1.5 million to \$3.5 million during the year ended December 31, 2017.

The aggregate amounts of notes payable maturing in each of the next five years and thereafter are as follows (in thousands):

Year Ending December 31,

2018	\$637
2019	620
2020	640
2021	478
2022	166
Thereafter	992
	\$3,533

NOTE 3. - RELATED PARTY TRANSACTIONS

The Company currently leases a portion of its Midland, Virginia property from its CEO, on a month-to-month basis, as additional storage space for the Company's finished work product. The lease agreement calls for an annual rent of \$24,000.

The Company has an employment agreement with its current CEO which automatically renews on an annual basis for an additional year, unless earlier terminated or not renewed as provided for therein. The agreement provides for an annual base salary of \$99,000 and an annual royalty fee of \$99,000 payable as consideration for the CEO's assignment to the Company of all of his rights, title and interest in certain patents. Payment of the royalty continues only for as long as the Company is using the inventions underlying the patents. Additionally, if the CEO (i) voluntarily leaves the employ of the Company within six months of his becoming aware of a Change of Control (as defined in the agreement) of the Company, then he shall be entitled to receive a lump sum amount equal to three times the five-year average of his combined total annual compensation, which includes the Base Salary and bonus, less one dollar (\$1.00), and certain other unpaid accrued amounts as of the date of his termination, or (ii) is terminated by the Company without Cause (as defined in the agreement) or leaves the Company with Good Reason (as defined in the agreement), the CEO shall be entitled to a lump sum payment equal to three times the combined Base Salary and bonus paid during the immediately preceding calendar year, and such other unpaid accrued amounts. In any of such cases, the Company will provide the

CEO with certain Company fringe benefits for two years, subject to certain conditions as provided for in the agreement, and all of the CEO's unvested options, if any, to purchase Company stock shall become fully vested and exercisable on the date of termination and all restricted stock, if any, shall be fully vested on the date of termination. The CEO will be entitled to exercise all such options for three years from the date of termination.

In the event the CEO's employment by the Company ceases as a result of the CEO's (i) death, his estate shall be entitled to a lump sum payment of one times the combined Base Salary and bonus, and certain other accrued and unpaid amounts, or (ii) disability, the CEO shall be entitled to Base Salary and bonus for a period of one year commencing with the date of termination, and all other unpaid accrued amounts.

Smith-Midland Corporation
and Subsidiaries
Notes to Consolidated Financial Statements
(continued)

NOTE 4. - INCOME TAXES

Income tax expense is comprised of the following (in thousands):

	December 31,	
	2017	2016
Federal:		
Current	\$455	\$777
Deferred	421	514
	876	1,291
State:		
Current	76	108
Deferred	105	63
	181	171
	\$1,057	\$1,462

The provision for income taxes differs from the amount determined by applying the federal statutory tax rate to pre-tax income as a result of the following (in thousands):

	December 31,			
	2017		2016	
Income taxes at statutory rate	\$ 1,269	34.0	% \$1,461	34.0 %
Increase (decrease) in taxes resulting from:				
State income taxes, net of federal benefit	136	3.6	% 134	2.7 %
Domestic production activities deduction	—	—	% (77) (1.6)%
Stock compensation deferred tax asset write-off	—	—	% 25	0.5 %
Deferred true-ups	161	4.3	% —	— %
Provision-to-return	152	4.1	% —	— %
Rate reduction	(664) (17.8)% —	— %
Other	3	0.1	% (81) (1.6)%

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	\$	1,057	28.3	%	\$1,462	5.44							
Total Real Estate Securities	\$1,552,173		\$(64,098)		\$1,488,075		\$	11,201	\$(26,485)	\$1,472,791	3.60%	3.14%	8.82

December 31, 2012:

(\$ in thousands)

	Current Principal	Unamortized Premium (Discount)	Amortized Cost	Gross Unrealized		Fair Value	Weighted Average		Weighted Average Life(Years) ⁽¹⁾
				Gains	Losses		Coupon	Yield	
Non-Agency RMBS	\$26,890	\$(13,400)	\$13,490	\$117	\$(11)	\$13,596	2.20%	8.50%	7.80

Average lives of MBS are generally shorter than stated contractual maturities. Average lives are affected by the (1) contractual lives of the underlying mortgages, scheduled periodic payments of principal, and unscheduled prepayments of principal.

The vast majority of our capital is allocated to our Agency RMBS strategy. Within this strategy, we generally target Agency RMBS pools that, taking into account their particular composition and based on our prepayment projections: (1) will generate attractive yields relative to other Agency RMBS and U.S. Treasury securities, (2) will have less prepayment sensitivity to government policy shocks and/or (3) create opportunities for trading gains once the market recognizes their value, which for newer pools may come only after several months when actual prepayment experience can be observed. As of September 30, 2013, investments in non-Agency RMBS constitute a relatively small portion of our total investments.

During the late second and early third quarters of 2013, market uncertainty around future actions of the Federal Reserve with respect to its accommodative monetary policies, particularly related to its asset purchase programs, created significant volatility in the U.S. fixed-income markets. While most sectors of the U.S. fixed-income market were impacted, Agency RMBS were among the hardest hit. However, following the Federal Reserve's surprise decision on September 18th that it would postpone tapering its asset purchases, fixed-income markets rallied, including MBS, reversing or partially reversing the losses sustained earlier in the quarter. It is likely that ongoing volatility and uncertainty will be a significant factor in the market for Agency RMBS, as actions by the Federal Reserve and market speculation about future actions by the Federal Reserve will continue to impact this market.

Financial Derivatives

The following table summarizes our portfolio of derivative holdings as of September 30, 2013:

(In thousands)	Fair Value	
Financial derivatives-assets at fair value:		
TBA securities purchase contracts	\$104	
Fixed payer interest rate swaps	23,077	
Total financial derivatives-assets at fair value:	23,181	
Financial derivatives-liabilities at fair value:		
TBA securities sale contracts	(5,572))
Fixed payer interest rate swaps	(1,409))
Fixed payer swaptions	(86))
Total financial derivatives-liabilities at fair value:	(7,067))
Total	\$16,114	

We did not hold any financial derivatives at December 31, 2012.

Our most common method of financing RMBS is through short-term repurchase agreements, which generally have maturities of 180 days or less. The weighted average life of the RMBS we own is generally much longer.

Consequently, the term of our repurchase agreement financing will almost always be substantially shorter than the expected average maturity of our RMBS. The mismatch in maturities, together with the uncertainty of RMBS prepayments, and other potential changes in timing and/or amount of cash flows on our RMBS assets, creates the risk that changes in interest rates will cause our financing costs with respect to our RMBS to increase relative to the income on our RMBS over the term of our investments.

Pursuant to our hedging program, we engage in a variety of interest rate hedging activities that are designed to reduce the interest rate risk with respect to the liabilities incurred to acquire or hold RMBS. These interest rate hedges generally seek to reduce the interest rate sensitivity of our liabilities or, in other words, reduce the volatility of our financing cost over time attributable to interest rate changes. Our interest rate hedging transactions may include:

- Interest rate swaps (a contract exchanging a variable rate for a fixed rate, or vice versa);
- Interest rate swaptions (options to enter into interest rate swaps at a future date);
- TBA forward contracts on Agency pass-through certificates;
- U.S. Treasury securities;
- Eurodollar and U.S. Treasury futures; and
- Other derivatives.

We generally enter into these transactions to offset the potential adverse effects of rising interest rates on short-term repurchase agreements. Our repurchase agreements generally have maturities of up to 180 days and carry interest rates that correspond to LIBOR or correlated benchmark rates for those same periods. As each then-existing fixed rate repo borrowing matures, it will generally be replaced with a new fixed rate repo borrowing based on market interest rates established at that future date.

In the case of interest rate swaps, most of our agreements are structured such that we receive payments based on a variable interest rate and make payments based on a fixed interest rate. The variable interest rate on which payments are received is calculated based on various reset mechanisms for LIBOR or a correlated benchmark rate. The swap agreements effectively fix certain of our borrowing costs, thus reducing risk to the extent we hold fixed rate assets. In the case of TBAs, most of our positions are short TBA positions with a negative duration, meaning that as interest rates rise, the value of the short position increases, so these positions serve as a hedge against increases in interest rates. In the event that interest rates rise, the increase in value of the short TBA position serves to offset corollary increases in our current and/or future borrowing costs under our repurchase agreements. While we primarily use TBAs to hedge interest rate risk, from time to time, we also hold net long positions in certain TBA securities as a means of acquiring exposure to Agency RMBS.

The composition and relative mix of our hedges may vary from period to period given the amount of our liabilities outstanding or anticipated to be entered into, the overall market environment and our view as to which instruments best enable us to execute our hedging goals.

Leverage

The following table summarizes our outstanding liabilities under repurchase agreements as of September 30, 2013. We had no other borrowings outstanding. We did not have any outstanding borrowings as of December 31, 2012:

Original Maturity	Borrowings Outstanding (In thousands)	Weighted Average	
		Interest Rate	Remaining Days to Maturity
30 days or less	\$513,660	0.36	% 11
31-60 days	412,485	0.38	45
61-90 days	143,530	0.38	74
91-120 days	28,897	0.39	105
121-150 days	99,464	0.42	136
151-180 days	94,910	0.41	164
Total	\$1,292,946	0.38	% 52

We finance our assets with what we believe to be a prudent amount of leverage, which will vary from time-to-time based upon the particular characteristics of our portfolio, availability of financing and market conditions. As of September 30, 2013, our borrowings consisted entirely of repurchase agreements collateralized by our Agency RMBS. Because our strategy is flexible, dynamic and opportunistic, our overall leverage will vary over time. As a result, we do not have a targeted debt-to-equity ratio, although we currently expect that our debt-to-equity ratio will be within a range of 6:1 to 10:1 for our Agency RMBS and 0:1 to 2:1 for our non-Agency RMBS. As of September 30, 2013, our total debt-to-equity ratio was 7.5 to 1. Collateral pledged with respect to our outstanding repo borrowings as of September 30, 2013 had a fair value of \$1.4 billion and was entirely comprised of Agency RMBS.

Shareholders' Equity

As of September 30, 2013, our shareholders' equity increased to \$171.8 million from \$31.0 million as of December 31, 2012. On May 1, 2013, we priced an initial public offering of our common shares, pursuant to which we sold 6,450,000 shares to the public at a price of \$20.00 per share. Concurrent with the initial public offering, we completed a private placement with our initial shareholders which resulted in gross proceeds to us of \$21.0 million and the issuance of 1,050,000 shares at a price of \$20.00 per share. Total gross proceeds from the initial public offering and concurrent private placement were \$150.0 million. Proceeds, net of offering costs, were approximately \$148.5 million. In addition, for the nine months ended September 30, 2013, we recorded a net loss of \$1.8 million. Our net loss was primarily the result of net realized and unrealized losses on our investment holdings, partially offset by net realized and unrealized gain on our financial derivatives. Finally, our Board of Trustees declared a second and third quarter dividend of \$0.14 per share and \$0.50 per share, respectively. For the nine months ended September 30, 2013, total cash dividends paid or payable amounted to \$5.8 million. As of September 30, 2013, our book value per share was \$18.80 as compared to \$18.96 as of December 31, 2012.

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Results of Operations for the Three and Nine Month Periods Ended September 30, 2013 and September 25, 2012 (commencement of operations) to September 30, 2012:

The following table summarizes our results of operations for the three and nine month periods ended September 30, 2013 and September 25, 2012 (commencement of operations) to September 30, 2012:

(In thousands except for per share amounts)	Three Month Period Ended September 30, 2013	Nine Month Period Ended September 30, 2013	September 25, 2012 (commencement of operations) to September 30, 2012
Interest income			
Net interest income	\$9,975	\$ 14,042	\$—
Expenses			
Management fees	644	1,466	8
Other operating expenses	713	1,448	—
Total expenses	1,357	2,914	8
Other Income (Loss)			
Net realized and change in net unrealized gains (losses) on real estate securities	6,066	(41,681) —
Net realized and change in net unrealized gains (losses) on financial derivatives	(7,899) 28,764	—
Total Other Income (Loss)	(1,833) (12,917) —
Net Income (Loss)	\$6,785	\$(1,789) \$(8
Net Income (Loss) Per Common Share	\$0.74	\$(0.31) \$(0.01

Core Earnings

Core Earnings consists of net income (loss), excluding realized and unrealized gains and losses on real estate securities and financial derivatives, and, if applicable, items of income or loss that are of a non-recurring nature. Core Earnings includes net realized and unrealized gains and losses associated with payments and accruals of periodic payments on interest rate swaps. Core Earnings is a supplemental non-GAAP financial measure that we present as an additional measure of our operating performance. We believe Core Earnings provides information useful to investors because it is a metric utilized by management to assess our performance and to evaluate the effective net yield provided by our portfolio. Moreover, one of our objectives is to generate income from the net interest margin on our portfolio and we use Core Earnings to help measure the extent to which we are achieving this objective. However, because Core Earnings is an incomplete measure of our financial results and differs from net income or net income (loss) computed in accordance with GAAP, it should be considered as supplementary to, and not as a substitute for, our net income (loss) computed in accordance with GAAP.

The table below details the components of Core Earnings and reconciles Core Earnings for the three and nine month periods ended September 30, 2013 to the line, Net Income (Loss), on our Consolidated Statement of Operations, which we believe is the most directly comparable GAAP measure:

(In thousands except share amounts)	Three Month Period Ended September 30, 2013	Nine Month Period Ended September 30, 2013
Net Income (Loss)	\$6,785	\$(1,789
Less:		
Net realized losses on real estate securities	(24,173) (26,290
Net realized gains on financial derivatives, excluding periodic payments ⁽¹⁾	4,224	12,670
Change in net unrealized gains (losses) on real estate securities	30,239	(15,391
Change in net unrealized gains (losses) on financial derivatives, excluding accrued periodic payments ⁽²⁾	(9,063) 20,265

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Sub-Total	1,227	(8,746)
Core Earnings	\$5,558	\$6,957	
Weighted Average Shares Outstanding	9,133,940	5,699,501	
Core Earnings Per Share	\$0.61	\$1.22	

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For the three month period ended September 30, 2013, represents Net realized gains on financial derivatives of \$4,273 thousand less Net realized gains (losses) on periodic settlements of interest rate swaps of \$49 thousand. For (1) the nine month period ended September 30, 2013, represents Net realized gains on financial derivatives of \$12,650 thousand less Net realized gains (losses) on periodic settlements of interest rate swaps of \$(20) thousand. See Note 5 in the notes to the consolidated financial statements.

For the three month period ended September 30, 2013, represents Net change in unrealized gains (losses) on financial derivatives of \$(12,172) thousand less Change in net unrealized gains (losses) on accrued periodic (2) settlements of interest rate swaps of \$(3,109) thousand. For the nine month period ended September 30, 2013, represents Net change in unrealized gains (losses) on financial derivatives of \$16,114 thousand less Change in net unrealized gains (losses) on accrued periodic settlements of interest rate swaps of \$(4,151) thousand. See Note 5 in the notes to the consolidated financial statements.

We have not measured Core Earnings for periods prior to 2013, as we do not believe it is meaningful given the relatively small size of the Company and limited operations of the Company prior to that time.

Results of Operations for the Three Month Period Ended September 30, 2013

Net Income (Loss)

We had net income for the three month period ended September 30, 2013 of \$6.8 million, or \$0.74 per share. We had Core Earnings of \$5.6 million, or \$0.61 per share.

Interest Income

Our primary source of income is the interest earned on our real estate securities. As of September 30, 2013, our portfolio consisted primarily of Agency RMBS, and to a lesser extent, non-Agency RMBS. We earned approximately \$11.2 million in interest income on these securities for the three month period ended September 30, 2013. The weighted average yield of our investment portfolio based on amortized cost for the three month period ended September 30, 2013 was 3.09%. Average investment holdings based on amortized cost was \$1.453 billion over this period.

Interest Expense

For the three month period ended September 30, 2013, the vast majority of interest expense that we incurred was related to our repo borrowings, which we use to finance our assets. Our average outstanding borrowings for the three months ended September 30, 2013 was \$1.3 billion, resulting in an average cost of funds of 0.38%. The following table shows information related to our average cost of funds for the three months ended September 30, 2013.

(\$ in thousands)	Average Borrowed Funds	Interest Expense	Average Cost of Funds	Average One-Month LIBOR	Average Six-Month LIBOR
For the Three Month Period Ended September 30, 2013	\$ 1,296,042	\$ 1,242	0.38 %	0.19 %	0.39 %

As an alternative measure of our cost of funds, we add to our average interest cost the net periodic amounts paid or payable by us on our interest rate swaps as a percentage of our average outstanding borrowings. Our net periodic expense paid or payable under our interest rate swaps was \$3.1 million for the three month period ended September 30, 2013, or 0.94% of our average outstanding borrowings, thereby resulting in average cost of funds including interest rate swaps of 1.32%. This metric does not take into account other instruments that we use to hedge interest rate risk, such as TBAs.

For the three month period ended September 30, 2013, our net interest margin, defined as the yield on our portfolio (See—Interest Income above), less our cost of funds (including the cost of interest rate swaps) was 1.77%.

Management Fees

For the three month period ended September 30, 2013, the management fee incurred was approximately \$0.6 million, which is based on shareholders' equity at the end of the quarter, excluding any unrealized gains (losses) included in shareholders' equity.

Other Operating Expenses

Other operating expenses include organizational expenses, professional fees, and various other expenses necessary to operate our business. Other operating expenses for the three month period ended September 30, 2013 were approximately \$0.7 million.

Other Income (Loss)

Other income (loss) consisted of net realized and change in net unrealized gains (losses) on real estate securities as well as derivatives. For the three month period ended September 30, 2013, other loss was \$1.8 million. This \$1.8 million consisted of net realized and unrealized losses of approximately \$7.9 million on our derivatives, partially offset by net realized and unrealized gains of \$6.1 million on our real estate securities. Our RMBS holdings rallied over the course of the quarter, in particular following the September 18th announcement by the Federal Reserve that it would not be tapering its asset purchases under QE3. Conversely, the values of our interest rate hedges declined over the course of the quarter.

Results of Operations for the Nine Month Period Ended September 30, 2013 and September 25, 2012 (commencement of operations) to September 30, 2012

Net Income (Loss)

We had a net loss for the nine month period ended September 30, 2013 of \$(1.8) million, or \$(0.31) per share. We had Core Earnings of \$7.0 million, or \$1.22 per share. For the period September 25, 2012 (commencement of operations) to September 30, 2012, we had a net loss of \$(8.0) thousand. We had limited operating activities during the period September 25, 2012 to September 30, 2012 and no interest income during this period.

Interest Income

Our primary source of income is the interest earned on our real estate securities. We began purchasing Agency RMBS in April 2013. Our portfolio as of September 30, 2013 consisted primarily of Agency RMBS, and to a lesser extent, non-Agency RMBS, and we earned approximately \$15.8 million in interest income on these securities for the nine month period ended September 30, 2013.

Interest Expense

For the nine month period ended September 30, 2013, the vast majority of interest expense that we incurred was related to our repo borrowings, which we use to finance our assets. Our average outstanding borrowings for the nine months ended September 30, 2013 was \$620.4 million, resulting in an average cost of funds of 0.38%. The following table shows information related to our average cost of funds for the nine months ended September 30, 2013. We had no borrowings prior to the second quarter of 2013.

(\$ in thousands)	Average Borrowed Funds	Interest Expense	Average Cost of Funds	Average One-Month LIBOR	Average Six-Month LIBOR
For the Nine Month Period Ended September 30, 2013	\$620,371	\$1,765	0.38	% 0.19	% 0.43

As an alternative measure of our cost of funds, we add to our average interest cost the net periodic amounts paid or payable by us on our interest rate swaps as a percentage of our average outstanding borrowings. Our net periodic expense paid or payable under our interest rate swaps was \$4.2 million for the nine month period ended September 30, 2013, or 0.90% of our average outstanding borrowings, thereby resulting in average cost of funds including interest rate swaps of 1.28%. This metric does not take into account other instruments that we use to hedge interest rate risk, such as TBAs.

Management Fees

For the nine month period ended September 30, 2013, the management fee incurred was approximately \$1.5 million, which is based on shareholders' equity at the end of each quarter, excluding any unrealized gains (losses) included in shareholders' equity.

Other Operating Expenses

Other operating expenses include organizational expenses, professional fees, and various other expenses necessary to operate our business. Other operating expenses for the nine month period ended September 30, 2013 were approximately \$1.4 million.

Other Income (Loss)

Other income (loss) consisted of net realized and net change in unrealized gain (losses) on real estate securities and derivatives. For the nine month period ended September 30, 2013, other loss was \$12.9 million, which consisted of net realized and unrealized losses of \$41.7 million on our real estate securities, principally our Agency RMBS, partially offset by net

realized and unrealized gains of approximately \$28.8 million on our derivatives. Interest rates rose sharply and asset valuations declined during the late second and early third quarters in connection with market uncertainty around future actions by the Federal Reserve related to its accommodative monetary policies. Our interest rate hedges, which are principally in the form of interest rate swaps and TBAs, offset a meaningful amount of the declines in the values of our assets during this period.

Liquidity and Capital Resources

Liquidity refers to our ability to meet our cash needs, including repaying our borrowings, funding and maintaining RMBS and other assets, paying dividends, and other general business needs. We expect our short-term (one year or less) and long-term liquidity requirements to include acquisition costs for assets we acquire, payment of our management fee, compliance with margin requirements under our reverse repurchase agreements, repurchase agreements, TBA and derivative contracts, repayment of repurchase agreement borrowings to the extent we are unable or unwilling to extend our repurchase agreements, the payment of dividends, and payment of our general operating expenses. We expect our capital resources will primarily include cash on hand, cash flow from our investments (including monthly principal and interest payments received on our RMBS and proceeds from the sale of securities), borrowings under repurchase agreements, and proceeds from equity offerings. We expect that these sources of funds will be sufficient to meet our short-term and long-term liquidity needs.

We borrow funds in the form of repurchase agreements. The terms of these borrowings under our Master Repurchase Agreements, or "MRAs," generally conform to the terms in the standard master repurchase agreement as published by the Securities Industry and Financial Markets Association as to repayment and margin requirements. In addition, each lender typically requires that we include supplemental terms and conditions to the standard MRA. Typical supplemental terms and conditions include the addition of or changes to provisions relating to margin calls, net asset value requirements, cross default provisions, certain key person events, changes in corporate structure, and requirements that all controversies related to the repurchase agreement be litigated in a particular jurisdiction. These provisions may differ for each of our lenders.

As of September 30, 2013, we had \$1.3 billion outstanding under our repurchase agreements. As of December 31, 2012, we had no borrowings outstanding. As of September 30, 2013, we had MRAs in place with nine counterparties and our outstanding repurchase agreements were with seven counterparties.

Amount at risk represents the aggregate excess, if any, for each counterparty of the fair value of collateral held by such counterparty over the amounts outstanding under repurchase agreements. The following table reflects counterparties for which the amounts at risk relating to the Company's repurchase agreements was greater than 5% of shareholders' equity as of September 30, 2013. The Company had no outstanding borrowings under repurchase agreements outstanding as of December 31, 2012.

Counterparty	Amount at Risk	Weighted Average Remaining Days to Maturity	Percentage of Shareholders' Equity	
	(In thousands)			
Deutsche Bank Securities	\$24,028	27	14.1	%
J.P. Morgan Securities Inc.	\$16,757	91	9.8	%
Bank of America Securities	\$13,326	41	8.6	%

Repurchase agreements involve the sale to a counterparty and a simultaneous agreement to repurchase the transferred assets or similar assets from such counterparty at a future date. The amount borrowed generally is equal to the fair value of the assets pledged less an agreed-upon discount, referred to as a "haircut." The Company's repurchase agreements are subject to the application of haircuts. As of September 30, 2013, the weighted average contractual haircut applicable to the assets that serve as collateral for the Company's outstanding repo borrowings was 4.3%. As of September 30, 2013, all of the Company's repo borrowings were related to its Agency RMBS.

We held cash and cash equivalents of approximately \$44.3 million and \$18.2 million as of September 30, 2013 and December 31, 2012, respectively.

We may declare dividends based on, among other things, our earnings, our financial condition, the REIT qualification requirements of the Internal Revenue Code, our working capital needs and new opportunities. The declaration of dividends to our shareholders and the amount of such dividends are at the discretion of our Board of Trustees.

Subsequent to our initial public offering in May 2013, our Board of Trustees has declared two quarterly dividends totaling \$5.8 million.

For the nine month period ended September 30, 2013, our operating activities provided net cash of \$18.6 million and our investing activities used net cash of \$1.433 billion. Our repo activity used to finance our Agency RMBS (including repayments, in conjunction with the sales of Agency RMBS, of amounts borrowed under our repurchase agreements) provided net cash of

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\$1.293 billion for the nine month period ended September 30, 2013. Our operating and investing activities, when combined with our net repo financing activities, used cash of \$121.1 million for the nine month period ended September 30, 2013. We received net proceeds from the issuance of common shares as a result of the completion of our initial public offering of \$148.5 million, after offering costs. For the nine month period ended September 30, 2013 we used \$1.3 million to pay dividends (the third quarter dividend of \$0.50 per share declared by our Board of Trustees was paid in October 2013). As a result of these activities, there was an increase in our cash holdings of \$26.2 million from \$18.2 million as of December 31, 2012 to \$44.3 million as of September 30, 2013.

On August 13, 2013, our Board of Trustees approved the adoption of a \$10 million share repurchase program. The program, which is open-ended in duration, allows the Company to make repurchases from time to time on the open market or in negotiated transactions. Repurchases are at the Company's discretion, subject to applicable law, share availability, price and the Company's financial performance, among other considerations. No purchases have been made under the program to date.

Based on our current portfolio, amount of free cash on hand, debt-to-equity ratio and current and anticipated availability of credit, we believe that our capital resources will be sufficient to enable us to meet anticipated short-term and long-term liquidity requirements.

We are not required by our investment guidelines to maintain any specific debt-to-equity ratio, and we believe that the appropriate leverage for the particular assets we hold depends on the credit quality and risk of those assets, as well as the general availability and terms of stable and reliable financing for those assets.

Contractual Obligations and Commitments

We are a party to a management agreement with our Manager. Pursuant to that agreement, our Manager is entitled to receive a management fee based on shareholders' equity, reimbursement of certain expenses and, in certain circumstances, a termination fee. Such fees and expenses do not have fixed and determinable payments. We enter into repurchase agreements with third-party broker-dealers whereby we sell securities to such broker-dealers at agreed-upon purchase prices at the initiation of the repurchase agreements and agree to repurchase such securities at predetermined repurchase prices and termination dates, thus providing the broker-dealers with an implied interest rate on the funds initially transferred to us by the broker-dealers. When we enter into a repurchase agreement, the lender establishes and maintains an account containing cash and securities having a value not less than the repurchase price, including accrued interest, of the repurchase agreement. We enter into reverse repurchase agreements with third-party broker-dealers whereby we purchase securities under agreements to resell at an agreed-upon price and date. In general, we most often will enter into reverse repurchase agreement transactions in order to effectively borrow securities that we can then deliver to counterparties to whom we have made short sales of the same securities. The implied interest rates on the repurchase agreements and reverse repurchase agreements we enter into are based upon market rates at the time of initiation. Repurchase agreements and reverse repurchase agreements that are conducted with the same counterparty may be reported on a net basis if they meet the requirements of ASC 210-20, Balance Sheet, Offsetting. As of September 30, 2013, there were no repurchase agreements and reverse repurchase agreements reported on a net basis on the Consolidated Balance Sheet.

As of September 30, 2013, we had \$1.3 billion of outstanding borrowings with seven counterparties. As of December 31, 2012, we had no outstanding borrowings. As of September 30, 2013, we had MRAs with nine counterparties. We expect to continue to have discussions with various other financial institutions in order to expand our repurchase agreement capacity.

Off-Balance Sheet Arrangements

As of September 30, 2013, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities. As such, we are not materially exposed to any market, credit, liquidity, or financing risk that could arise if we had engaged in such relationships.

Inflation

Virtually all of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with

inflation rates or changes in inflation rates. Our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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The primary components of our market risk are related to interest rate risk, prepayment risk, and credit risk. We seek to actively manage these and other risks and to acquire and hold assets that we believe justify bearing those risks, and to maintain capital levels consistent with those risks.

Interest Rate Risk

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, and other factors beyond our control. We are subject to interest rate risk in connection with most of our assets and liabilities. For some securities in our portfolio, the coupon interest rates on, and therefore also the values of, such securities are highly sensitive to interest rate movements, such as inverse floating rate RMBS, which benefit from falling interest rates, or certain deep discount floating rate RMBS, which benefit from rising interest rates. Subject to qualifying and maintaining our qualification as a REIT and our exemption from registration under the Investment Company Act, we intend to opportunistically hedge our interest rate risk by entering into interest rate swaps, TBAs, U.S. Treasury securities, Eurodollar and U.S. Treasury futures, and other instruments. In general, such hedging instruments are used to offset the large majority of the interest rate risk we estimate to arise from our repurchase agreement indebtedness associated with our Agency RMBS positions. Hedging instruments may also be used to offset a portion of the interest rate risk arising from our repurchase agreement liabilities associated with non-Agency RMBS positions, if any.

In addition to measuring and mitigating the risk related to changes in interest rates with respect to the generally shorter-term liabilities we incur to acquire and hold generally longer-lived RMBS, we also monitor the effect of changes in interest rates on the discounted present value of our portfolio of assets and liabilities. The following sensitivity analysis table shows the estimated impact on the fair value of our portfolio segregated by certain identified categories as of September 30, 2013, assuming a static portfolio and immediate and parallel shifts in interest rates from current levels as indicated below.

(In thousands)	Estimated Change in Value for a Decrease in Interest Rates by		Estimated Change in Value for an Increase in Interest Rates by	
	50 Basis Points	100 Basis Points	50 Basis Points	100 Basis Points
Agency RMBS, excluding TBAs	\$36,992	\$67,420	\$(43,556)	\$(93,676)
TBAs	(11,127)	(20,156)	13,225	28,549
Non-Agency RMBS	374	765	(358)	(700)
Interest Rate Swaps and Swaptions	(27,444)	(56,225)	26,107	50,878
Repurchase Agreements	(727)	(727)	925	1,849
Total	\$(1,932)	\$(8,923)	\$(3,657)	\$(13,100)

Our analysis of interest rate risk is derived from Ellington's proprietary models as well as third-party information and analytics. Many assumptions have been made in connection with the calculations set forth in the table above and, as such, there can be no assurance that assumed events will occur or that other events will not occur that would affect the outcomes. For example, for each hypothetical immediate shift in interest rates, assumptions have been made as to the response of mortgage prepayment rates, the shape of the yield curve, and market volatilities of interest rates; each of the foregoing factors can significantly and adversely affect the fair value of our interest rate-sensitive instruments. The above analysis utilizes assumptions and estimates based on management's judgment and experience, and relies on financial models, which are inherently imperfect; in fact, different models can produce different results for the same securities. While the table above reflects the estimated impacts of immediate parallel interest rate increases and decreases on specific categories of instruments in our portfolio, we intend to actively trade many of the instruments in our portfolio and intend to diversify our portfolio to reflect a portfolio comprised primarily of Agency RMBS, and, to a lesser extent, other RMBS and mortgage-related assets. Therefore, our current or future portfolios may have risks that differ significantly from those of our September 30, 2013 portfolio estimated above. Moreover, the impact of changing interest rates on fair value can change significantly when interest rates change by a greater amount than the hypothetical shifts assumed above. Furthermore, our portfolio is subject to many risks other than interest rate risks, and these additional risks may or may not be correlated with changes in interest rates. For all of the foregoing reasons and others, the table above is for illustrative purposes only and actual changes in interest rates would likely cause

changes in the actual fair value of our portfolio that would differ from those presented above, and such differences might be significant and adverse. See "Special Note Regarding Forward-Looking Statements."

Prepayment Risk

Prepayment risk is the risk of change, whether an increase or a decrease, in the rate at which principal is returned in respect of mortgage loans underlying RMBS, including both through voluntary prepayments and through liquidations due to defaults and foreclosures. This rate of prepayment is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal, and other factors. Changes in prepayment rates will have varying effects on the different types of securities in our portfolio. We attempt to take these effects into account in making asset management decisions with respect to our assets. Additionally, increases in prepayment rates may cause us to experience losses on our interest only securities, or "IOs," and inverse interest only securities, or "IIOs," as these securities are extremely sensitive to prepayment rates. Finally, prepayment rates, besides being subject to interest rates and borrower behavior, are also substantially affected by government policy and regulation.

Credit Risk

We are subject to credit risk in connection with our assets, especially our non-Agency RMBS. Credit losses on real estate loans underlying our non-Agency RMBS can occur for many reasons, including, but not limited to, poor origination practices, fraud, faulty appraisals, documentation errors, poor underwriting, legal errors, poor servicing practices, weak economic conditions, decline in the value of homes, special hazards, earthquakes and other natural events, over-leveraging of the borrower on the property, reduction in market rents and occupancies and poor property management services in the case of rented homes, changes in legal protections for lenders, reduction in personal income, job loss, and personal events such as divorce or health problems. Property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional, and local economic conditions (which may be adversely affected by industry slowdowns and other factors), local real estate conditions (such as an oversupply of housing), changes or continued weakness in specific industry segments, construction quality, age and design, demographic factors and retroactive changes to building or similar codes. For mortgage-related instruments, the two primary components of credit risk are default risk and severity risk.

Default Risk

Default risk is the risk that borrowers will fail to make principal and interest payments on their mortgage loans. Subject to qualifying and maintaining our qualification as a REIT and our exemption from registration under the Investment Company Act, we may selectively attempt to mitigate our default risk by, among other things, opportunistically entering into credit default swaps on individual RMBS or RMBS indices, whereby we would receive payments upon the occurrence of a credit event on the underlying reference asset or assets. We also rely on third-party mortgage servicers to mitigate our default risk, but such third-party mortgage servicers may have little or no economic incentive to mitigate loan default rates.

Severity Risk

Severity risk is the risk of loss upon a borrower default on a mortgage loan underlying our RMBS. Severity risk includes the risk of loss of value of the property underlying the mortgage loan as well as the risk of loss associated with taking over the property, including foreclosure costs. We rely on third-party mortgage servicers to mitigate our severity risk, but such third-party mortgage servicers may have little or no economic incentive to mitigate loan loss severities. Such mitigation efforts may include loan modification programs and prompt foreclosure and property liquidation following a default.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosures. An evaluation was performed 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 defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2013. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2013.

Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

Neither we nor our Manager is currently subject to any legal proceedings that we or our Manager considers to be material. Nevertheless, at any time, industry-wide or company-specific regulatory inquiries or proceedings can be initiated and we cannot predict when or if any such regulatory inquiries or proceedings will be initiated that involve us, Ellington, or its affiliates, including our Manager. See "Risk Factors—We, Ellington, or its affiliates may be subject to regulatory inquiries or proceedings" included in exhibit 99.1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013. Ellington and its affiliates have, over the years, received, and we expect in the future that they may receive, inquiries and requests for documents and information from various regulators.

We can give no assurances that regulatory inquiries will not result in investigations of Ellington or its affiliates or enforcement actions, fines or penalties or the assertion of private litigation claims against Ellington or its affiliates. We believe the intense scrutiny of CDO market participants in particular (including large CDO collateral managers such as Ellington) increases the risk of additional inquiries and requests from regulatory or enforcement agencies. In the event regulatory inquiries were to result in investigations, enforcement actions, fines, penalties or the assertion of private litigation claims against Ellington or its affiliates, our Manager's ability to perform its obligations to us under the Management Agreement between us and our Manager, or Ellington's ability to perform its obligations to our Manager under the services agreement between Ellington and our Manager, could be adversely impacted, which could in turn have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our shareholders.

Item 1A. Risk Factors

For information regarding factors that could affect our results of operations, financial condition, and liquidity, see the risk factors discussed under "Risk Factors" in exhibit 99.1 to our quarterly report on Form 10-Q for quarter ended March 31, 2013. There have been no material changes from these previously disclosed risk factors. See also "Special Note Regarding Forward-Looking Statements," included in Part I, Item 2 of this Quarterly Report on Form 10-Q.

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

On September 23, 2013, we issued 1,616 restricted common shares to each of Robert Allardice, III, David Miller, Thomas Robards and Ronald I. Simon, Ph.D., as compensation for serving as trustees. These restricted share grants were made pursuant to our 2013 Equity Incentive Plan and such grants were exempt from the registration requirements of the Securities Act based on the exemption provided by Section 4(2) of the Securities Act.

Item 6. Exhibits

Exhibit	Description
3.1	Articles of Amendment and Restatement of Ellington Residential Mortgage REIT filed on May 3, 2013 (incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2013).
3.2	Amended and Restated Bylaws of Ellington Residential Mortgage REIT (incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2013).
4.1	Specimen Common Share Certificate of Ellington Residential Mortgage REIT (incorporated by reference to the registration statement on Form S-11 (No. 333-187662), filed on April 23, 2013).
10.1	Form of Share Award Agreement (for directors) (incorporated by reference to the Company's Current Report on Form 8-K, filed on September 25, 2013).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes – Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002
101**	The following financial information from Ellington Residential Mortgage REIT's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheet, (ii) Consolidated Statement of Operations, (iii) Consolidated Statement of Shareholders' Equity, (iv) Consolidated Statement of Cash Flows and (v) Notes to Consolidated Financial Statements.

*Furnished herewith. These certifications are not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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.

Date: November 13, 2013

ELLINGTON RESIDENTIAL MORTGAGE REIT

By: /s/ LAURENCE PENN

Laurence Penn

Chief Executive Officer

(Principal Executive Officer)

Date: November 13, 2013

ELLINGTON RESIDENTIAL MORTGAGE REIT

By: /s/ LISA MUMFORD

Lisa Mumford

Chief Financial Officer

(Principal Financial and Accounting Officer)

EXHIBIT INDEX

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