



SMITH-MIDLAND®
EXCELLENCE IN PRECAST CONCRETE

2022 ANNUAL REPORT

TO ALL SMITH-MIDLAND STAKEHOLDERS



FINANCIAL PERFORMANCE

"We closed 2022 on a very strong note, with full year revenue nearly matching 2021 full year revenue, which included significant revenue from multiple high-profile, short-term barrier rental projects at the beginning of the prior year," said Ashley Smith, Chairman and

Chief Executive Officer of Smith-Midland. "Fourth quarter revenue increased 45 percent from the prior-year quarter, thanks to increased shipping and installation revenue related to SlenderWall and architectural projects that were produced in the second half of 2021, and higher barrier sales due to large barrier projects in North Carolina and South Carolina. We also announced multiple contract awards during and immediately after the end of 2022, including an \$8.6 million award for a project with the North Carolina Department of Transportation, a \$5 million award for SoftSound noise walls in Virginia, and a \$6 million project for architectural walls and columns in Virginia and New Jersey."

"We believe our prospects for 2023 remain strong thanks to regulatory tailwinds, infrastructure spending, and our record backlog. The ongoing replacement cycle, due to increased safety mandates, provides opportunities for our patented JJ-Hooks MASH-TL3 compliant highway barrier system.

Our backlog increased 81 percent on a year-over-year basis, thanks to healthy funding programs at the state and federal levels, as well as a continued vibrant commercial market throughout our geographic footprint. The previously mentioned projects will be manufactured across all three of our facilities. We have also made investments at our rental barrier storage yard and placed an order for a new concrete batch plant at our Columbia, SC location to improve our capacity and efficiency. In addition, the expansion of our rental barrier fleet increases the quantity and scale of projects we can service, which can also increase our revenues," Smith continued.

"We expect our steady increase in project bid activity and bid margins will drive higher revenues through 2023 and into next year. We will also continue to invest in improving our offerings, including SlenderWall and Easi-Set precast concrete products. Overall, we remain well-positioned to build on the momentum within our business, positioning us with multiple, strong long term growth opportunities to create shareholder value," concluded Smith.

PRECAST CONCRETE MANUFACTURING OPERATIONS AND PRODUCT SALES

Precast concrete product revenues for fiscal year 2022 were \$27.8 million. Barrier sales were the most significant revenue contributor for 2022 as we began production for two significant jobs in North

Carolina and South Carolina. Notable increases from 2021 occurred in Easi-Set and Easi-Span Building sales, up 35 percent year over year, and miscellaneous wall sales, up 48 percent year over year. Backlog continues to increase at all three manufacturing facilities as we continue to strategically expand our sales team. Inflationary increases in raw material costs and labor costs negatively impacted final results. Lean manufacturing methods and practices are continuously reinforced to optimize operational efficiencies.

EASI-SET WORLDWIDE PRECAST CONCRETE LICENSING

Smith-Midland's royalty revenues grew 13 percent to \$2.5 million for fiscal year 2022, marking the Company's highest recorded year related to royalty revenues. The 2022 results were due in part to royalties generated from the expansion into California following the approval from CALTRANS in 2021. The Company continues to focus on growing our licensee base to continuously improve our bottom-line results.

CONCRETE SAFETY BARRIER RENTALS

Barrier rental revenue for fiscal 2022 was approximately \$6.5 million. Rental revenues generated from the core barrier rental fleet increased by 11 percent during 2022 compared to 2021. Throughout 2022 the Company executed on a barrier buy-back agreement which increased the barrier rental fleet from approximately 250,000 linear feet at the end of 2021 to approximately 550,000 linear feet at the end of 2022. The Company hired a salesperson dedicated solely to barrier rental to continue to execute on shifting from barriers sales to barrier rentals. This shift will drive greater positive earnings to the bottom line as barrier rentals carry higher margins than barrier sales.

MACRO ENVIRONMENT AND OUTLOOK

With the record backlog and continued strength in bidding activity, Smith-Midland anticipates increased sales volumes starting in the second and third quarter of 2023 and continuing into 2024. The immediate outlook of continued infrastructure initiatives across the United States are anticipated to yield positive tail winds across our portfolio of patented, proprietary, and custom products. While we see a continually dynamic macro environment including increases in labor and material costs, we are working hard to mitigate these effects and to attract and retain quality labor as well as manage input costs. The Company remains focused on long-term strategic growth initiatives to drive shareholder value.

Sincerely,

A handwritten signature in black ink that reads "Ashley B. Smith". The signature is fluid and cursive, with a large, stylized 'S' at the end.

Ashley B. Smith
Chairman & CEO

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, 2022

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 Incorporation or Organization)

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

P.O. Box 300, 5119 Catlett Road

Midland, Virginia 22728

(Address of Principal Executive Offices, Zip Code)

Registrant's telephone number, including area code: (540) 439-3266

Securities Registered Under Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of exchange on which registered
Common Stock, \$0.01 par value per share	SMID	NASDAQ

Securities Registered Pursuant to Section 12(g) of the Act: None

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth 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.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correct of an error to previously issued financials statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recover period pursuant to §240.10D-1(b). ☐

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, 2022 (the last business day of the Company's most recently completed second fiscal quarter) was \$48,206,410. 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 13, 2023, the Company had outstanding 5,256,413 shares of Common Stock, \$.01 par value per share, net of treasury shares.

Documents Incorporated By Reference

None

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 had net income for the years ended December 31, 2022 and 2021 there are no assurances that the Company can remain profitable in future periods; in line with this risk, the Company incurred losses from operations for the quarters ended December 31, 2022, March 31, 2022 and December 31, 2021,
- there can be no assurances of revenue growth; in line with this risk, the Company had lower revenues for the year ended December 31, 2022 than in the prior year,
- while we have expended significant funds in recent years to increase manufacturing capacity and the barrier rental fleet, and plan to continue to increase manufacturing capacity, there is no assurance that we will achieve significantly greater revenues,
- although the ultimate impact is uncertain at this time, resurgence of the coronavirus outbreak may significantly affect the Company’s financial condition, liquidity, and results of operations. In this respect, the Company had previously experienced the following negative impacts on its business: backlog reduction during 2020 from that in 2019, lower production volumes, employee absences, supply chain delays, and bidding restrictions within certain key states,
- our debt level increased significantly in February 2022, and our ability to satisfy the same cannot be assured,
- our cash resources were significantly reduced during 2022 reflecting the significant purchase of barrier and equipment and a significant increase in accounts receivables and there can be no assurance that the Company’s cash will not be further reduced,
- our accounts receivables has increased during 2022 and our ability to fully collect these balances cannot be assured,
- we identified a material weakness in internal controls over financial reports related to the methodology initially applied to the estimation of the allowance for doubtful accounts for the fourth quarter of 2022,
- 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),
- the Company’s operations in 2022 and 2021 were adversely impacted by inflation in the purchase of raw materials such as cement, aggregates, and steel, and also with labor costs, and has continued into 2023,
- changes in general economic conditions in our primary service areas,
- adverse weather, which inhibits the demand for our products, or the installation or completion of projects,
- our compliance with governmental regulations,
- the outcome of future litigation, if any,
- potential decreases in our year to year contract backlog,
- cybersecurity incidents could disrupt business operations, result in the loss of critical and confidential information and adversely impact our reputation and results of operations,
- our ability to produce and install product on material construction projects 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, 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 and systems 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 and marketing 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 traffic noise; Sierra Wall™, a patented sound barrier primarily for roadside use; Easi-Set® and Easi-Span® patented transportable concrete buildings; and Beach Prisms™ erosion mitigating modules. In addition, the Company’s precast subsidiaries produce farm products such as cattleguards and water and feed troughs, custom order precast concrete products with various architectural surfaces, and 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, Inc., a Virginia corporation doing business as Easi-Set Worldwide; 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 concrete products market 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, and Trinidad.

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, in contrast 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 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.

SlenderWall® Lightweight Construction Panels

The SlenderWall® system is a patented 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 drywall mounting upon installation. The base components of each SlenderWall® panel consists of a galvanized stud frame with an exterior surface of approximately two-inch thick, steel reinforced, high-density, precast concrete (with integral water repellent), a thermal break, and various architectural surfaces. The exterior architectural concrete facing is attached to the interior steel frame by use of coated stainless steel fasteners 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, 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, ease of erection, and 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 architectural finishes, such as concrete, exposed stone, granite, metal, or thin brick and can be integrated with other cladding materials.

Sierra Wall™

The 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 patented 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.

J-J Hooks® Highway Safety Barrier

The 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 (in free-standing, bolted, or pinned installations) in construction work zones 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 ("FHWA") requires that states use only positively connected barriers, which meet NCHRP-350 or MASH crash test requirements. J-J Hooks Barriers that meet NCHRP-350 and MASH TL3 requirements are deemed eligible by the FHWA for federal-aid reimbursement. The Company has been issued patents with respect to J-J Hooks in the United States, Canada, and other countries.

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 Barrier 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, resembling 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 “J-Hook” face each other. To connect one section of a J-J Hooks Barrier to another, a contractor simply positions the J-Hook of an elevated section of the barrier above the J-Hook of a set section and lowers the elevated section into place. The positive connection is automatically engaged using the cast-in alignment slot.

The Company believes that the J-J Hooks Barrier load transfer connection design is superior to other 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, require 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. In September 2018 the FHWA approved a 20-foot design originally tested to NCHRP-350 TL3 requirements and approved by the FHWA (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 42 states have approved the MASH restrained barrier and 42 states have approved the MASH free-standing design as an alternate to their state standard. New Zealand, Australia, and the Canadian provinces of Alberta and Nova Scotia, have 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 and August 2018 received the FHWA federal-aid eligibility letters. The FHWA Eligibility letters B300 and B307 have been issued as of February 2018 and September 2018, respectively.

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

Easi-Set Precast Buildings are transportable, prefabricated, single-story, all concrete buildings 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 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 has been issued patents in connection with this product in the United States and Canada.

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.

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” 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

Beach Prisms™ is 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. 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. State and local approvals are necessary for installation of the product, and the Company has experienced challenges receiving approvals in their local markets.

H2Out™ Secondary Drainage System

H2Out™ is 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 and, in the case of Beach Prisms™, there can be no assurance of regulatory approvals.

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 experienced minor delays in obtaining materials, but believes that it will 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 for the manufacturing and sale rights for certain proprietary products, such as the J-J Hooks® Barrier, Easi-Set®/Easi-Span® Precast Buildings, SlenderWall®, SoftSound™ and Beach Prisms™. Generally, licenses are granted for a point of manufacture. The Company receives an initial one-time training and administration license fee varying on the product licensed. License royalties vary depending upon the product licensed, and typically range from 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 & promotional programs. The Company produces and distributes advertising & promotional materials and promotes the licensed products through its own advertising subsidiary, Midland Advertising + Design.

The Company maintains 56 licensing agreements in the United States, 8 in Canada, 2 in New Zealand, and 1 each in Australia, Belgium, Mexico, and Trinidad, for a total of 70 licenses worldwide.

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 uses 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, virtual meetings, advertisements in trade publications, and direct mail to end users.

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 within a 450 mile radius from its facilities, which includes the majority of the eastern United States.

The Company's precast product sales 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 production 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 Hopkins (Columbia), South Carolina compete favorably with respect to each of these factors in the Mid-Atlantic and Southeastern regions of the United States. Finally, the Company believes it offers a broad range of products that are highly competitive in these markets.

Intellectual Property

The Company seeks to protect our intellectual property rights by relying on federal, state and common law rights in the United States and other countries, as well as contractual restrictions. Our intellectual property assets include patents, patent applications, trade secrets, trademarks, trade dress, copyrights, operating and instruction manuals, crash tests, non-disclosure and other contractual arrangements.

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 could 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 targets 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.

Human Capital Resources

As of March 13, 2023, the Company had a total of 232 employees, of which 178 are full-time, 11 are part-time, and 43 are temporary workers, with 162 located at the Company's Midland, Virginia facility, 39 are located at the Company's facility in Reidsville, North Carolina and 31 are located at the Company's facility in Hopkins (Columbia), 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. Employees are competitively compensated with the local job markets at each facility. The Company considers its relationships with its employees to be satisfactory.

We manage our Company according to our vision, mission, and core principles. Included among these principles are respect for people, lead with humility, kaizen spirit, focus on process, seek perfection, assure quality at the source, create consistency of purpose, embrace scientific thinking, think systemically, and create value for the customer. We continue to focus on training and development of our associates at every level in the organization, and pride ourselves on safety, quality, delivery, morale, and cost. We expect that these approaches to leading and empowering our associates will create trust with our customers, creating sustainability and growth of the business.

The Company is committed to creating and maintaining a safe work-environment for all employees, customers, contractors, vendors, and the community. Through shared experiences and resources across all three facilities, the Company has cultivated a safety-first culture for all stakeholders.

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 58 acres of land in Midland, Virginia, which the Company owns. The manufacturing facility houses two concrete mixers and one concrete blender. The plant also includes two environmentally controlled casting areas, three 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 owns an additional 19 acres in Midland, Virginia, approximately two miles from the operations facility, of which 3 acres is developed as a storage yard for the rental barrier division. The Company is currently developing additional acreage at this lot for additional storage for the rental barrier division and it is expected to be completed in 2023.

The Company's second manufacturing facility is located in Reidsville, North Carolina on 46 acres of owned land and includes a 15,000 square foot manufacturing plant and administrative offices with additional space for future expansion. The facility began production in the fourth quarter 2021. The previous North Carolina facility, on 10 acres of owned land, including an 8,000 square foot manufacturing plant with administrative offices, remains operational with future use not determined at this time.

The Company's third manufacturing facility is located in Hopkins (Columbia), South Carolina. The facility is located on 39 acres of land owned by the Company and has approximately 40,000 square feet of production space and administrative offices. 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 are 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.

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 NASDAQ Capital Market under the symbol "SMID".

As of March 13, 2023, there were approximately 40 record holders of the Company's Common Stock. Management believes there are at least 1,000 beneficial owners of the Company's Common Stock.

Dividends

Although the Company has historically paid special dividends, the Company did not declare a dividend in 2022. The Company cannot guarantee 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, bank loan covenants, general economic conditions, potential coronavirus outbreak concerns, and other pertinent factors.

Item 6. Reserved

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. Dollar amounts are in thousands, except for per share amounts.

The Company generates revenues primarily from the sale, leasing, licensing, shipping and installation of precast concrete products and systems for the construction, utility and farming industries. The Company's operating strategy has involved producing and marketing innovative and proprietary products, including SlenderWall™, a patent pending, lightweight, energy efficient concrete and steel exterior wall panel for use in building construction; J-J Hooks® Barrier, a patented positive-connected highway safety barrier; Sierra Wall™, a patented 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 cattle guards; 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 outside of the Company's 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.

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company's financial condition, liquidity, and future results of operations. The Company had previously experienced an adverse impact to its business by a reduction in revenues in 2020 from that of 2019, a reduction in backlog during 2020 from that in 2019, lower production volumes, employee absences during 2020 and 2021, and bidding restrictions within certain key states such as Maryland and North Carolina. The Company is currently experiencing minor delays in receipt of materials through its supply chain. The Company may be further negatively impacted in the following respects:

a) by the potential inability of customers of the Company to pay amounts owed to the Company for products or services already provided should their businesses suffer setbacks; this risk is heightened by the relatively long lag time experienced by the Company in collecting accounts receivable (see "Liquidity and Capital Resources" below);

b) by potential supply side issues should our vendors experience hardships, and have to reduce or terminate operations, due to the COVID-19 outbreak, impacting the Company's sourcing of materials;

c) by increased adverse effects on our workforce due to contracting or taking care of a relative who has contracted COVID-19, or have been quarantined by a medical professional; in this respect, our workforce had been impacted at all locations in prior years, but this impact has substantially diminished in the current reporting year, but no assurance can be provided as to future impacts, particularly in view of potential new coronavirus outbreaks;

d) in the event that any of the three states in which we have facilities provide for the quarantine of our manufacturing employees, our production manufacturing will be significantly affected;

e) in the event that any of the states in which we sell our products and services may eliminate, cancel, or delay projects due to monetary limitations resulting from the COVID-19 outbreak; in this respect, the Company had previously seen a reduction in bidding activity;

f) the reduction of state infrastructure budgets due to the reduction in funding through the gas tax, or other funding sources;

g) the increase in the overall loan defaults, which in turn impacts the banking sector's ability to fund projects in which the Company's products may be utilized; and

h) in the event that economic hardships force the Company to default on loan payments, our loans may be called and our ability to borrow under our bank line of credit could cease;

Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Although the Company experienced a loss in the first quarter of 2020 and reduced revenues for the year 2020 as compared to 2019, as well as experiencing factors described above, given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to ultimately estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for future years.

The discussions below, including without limitation with respect to liquidity, are subject to the future effects of the COVID-19 outbreak. In this respect, should the outbreak cause serious economic harm in our areas of operation, our revenue expectations are unlikely to be fulfilled.

Overview

Overall, the Company's financial bottom line performance was lower in 2022 when compared to 2021. The Company had net income for 2022 of \$800 compared to net income of \$7,570 for 2021. Sales decreased by \$511 to \$50,131 in 2022 from \$50,642 in 2021. The decrease in sales is mainly from a decrease in barrier rentals and, to a lesser extent, a decrease in soundwall sales. The decrease in barrier rentals is attributed to a decrease in barrier rentals from short-term special barrier rental projects. Despite the decrease in total barrier rentals, barrier rental revenue from the core rental fleet increased 11% for the year ended December 31, 2022 from the year ended December 31, 2021. The decrease in soundwall sales was due to delays in approvals of customer drawings and therefore delays in production. Royalty income and shipping and installation revenue also increased in 2022 as compared to 2021. The increase in cost of goods sold as a percentage of revenue, not including royalties, for 2022 compared to 2021 is due to increased material and labor costs. Additionally, there were more short-term special barrier rental projects that occurred throughout 2021 than 2022, which carry higher margins than product sales. Operating expenses for 2022 increased over 2021 mainly due to increased selling costs associated with additional sales personnel and an increase in bad debt expense. Fourth quarter 2022 revenues were \$14,487 compared to \$10,017 in the fourth quarter 2021. The increase in revenue for the fourth quarter 2022 as compared to the fourth quarter 2021 was primarily due to an increase in barrier sales and an increase in shipping and installation. As of March 13, 2023, the Company's sales backlog was approximately \$52.4 million, as compared to approximately \$29.0 million around the same time in the prior year. The Company anticipates greater sales volumes throughout 2023, although no assurance can be provided. The Company continues to increase marketing and sales efforts towards SlenderWall sales and barrier rentals, in line with long-term strategic objectives.

Results of Operations

Year ended December 31, 2022 compared to the year ended December 31, 2021

For the year ended December 31, 2022, the Company had total revenue of \$50,131 compared to total revenue of \$50,642 for the year ended December 31, 2021, a decrease of \$511 or 1%. Revenue includes product sales, barrier rentals, royalty income, and shipping and installation revenues. Product sales are further divided into soundwall, architectural and SlenderWall™ panels, miscellaneous wall panels, highway barriers, Easi-Set®/Easi-Span® buildings, utility products, and miscellaneous precast products. The following table summarizes the revenue by type and a comparison for the years ended December 31, 2022 and 2021 (in thousands):

Revenue by Type (Disaggregated Revenue)	2022	2021	Change	% Change
Product Sales:				
Soundwall Sales.....	\$ 4,128	\$ 8,025	\$ (3,897)	(49)%
Architectural Sales.....	4,269	4,932	(663)	(13)%
SlenderWall Sales.....	1,489	1,795	(306)	(17)%
Miscellaneous Wall Sales.....	3,475	2,352	1,123	48%
Barrier Sales.....	6,717	4,686	2,031	43%
Easi-Set and Easi-Span Building Sales.....	4,089	3,036	1,053	35%
Utility Sales.....	2,023	2,468	(445)	(18)%
Miscellaneous Sales.....	1,631	1,206	425	35%
Total Product Sales.....	27,821	28,500	(679)	(2)%
Barrier Rentals.....	6,545	9,925	(3,380)	(34)%
Royalty Income.....	2,498	2,216	282	13%
Shipping and Installation Revenue.....	13,267	10,001	3,266	33%
Total Service Revenue.....	22,310	22,142	168	1%
Total Revenue.....	\$ 50,131	\$ 50,642	\$ (511)	(1)%

The revenue items: soundwall sales, architectural panel sales, SlenderWall sales, miscellaneous wall sales, miscellaneous sales, barrier rentals, and royalty income are recognized as revenue over time. The revenue items: barrier sales, Easi-Set and Easi-Span building sales, utility sales, and shipping and installation revenue are recognized as revenue at a point in time.

Soundwall Sales – Soundwall panel sales decreased by 49% in 2022 compared to 2021 primarily due to decreased production during 2022 at all facilities. Production for several projects concluded towards the end of 2021 at all facilities. Additionally, the Company experienced delays in customer drawing approvals throughout 2022 causing delays in production. The Company expects soundwall panel sales to be similar in 2023 as compared to 2022, although no assurance can be provided.

Architectural Sales – Architectural panel sales decreased by 13% in 2022 compared to 2021. The Company was awarded a large architectural project, which began production in the fourth quarter of 2020 and the majority of production occurred in 2021. Architectural sales are expected to decrease during 2023, as compared to 2022, with an anticipated shift to more SlenderWall sales, although no assurance can be provided.

SlenderWall Sales – SlenderWall panel sales decreased by 17% in 2022 compared to 2021. The decrease is mainly attributable to one large project, which started production in the second quarter of 2021 and concluded in the second quarter of 2022. Currently, the Company has the largest quantity of bids out for the SlenderWall product in history and expects to be awarded multiple projects in the near future. The Company continues to focus sales initiatives on SlenderWall, but no assurance can be given as to the success of this endeavor.

Miscellaneous Wall Sales – Miscellaneous wall sales can be highly customized precast concrete products or retaining and lagging panels that do not fit other product categories. Miscellaneous wall sales increased by 48% in 2022 when compared to 2021 due to the increased amount of retaining wall projects in production. Miscellaneous sales are expected to trend similar in 2023, as compared to 2022, although no assurance can be provided.

Barrier Sales – Barrier sales increased by 43% in 2022 when compared to 2021. The main reason for the increase is due to large barrier projects in North Carolina and South Carolina. The Company continues to focus on shifting barrier sales to barrier rentals in the Delaware to Virginia region. Barrier sales are expected to trend lower in 2023 than previous years as the Company continues to shift from barrier sales to barrier rentals.

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 increased by 35% in 2022 as compared to 2021 due to increased sales at all locations. Building and restroom sales are expected to continue to trend similar during 2023 as compared to 2022, although no assurance can be provided.

Utility Sales – Utility products are mainly comprised of underground utility vaults used in infrastructure construction. Utility product sales decreased by 18% in 2022 compared to 2021. The Company continues to competitively bid on utility projects to gain market share and has recently won multiple data center projects increasing the sales volume of dry utility vaults. Utility sales are expected to trend similar during 2023 as compared to 2022, although no assurance can be provided.

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, blocks or small add-on items. For 2022, miscellaneous product sales increased by 35% when compared to 2021. The change is mainly attributed to specialty products produced at the South Carolina plant throughout 2022. Miscellaneous product sales are expected to trend lower during 2023 as compared to 2022, although no assurance can be provided.

Barrier Rentals – Barrier rentals decreased by 34% in 2022 as compared to 2021. While both 2022 and 2021 barrier rentals included short-term special projects, 2022 had less rental revenue from short-term special barrier projects. As indicated above, the Company is continuing to shift its focus to barrier rentals compared to barrier sales with the significant increase in the rental fleet that occurred during 2022. Barrier rental revenue, excluding revenue from special barrier projects, is expected to trend higher in 2023 as compared to barrier rental revenue, excluding revenue from special barrier projects, in 2022, although no assurance can be given.

Royalty Income – Royalties increased by 13% in 2022 as compared to 2021. The increase in royalties is mainly due to the increase in barrier royalties during 2022 compared to 2021. Infrastructure spending continues to drive royalties, and the Company anticipates 2023 royalties to increase compared to 2022, although no assurance can be given.

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 increased by 33% for 2022 when compared to 2021. The increase is mainly attributed to the increase in shipping and installation of SlenderWall and architectural panels. This is associated with the increased production of SlenderWall and architectural panels that occurred in the third and fourth quarters of 2021.

Cost of Goods Sold – Total cost of goods sold for the year ended December 31, 2022 was \$40,662, an increase of \$4,440, or 12%, from \$36,222 for the year ended December 31, 2021. Total cost of goods sold as a percentage of total revenue, not including royalties, increased to 85% for the year ended December 31, 2022 from 75% for the year ended December 31, 2021. The increase in cost of goods sold as a percentage of revenue, not including royalties, is mainly due to the decrease in short-term special barrier rental projects, which carry higher margins than standard barrier rental projects due to the complexity and risk of the projects. Further, cost of goods sold for the year ended December 31, 2022 increased, as compared to the same period in 2021, due to inflationary impacts on material and labor costs.

General and Administrative Expenses – For the year ended December 31, 2022, the Company’s general and administrative expenses increased by \$135, or 2%, to \$5,551 from \$5,416 during the same period in 2021. The increase is mainly attributed to an increase in bad debt expense driven by the increase in accounts receivable. The increase was partially offset by a decrease in salaries and wages. General and administrative expense as a percentage of total revenue was 11% for the years ended December 31, 2022 and 2021.

Selling Expenses – Selling expenses for the year ended December 31, 2022 increased by \$228, or 8%, to \$3,064 from \$2,836 for the year ended December 31, 2021. Selling expenses increased during 2022 due to additional salespersons hired and increased advertising expenses. The Company expects selling expenses to increase in future periods with the plan for additional sales associates and increased advertising spending aligning with the strategy to increase SlenderWall sales and barrier rentals.

Operating Income – The Company had operating income for the year ended December 31, 2022 of \$854 compared to operating income of \$6,168 for the year ended December 31, 2021, a decrease of \$5,314, or 86%. The decrease in operating income was mainly due to the decrease in gross profit associated with the decrease in total revenue deriving from barrier rentals. Operating results for 2022 were also adversely impacted by rising costs of material and labor due to inflation.

Interest Expense – Interest expense was \$260 for the year ended December 31, 2022 compared to \$190 for the year ended December 31, 2021. The increase of \$70, or 37%, was due primarily to the increased level of indebtedness from the financing that occurred in the first quarter of 2022 for the real property acquired in the fourth quarter 2021.

Income Tax Expense – The Company had income tax expense of \$145 for the year ended December 31, 2022 compared to income tax expense of \$1,524 for the year ended December 31, 2021. The Company had an effective rate of 15.4% for the year ended December 31, 2022 compared to an effective rate of 16.8% for the same period in 2021. The decrease in the effective tax rate is attributed to current year tax credits and a decrease in the Company’s state tax liability.

Net Income – The Company had net income of \$800 for the year ended December 31, 2022, compared to net income of \$7,570 for the same period in 2021. Net income in 2021 included a gain of \$2,692 for forgiveness of a Paycheck Protection Program loan. The basic and diluted earnings per share was \$0.15 for 2022 compared to basic and diluted earnings per share of \$1.45 for the year ended December 31, 2021. There were 5,233 basic and 5,253 diluted weighted average shares outstanding in 2022, and 5,205 basic and 5,232 diluted weighted average shares outstanding in 2021.

Liquidity and Capital Resources

The Company financed its capital expenditures requirements for 2022 with cash balances on hand and notes payable to a bank. The Company had \$6,416 of debt obligations at December 31, 2022, of which \$626 is scheduled to mature within twelve months. During the twelve months ended December 31, 2022, the Company made repayments of outstanding debt in the amount \$581 and received \$2,805 in proceeds of borrowings related to the financing that occurred in the first quarter of 2022 for the real property acquired during the fourth quarter of 2021.

The Company has a mortgage note payable to Summit Community Bank (the “Bank”) for the construction of its North Carolina facility. The note carries a ten year term at a fixed interest rate of 3.64% annually per the Promissory Note Rate Conversion Agreement, with monthly payments of \$22, and is secured by all of the assets of Smith-Carolina and a guarantee by the Company. The balance of the note payable at December 31, 2022 was \$1,609.

On March 27, 2020, the Company completed the refinancing of existing loans with a note payable to the Bank in the amount of \$2,701. A portion of the funds in the amount of \$678 were secured for improvements to an existing five acre parcel for additional storage at the Midland, Virginia plant. The loan is collateralized by a first lien position on the Virginia property, building, and assets. The refinance also released the lien on the Smith-Columbia plant in Hopkins, South Carolina (Columbia). The interest rate per the Promissory Note is fixed at 3.99% per annum, with principal and interest payments payable monthly over 120 months in the amount of \$27. The loan matures on March 27, 2030. The balance of the note payable at December 31, 2022 was \$2,064.

On February 10, 2022, the Company completed the financing for its prior acquisition of certain real property in Midland, VA totaling approximately 29.8 acres with a note payable to the Bank in the amount of \$2,805. The loan is collateralized by a first lien position on the related real property. The interest rate is fixed at 4.09% per annum, with principal and interest payments payable monthly over 180 months for \$21. The loan matures on February 10, 2037. The balance of the note payable on December 31, 2022 was \$2,692.

The Company additionally has two smaller installment loans with annual interest rates of 2.90% and 3.99%, maturing in 2025, with balances totaling \$51.

Under the loan covenants with the Bank, the Company is limited to annual capital expenditures of \$5,000 and must maintain tangible net worth of \$10,000. The Company received a special exception to the capital expenditure covenant from the Bank to purchase barrier during 2022 for \$5,000 (see Note 7, Commitments and Contingencies, of the Financial Statements). The Company is in compliance with all covenants pursuant to the loan agreements as of December 31, 2022.

In addition to the notes payable discussed above, the Company has a \$5,000 line of credit with the Bank with no balance outstanding as of December 31, 2022. The line of credit is evidenced by a commercial revolving promissory note, which carries a variable interest rate of prime, with a floor of 3.50%, and matures on October 1, 2023. 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 \$5,000 during the term of the loan and (ii) to obtain bank approval prior to its funding of any acquisition. On October 1, 2022, 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 \$1,500. The commitment provides for the purchase of equipment 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 0.50% with a floor of 3.50% 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 October 1, 2023. As of December 31, 2022, the Company had not purchased any equipment pursuant to the \$1,500 commitment.

At December 31, 2022, the Company had cash totaling \$6,726 compared to cash totaling \$13,492 at December 31, 2021. The decrease in cash is primarily the result of higher accounts receivable at December 31, 2022 than at December 31, 2021 and from investing activities which used \$2,631 in cash primarily for the purchase of rental barrier, manufacturing equipment, and a vehicle. Financing activities provided \$2,199 in cash in 2022 mainly from the financing of real property purchased in the fourth quarter of 2021.

Capital spending, including financed additions, decreased from \$5,367 in 2021 to \$5,264 in 2022. Capital expenditures in 2022 were primarily related to spending for the buy-back of barrier for the barrier rental fleet. The Company anticipates capital spending for 2023 to be approximately \$5,000, which includes a new batch plant system, completion of yard development, completion of the barrier buy-back, and miscellaneous manufacturing equipment. Anticipated capital expenditures excludes acquisitions and plant expansions.

The Company’s notes payable are financed at fixed rates of interest. This leaves the Company almost impervious to fluctuating interest rates. Increases in such rates will only affect the interest paid by the Company if new debt is obtained, or the available line of credit is drawn upon, with a variable interest rate.

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 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 2022 and 2021 were 99 and 91 days, respectively. Although no assurances can be given, the Company believes that its current cash resources, anticipated cash flow from operations, and the availability under the line of credit will be sufficient to finance the Company's operations for at least the next 12 months.

The Company's accounts receivable balances, net of allowance for doubtful accounts, at December 31, 2022 was \$16,223, compared to \$10,013 at December 31, 2021. The increase is primarily the result of turnover of the accounts receivable position throughout the later part of 2022 until the first quarter of 2023. The Company expects accounts receivable balances to trend downwards, beginning in the second quarter of 2023, with increased collection efforts as a result of the fulfillment of the accounts receivable position, although no assurance can be provided.

The Company's inventory at December 31, 2022 was \$3,818 and at December 31, 2021 was \$2,845, an increase of \$974. The annual inventory turns for 2022 and 2021 were 14.1 and 15.4, respectively. Finished goods inventory slightly increased for 2022 as compared to 2021.

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, comparative accounts receivable aging statistics, and other customer specific considerations existing and known as of the time of the analysis. 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, and the associated shipping and installation revenue, at shipment date, including revenue derived from any projects to be completed under short-term contracts. Leasing and royalties are recognized as revenue over time. Certain sales of soundwall, SlenderWall, and other architectural concrete products are recognized over time because as the Company's performance creates or enhances customer controlled assets or creates or enhances an asset with no alternative use, and the Company has an enforceable right to receive compensation. Over time product contracts are estimated based on the number of units produced (output method) during the period multiplied by the unit rate stated in the contract. As the output method is driven by units produced, the Company recognizes revenues based on the value transferred to the customer relative to the remaining value to be transferred. The Company also matches the costs associated with the units produced. If a contract is projected to result in a loss, the entire contract loss is recognized in the period when the loss was first determined and the amount of the loss updated in subsequent reporting periods. Revenue recognition also includes an amount related to a contract asset or contract liability. If the recognized revenue is greater than the amount billed to the customer, a contract asset is recorded in accounts receivable trade - unbilled. Conversely, if the amount billed to the customer is greater than the recognized revenue, a contract liability is recorded in customer deposits. Changes in the job performance, job conditions and final contract settlements are factors that influence management's assessment of total contract value and therefore, profit and revenue recognition.

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 affected by inflation in 2022 and 2021, particularly in the purchases of certain raw materials such as cement, aggregates, and steel, and with labor costs. The Company believes that raw material pricing and labor costs will increase in 2023, although no assurance can be given regarding future pricing or costs.

Backlog

As of March 13, 2023, the Company's sales backlog was approximately \$52.4 million as compared to approximately \$29.0 million at approximately the same time in 2022. It is estimated that most of the projects in the sales backlog will be produced within 12 months, but a few will be produced over multiple years. The increase in backlog was due to an increase in orders for products to be produced at all three manufacturing facilities, as well as an increase in the barrier rental backlog, as compared to the prior year. The Company expects the backlog to increase with continued bidding on large infrastructure and SlenderWall/architectural projects, although no assurance can be given.

The risk exists that recessionary economic conditions and the coronavirus outbreak 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 both production and administrative processes, and has streamlined many of these processes through lean activities. During 2022 and 2021, the Company, through lean activities, continued to see positive effects in production and office areas. The lean business philosophy is a long-term, customer focused approach to continuous improvement by eliminating waste and providing value. It is management's intention to continue on the lean journey while implementing a lean culture throughout the Company to help reach our goals for 2023. The Company's lean efforts are aimed to increase quality to the customer, significantly reduce defects, while increasing production capacity and sales volume. In order to meet these goals, substantial improvements through lean tools and lean thinking are being implemented company wide.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements, which appear beginning on page F-1, 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

Evaluation of Disclosure Controls and Procedures

In connection with the preparation of this report, an evaluation was carried out by certain members of the Company's management, with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined in Securities and Exchange Commission's (SEC) Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act")) as of December 31, 2022. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the CEO and the CFO, to allow timely decisions regarding required disclosures.

Due to a material weakness in internal control over financial reporting described below, management concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2022. Notwithstanding the existence of this material weakness, management believes that the consolidated financial statements in this annual report filed on Form 10-K present, in all material respects, the Company's financial condition as reported, in conformity with United States Generally Accepted Accounting Principles ("GAAP").

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 Exchange Act. 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 GAAP. 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 GAAP, 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.

Management has completed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). As a result of this assessment, management has concluded controls were not effective due to an identified material weakness in internal control over financial reporting. A material weakness is a control deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The Company identified a material weakness in the methodology initially used to estimate the allowance for doubtful accounts related to the fourth quarter 2022.

As a result of this material weakness, the Company's management has concluded that, as of December 31, 2022 the Company's internal control over financial reporting was not effective based on the criteria in *Internal Control – Integrated Framework (2013)* issued by the COSO.

Management communicated the results of its assessment to the Audit Committee of the Board of Directors. As a "smaller reporting company", the Company is exempt from the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002. As a result, the Company's independent registered public accounting firm has not audited or issued an attestation report with respect to the effectiveness of our internal control over financial reporting as of December 31, 2022.

Remediation Efforts

Management is committed to the remediation of the material weakness described above. To address the material weakness associated with the estimation of the allowance for doubtful accounts, management has revised its methodology applied for the fourth quarter. Further, the methodology for calculating the allowance has been further revised in 2023 in consideration of ASU No. 2016-13, “*Measurement of Credit Losses on Financial Instruments*.” Refer to *Recently Adopted Accounting Pronouncement* in the Financial Statements of the Company set forth herein, for additional information.

Changes in Internal Control over Financial Reporting

Other than as described above, there were no other changes in the Company’s internal control over financial reporting identified in management’s evaluation pursuant to Rules 13a-15(f) and 15d-15(f) of the Exchange Act during the quarter ended December 31, 2022 that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

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
Ashley B. Smith.....	60	1994	Chairman of the Board of Directors, Chief Executive Officer, and President
Wesley A. Taylor.....	75	1994	Director
James Russell Bruner....	67	2018	Director
Richard Gerhardt	56	2016	Director
Adam J. Krick.....	37	2018	Former Chief Financial Officer, Secretary, and Treasurer
Stephanie Poe	33	2023	Chief Financial Officer, Secretary, and Treasurer

Background

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

Ashley B. Smith. *Chairman of the Board of Directors, Chief Executive Officer, and President.* Ashley B. Smith has served as Chairman of the Board of Directors since January 2022, Chief Executive Officer of the Company since May 2018, President of the Company since 2012, and as a Director since 1994. Mr. Smith was Vice President of the Company from 1990 to 2011. He is a past Chairman of the National Precast Concrete Association. Mr. Smith serves on the Board of Trustees of Bridgewater College in Bridgewater, Virginia. Mr. Smith holds a Bachelor of Science degree in Business Administration from Bridgewater College. The Company believes that Mr. Smith’s education, experience in the precast concrete industry and business experience gives him the qualifications and skills necessary to serve in the capacity as a director of the Company.

Wesley A. Taylor. *Director.* Wesley A. Taylor served as Vice President of Administration of the Company from 1989 until January 2017 and has served as a Director since 1994. 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 of the Company.

James Russell Bruner. *Director.* Mr. Bruner has served as a member of the Board of Directors of the Company since December 2018. Mr. Bruner has served as Chairman of Maersk Line, Limited ("Maersk Line") since November 2016 and was President and Chief Executive Officer of Maersk Line from January 2014 to November 2017. Maersk Line owns and operates a fleet of container and tanker ships that are under the flag of the United States. These ships support military, government and humanitarian missions through the transportation of United States government cargo on an international basis. Maersk Line operates as a subsidiary of A.P. Moller-Maersk A/S, an integrated transport and logistics company headquartered in Copenhagen, Denmark. Mr. Bruner attended Bridgewater College in Virginia. He is a graduate of the University of Michigan Executive Program and Harvard Business School's Advanced Management Program. The Company believes that Mr. Bruner'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 is currently President of Sales Services International, Inc., a consulting firm, and Chief Sales Officer for IMEX Global Solutions, Inc., a logistics company, since April 2020, and is serving as a Fauquier County, Virginia Supervisor for the Cedar Run Magisterial District since January 2016. 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, Chief Operating Officer, and 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. *Former Chief Financial Officer, Secretary, and Treasurer.* Adam J. Krick served as Chief Financial Officer of the Company from January 2018 through December 31, 2022. 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 served on the Board of Directors for the Precast/Prestressed Concrete Institute, and as the Vice Chair for the Precast/Prestressed Concrete Institute Mid-Atlantic Chapter. Mr. Krick is a Certified Public Accountant and holds a Bachelor of Business Administration degree in Accounting from James Madison University.

Stephanie Poe. *Chief Financial Officer, Secretary, and Treasurer.* Stephanie Poe has served as Chief Financial Officer, Secretary, and Treasurer of the Company since January 2023. Prior to becoming the Chief Financial Officer, Secretary, and Treasurer, Ms. Poe served as the Controller for the Company since January 2022 and the Accounting Manager for the Company since November 2017. Prior to joining the Company, Ms. Poe worked at Ernst & Young as part of their tax practice. Ms. Poe is a Certified Public Accountant and holds a Bachelor of Science degree in Accounting from Appalachian State University and a Master of Science degree in Accounting from George Mason University.

Delinquent Section 16(a) Reports

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 ("Reporting Persons") to file initial reports of ownership and subsequent reports when there are changes in ownership with the Securities and Exchange Commission and any national securities exchange on which the Company's securities are registered. Based solely upon our review of the copies of all Forms 3, 4 and 5 and amendments to these forms that have been filed with the Securities and Exchange Commission, we believe that all Reporting Persons complied on a timely basis with all filing requirements applicable to them with respect to our fiscal year ended December 31, 2022, except that each of Wesley A. Taylor, Richard Gerhardt and Adam J. Krick filed one late Form 4 with respect to shares of the Company's Common Stock withheld to pay tax on vested restricted stock.

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 June 3, 2020. 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. The code of ethics is also posted on the Company's website at www.smithmidland.com on the home page.

Audit Committee

The Company created an Audit Committee in August 2018. The Audit Committee consists of James Russell Bruner, Richard Gerhardt, and Wesley A. Taylor, the three independent board members. Mr. James Russell Bruner is an audit committee financial expert.

Item 11. Executive Compensation

The following table sets forth the compensation paid by the Company for services rendered for 2022 and 2021 to the principal executive officer, as well as the other executive officer of the Company (the "named executive officers"):

Summary Compensation Table

	Year	Salary \$(1)	Bonus \$(2)	Stock Awards (\$)	All Other Compensation (\$)	Total (\$)
Ashley B. Smith	2022	321,769	155,256	-	12,200	489,225
Chief Executive Officer and President (3)(4)	2021	367,219	91,175	275,446	11,600	745,440
Adam J. Krick.....	2022	186,865	36,456	-	7,404	230,725
Former Chief Financial Officer (5)(6)	2021	207,273	38,142	134,667	7,108	387,190

- (1) Represents salaries paid in 2022 and 2021 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) "Stock Awards" for 2021 include 5,000 restricted shares granted in October 2021 pursuant to the Company's 2016 Equity Incentive Plan (the "Equity Plan"), of which 1,667 shares vested in full immediately on the grant date, 1,667 shares vested one year following the grant date, and the remaining 1,666 vest two years following the grant date. "Stock Awards" also include the value of performance-based restricted stock awarded based on the aggregate grant date fair value of the awards. With respect to a restricted stock award granted in April 2021 pursuant to the Equity Plan, we had estimated that the target level of shares would vest over a three-year cycle based on the stock price at date of grant \$11.72 per share, as reflected in the fair value above. The amounts in this column do not necessarily correspond to the actual value that will be realized by the named executive officer. The level of award (minimum, target or maximum) and final vesting is based on the Company's aggregate level of stated parameters over the entirety of the three-year cycle. The value of the common stock shares at the grant dates were \$275,446.
- (4) "All Other Compensation" includes Company matching contributions to the 401(k) plan in the amounts of \$12,200 and \$11,600 for the years 2022 and 2021, respectively.
- (5) "Stock Awards" for 2021 include 3,000 restricted shares granted in October 2021 pursuant to the Company's Equity Plan, of which 1,000 shares vested in full immediately on the grant date, 1,000 shares vested one year following the grant date, and the remaining 1,000 vest two years following the grant date. "Stock Awards" also include the value of performance-based restricted stock awarded based on the aggregate grant date fair value of the awards. With respect to a restricted stock award granted in April 2021 pursuant to the Equity Plan, we had estimated that the target level of shares would vest over a three-year cycle based on the stock price at date of grant \$11.72 per share, as reflected in the fair value above. The amounts in this column did not necessarily correspond to the actual value that would be realized by the named executive officer. The level of award (minimum, target or maximum) and final vesting was based on the Company's aggregate level of stated parameters over the entirety of the three-year cycle. The value of the common stock shares at the grant dates were \$135,667. All unvested units were forfeited on December 31, 2022 upon Mr. Krick's resignation.
- (6) "All Other Compensation" includes Company matching contributions to the 401(k) plan in the amounts of \$7,404 and \$7,108 for the years 2022 and 2021, respectively.

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, 2022.

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 (\$)(1)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights Vested (#)(2)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights that have not Vested (2)
Ashley B. Smith	—	—	—	—	1,666	34,153	15,870	325,335
Adam J. Krick (3)	—	—	—	—	—	—	—	—
TOTAL	—	—	—	—	1,666	34,153	15,870	325,335

- (1) The number of shares and their respective values in this chart reflect the total remaining shares to vest over the three-year retention of employment period based on the stock price at December 31, 2022 of \$20.50.
- (2) With respect to a grant of performance based restricted stock in 2021, the number of shares and their respective values in this chart reflect the total over the three-year performance period pursuant to the Equity Plan based on the stock price at December 31, 2022 of \$20.50. The level of award (minimum, target, or maximum) and final vesting is based on the Company's levels of revenue growth, EBITDA margin, free cash flow, as well as Board discretion and retention of employment. The award was based on the target level. Actual number of shares vested may differ, and the award is spread over the three-year vesting period of the plan, not just one, as implied by the chart.
- (3) All unvested units were forfeited on December 31, 2022 upon Mr. Krick's resignation

Compensation of Directors

All non-executive officer Directors receive \$3,000 per meeting as compensation for their services as Directors, with an additional \$3,000 annual fee for service as the chair of the Audit Committee and \$3,000 annual fee for service as the chair of the Compensation Committee.

The Company does not pay any additional compensation to directors who are members of our management or are employed by the Company, but the Company reimburses all directors for out-of-pocket expenses incurred in connection with attending Board and committee meetings or otherwise in their capacity as directors.

Fiscal 2022 Director Compensation

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation	Non-Qualified Deferred Compensation Earnings	All Other Compensation	Total (\$)
Ashley B. Smith (1)	—	—	—	—	—	—	—
Wesley A. Taylor	9,000	—	—	—	—	—	9,000
James Russell Bruner	12,000	—	—	—	—	—	12,000
Richard Gerhardt	12,000	—	—	—	—	—	12,000

- (1) All compensation for Ashley B. Smith is reported in Item 11. Executive Compensation.

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

The Company has entered into an employment agreement (the “Employment Agreement”), dated as of November 11, 2020, with Ashley B. Smith pursuant to which Mr. Smith serves as the Chief Executive Officer and President of the Company.

The Employment Agreement is for a term of three years commencing on November 11, 2020 (the “Effective Date”) through and including November 10, 2023 (the “Employment Period”), subject to early termination as provided therein. Commencing on the first anniversary of the Effective Date, and on each annual anniversary thereafter (such date and each annual anniversary thereof shall be hereinafter referred to as the “Renewal Date”), unless previously terminated, the Employment Period shall be automatically extended so as to terminate three years from such Renewal Date, unless at least 180 days prior to the Renewal Date the Company shall give notice to Mr. Smith, or Mr. Smith shall give notice to the Company, that the Employment Period shall not be so extended. The Employment Agreement provides for an initial base salary (“Base Salary”) of \$300,000 per year, with an increase of no less than 3% per annum, based on advice provided by a compensation consultant in 2019. Mr. Smith’s Base Salary shall be reviewed annually by the Compensation Committee of the Board of Directors (the “Compensation Committee”) pursuant to its normal performance review policies for senior executives and may be increased but not decreased. Mr. Smith is also entitled to receive an annual bonus incentive payment (the “Incentive Bonus Payment”) as determined by the Compensation Committee in its discretion and, if applicable, in accordance with the terms of any applicable incentive plan of the Company and subject to the achievement of any performance goals established by the Compensation Committee with respect to such fiscal year. Mr. Smith shall also be eligible to participate in long term cash and equity incentive plans and programs applicable to senior officers of the Company.

The Employment Agreement further provides that if Mr. Smith is terminated by the Company without Cause or leaves the Company with Good Reason (generally, for material diminution in Mr. Smith’s Base Salary, target Incentive Bonus Payment, or position, authority, duties or responsibilities, relocation of Mr. Smith’s principal place of business to a location more than 30 miles from Mr. Smith’s principal place of business or material breach by the Company of the Employment Agreement), Mr. Smith shall be paid his Base Salary pro-rated through the date of termination, any Incentive Bonus Payment earned for a prior award period but not yet paid, any accrued vacation or paid time off to the extent not paid and unreimbursed business expenses (collectively, the “Accrued Obligations”) and any other amounts or benefits required to be paid or provided or which Mr. Smith is eligible to receive through the date of termination (the “Other Benefits”). In the event such termination occurs within two years following a change of control, Mr. Smith shall also be entitled to a lump sum payment equal to the product of (a) 2.99 multiplied by (b) the sum of Mr. Smith’s Base Salary in effect prior to such termination and the Target Incentive Bonus Payment for the year of termination of employment (or, if higher, or if no Target Incentive Bonus Payment has been established for such year, the Incentive Bonus Payment for the year prior to the date of termination). In the event such termination does not occur within two years following a change of control, Mr. Smith shall be entitled to receive an aggregate amount, payable in equal monthly cash payments over a period of 24 months, equal to the product of (a) 2.0 multiplied by (b) the sum of Mr. Smith’s Base Salary in effect prior to such termination and the Target Incentive Bonus Payment for the year of termination of employment (or, if higher, or if no Target Incentive Bonus Payment has been established for such year, the Incentive Bonus Payment for the year prior to the date of termination). The Company shall also continue to provide Mr. Smith and his dependents with health and other insurance coverage for 24 months following such termination.

If Mr. Smith’s employment is terminated for Cause, because Mr. Smith voluntarily resigns without Good Reason or due to the death of Mr. Smith, Mr. Smith, or his estate, as applicable, shall be paid the Accrued Obligations and the Other Benefits. If Mr. Smith’s employment is terminated due to disability, Mr. Smith shall be paid his Base Salary in equal monthly payments for one year commencing on the date of termination, the Target Incentive Bonus Payment for the year of termination of employment (or, if no Target Incentive Bonus Payment has been established for such year, the Incentive Bonus Payment for the year prior to the date of termination), the Accrued Obligations and the Other Benefits.

Mr. Smith is also subject to non-competition and non-solicitation restrictions during the Employment Period and for a period of two years thereafter.

The Company entered into a Change of Control Severance Agreement dated as of October 20, 2021, with Adam J. Krick, the Company’s former Chief Financial Officer, Secretary and Treasurer. In view of the voluntary resignation of Mr. Krick on December 31, 2022, no severance payment was due under this agreement.

Mr. Krick is subject to non-competition and non-solicitation restrictions with the Company and for a period of one year after his resignation date.

The Company has an employment agreement with its former Chief Executive Officer and former Chairman of the Board, Rodney I. Smith. Mr. Smith ceased providing services as Chief Executive Officer in May 2018. The agreement provides for an annual royalty fee of \$99,000 payable as consideration for his assignment to the Company of all of Mr. Smith's rights, title and interest in certain patents. Payment of the royalty continues for as long as the Company is using the inventions underlying the patents. Mr. Smith also received compensation from the Company for his services as a Director and Chairman of the Board. Mr. Smith is currently being compensated with respect to royalty payments in accordance with the employment agreement.

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

The following table sets forth, as of March 13, 2023, 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.

	Number of Shares Beneficially Owned (1) (3)	Percentage of Class
Rodney I. Smith (2)(4).....	589,499	11.2%
Ashley B. Smith (2)(4)(5).....	195,626	3.7%
Wesley A. Taylor (2)(6).....	33,477	*
Richard Gerhardt (2)(6)	6,708	*
James Russell Bruner (2)(6)	12,171	*
Stephanie Poe (2)(7)	828	*
Adam J. Krick (2)(8).....	9,536	*
Thompson Davis & Co., Inc. (9).....	966,080	18.4%
All directors and executive officers as a group (5 persons)(10)	248,810	4.7%

* Less than 1%.

- (1) Table does not include performance-based restricted stock grants under the Company's 2016 Equity Incentive Plan (performance vesting at end of three years, date of grant April 2021) at minimum, target, or maximum, as the number of restricted shares to be awarded is not determinable at the time of grant and the recipients do not have the right to vote or other elements of beneficial ownership until vesting.
- (2) The address for each of Messrs. Rodney I. Smith, Ashley B. Smith, Wesley A. Taylor, Richard Gerhardt, James Russell Bruner, and Adam J. Krick and Ms. Stephanie Poe is c/o Smith-Midland Corporation, P.O. Box 300, 5119 Catlett Road, Midland, Virginia 22728.
- (3) 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.
- (4) 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.
- (5) Includes 1,666 unvested restricted shares granted pursuant to the Equity Plan, subject to a three-year vesting period from the grant date, subject to continued services as an executive officer.

- (6) Includes 667 unvested restricted shares granted pursuant to the Equity Plan, subject to a three-year vesting period from the grant date, subject to continued services as a director.
- (7) Includes 166 unvested restricted shares granted pursuant to the Equity Plan, subject to a three-year vesting period from the grant date, subject to continued services as an executive officer.
- (8) Mr. Krick resigned from the Company effective December 31, 2022.
- (9) Address of holder is 15 S. 5th Street, Richmond, VA 23219. Based on the Form 13-F filed with the Securities and Exchange Commission on February 14, 2022 by Thompson Davis & Co., Inc.
- (10) Includes 3,833 unvested restricted shares granted pursuant to the Company's 2016 Equity Incentive Plan.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth certain information as of December 31, 2022 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	—	—	—
Equity compensation plans not approved by security holders (1)	—	—	93,713
Total.....	—	—	93,713

- (1) A brief description of the Company's 2016 Equity Incentive Plan (the "Equity Plan") is contained in Note 6 of the Notes to Consolidated Financial Statements. The Equity Plan has a balance of 93,173 shares of stock unissued and available for award at December 31, 2022.

On October 13, 2016 the Company's Board of Directors adopted the Equity Plan. Employees, directors and consultants of the Company are eligible to participate in the Equity Plan. The Equity 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 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 Committee has the authority to determine the type of award, as well as the amount, terms and conditions of each award, under the Equity Plan subject to the limitations and other provisions of the Equity 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 Plan, subject to adjustment for stock splits, dividends, distributions, recapitalizations and other similar transactions or events, of which amount 93,713 remains available for issuance at December 31, 2022. 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 Plan.

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

There are three independent directors of the Company, Mr. James Russell Bruner, Mr. Richard Gerhardt, and Mr. Welsey A. Taylor. The test utilized by the Company for the determination of independence is that under the NASDAQ listing standards.

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 for the year ended December 31, 2022 meet the criteria for disclosure.

Item 14. Principal Accountant Fees and Services

On April 4, 2022, the Audit Committee (the “Audit Committee”) of the Board of Directors of the Company, approved the engagement of Dixon Hughes Goodman LLP (“DHG”) as the Company’s independent registered public accounting firm for the Company’s fiscal year ending December 31, 2022, and dismissed BDO USA, LLP (“BDO”) as the Company’s independent registered public accounting firm.

On June 1, 2022, the Company was informed by DHG, that it merged with BKD, LLP (“BKD”) effective June 1, 2022 in a merger of equals. FORVIS, LLP was the surviving firm. As a result of the merger, DHG effectively ceased being the Company’s independent registered public accounting firm and FORVIS, LLP, as the successor to DHG following the merger, became the Company’s independent registered public accounting firm.

The aggregate fees billed for each of the past two fiscal years for professional services rendered by FORVIS, LLP; Richmond, VA; PCAOB Firm ID #686, the principal accountant for the audit of the Company for the year ended December 31, 2022, and BDO; Richmond, VA; PCAOB Firm ID #243, the principal accountant for the audit of the Company for the year ended December 31, 2021; 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).

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-K and 10-Q’s or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements.

The Audit Committee has established pre-approval policies and procedures with respect to the engagement of FORVIS, LLP and BDO USA, LLP and such policies and procedures do not include the delegation of the responsibilities of the Audit Committee to management.

	2022	2021
Audit Fees.....	\$ 185	\$ 248
Tax Fees.....	—	—
Audit-Related Fees	—	—
All Other Fees.....	—	—
Total Fees	<u>\$ 185</u>	<u>\$ 248</u>

PART IV

Item 15. Exhibits and Financial Statement 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:

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 (Incorporated by reference to the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 16, 2018).
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	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).

- 10.2 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).
- 10.3 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).
- 10.4 Commitment Letter, dated October 1, 2022, for the renewal of the equipment line of credit in the amount of \$1,500,000 with Summit Community Bank (Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 3, 2022).
- 10.5 Commercial Line of Credit Agreement and Note, dated October 1, 2022, for the renewal of the line of credit in the amount of \$5,000,000 with Summit Community Bank (Incorporated by reference to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 3, 2022).
- 10.6 Promissory Note, dated October 11, 2019, in the amount of \$2,228,000 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 October 17, 2019).
- 10.7 Commercial Security Agreement, dated October 1, 2018, with Summit Community Bank (Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018).
- 10.8 Deed of Trust dated October 11, 2019, related to the Promissory Note dated October 11, 2019 between the Company and Summit Community Bank (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2019).
- 10.9 Commercial Security Agreement dated October 11, 2019, related to the Promissory Note dated October 11, 2019 between the Company and Summit Community Bank (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2019).
- 10.10 Promissory Note, dated March 27, 2020, in the amount of \$2,701,404 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 1, 2020).
- 10.11 Business Loan Agreement related to the Promissory Note dated March 27, 2020 (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 1, 2020).
- 10.12 Modification and Supplemental Deed of Trust, dated March 27, 2020, between the Company and 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 1, 2020) to the Credit Line Deed of Trust, dated April 20, 2011 (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 28, 2010).
- 10.13 Modification Deed of Trust, dated March 27, 2020, between the Company and 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 1, 2021) to the Credit Line Deed of Trust, dated September 12, 2013 (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 12, 2013).
- 10.14 2016 Equity Incentive Plan (Incorporated by reference to the Registration Statement on Form S-8 (No. 333-214788) filed on November 23, 2016).
- 10.15 Employment Agreement, dated as of November 11, 2020, between the Company and Ashley B. Smith (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 17, 2020).

10.16	Smith-Midland Corporation Long-Term Incentive Plan (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 15, 2021).
10.17	Purchase and Sale Agreement, dated November 1, 2021, between the Company and Jeffrey A. Leonard, Patricia Ann Leonard and Al-Mara Farm Incorporation (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 19, 2021).
10.18	Purchase and Sale Agreement, dated November 1, 2021, between the Company and Rodney I. Smith (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 19, 2021).
10.19	Commercial Promissory Note, dated February 10, 2022, in the amount of \$2,805,000 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 February 16, 2022).
10.20	Business Loan Agreement, dated February 10, 2022, between Summit Community Bank and the Company and (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 16, 2022).
10.21	Commercial Real Estate Deed of Trust, dated February 10, 2022, issued by the Company in favor of Summit Community Bank (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 16, 2022).
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 FORVIS, LLP
23.2	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.

Item 16. Form 10-K Summary

None

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: April 17, 2023

By: /s/ Ashley B. Smith
Ashley B. Smith
Chief Executive Officer and President
(Principal Executive Officer)

Date: April 17, 2023

By: /s/ Stephanie Poe
Stephanie Poe
Chief Financial Officer
(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.

<u>Name</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ Ashley B. Smith</u> Ashley B. Smith	Director	April 17, 2023
<u>/s/ Wesley A. Taylor</u> Wesley A. Taylor	Director	April 17, 2023
<u>/s/ James Russell Bruner</u> James Russell Bruner	Director	April 17, 2023
<u>/s/ Richard Gerhardt</u> Richard Gerhardt	Director	April 17, 2023

**Smith-Midland Corporation
and Subsidiaries**

**Consolidated Financial Statements
Years Ended December 31, 2022 and 2021**

**Smith-Midland Corporation
and Subsidiaries**

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors
Smith-Midland Corporation

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Smith-Midland Corporation (the “Company”) as of December 31, 2022, the related consolidated statements of income, stockholders’ equity, and cash flows for year ended December 31, 2022, the summary of significant accounting policies, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and cash flows for the year ended December 31, 2022, 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 audit.

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 audit 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 audit, 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 audit 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 include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit 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 audit provides a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the consolidated financial statements that was communicated or required to be communicated to the Audit Committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Doubtful Accounts

As of December 31, 2022, the Company’s allowance for doubtful accounts was approximately \$781 thousand. The determination of the allowance for doubtful accounts has been identified by the Company as a critical accounting policy. As further described in the Company’s Summary of Significant Accounting Policies, exposure to losses on receivables, arising from the Company’s operations, are principally dependent on each customer’s financial condition and the Company monitors its exposure to credit losses and maintains allowances for anticipated losses. The Company reviews accounts receivable on a regular basis to determine the probability of collection. In performing its evaluation, the Company analyzes the payment history and its significant past due accounts, subsequent cash collections, comparative accounts receivable aging statistics, and other customer-specific considerations existing and known as of the time of the analysis. Based on this information, along with other related factors, the Company develops an estimate of the uncollectible amounts included in accounts receivable.

We identified the Company’s estimate of the allowance for doubtful accounts as a critical audit matter. The principal considerations for that determination were the degree of subjectivity and judgement required to audit management’s estimate, which incorporates historical experience, current economic conditions, and specific customer considerations, such as receivables that are outstanding for longer periods of time as a result of ongoing projects or possible disputes. Also included in our principal considerations for determining this as a critical audit matter was the identified material weakness over management’s methodology of the allowance for doubtful accounts, specifically the consideration over aged receivables outstanding, which impacted the nature, timing, and extent of our audit procedures.

The primary procedures we performed to address this critical audit matter included the following:

- Obtained an understanding of management's allowance for doubtful accounts methodology.
- Performed a retrospective review of historical write-offs and recalculated the mathematical accuracy of management's calculation of the allowance for doubtful accounts.
- Inspected current and historical financial results, including the aging of accounts receivable in the current year compared to the average historical aging from prior years.
- Evaluated the reasonableness of the allowance on specific accounts receivable balances, including those outstanding for longer periods of time as a result of ongoing projects or possible disputes, by testing a sample of collections subsequent to yearend, inspecting customer correspondence, performing inquiries of management and obtaining corroborating evidence.

/s/ FORVIS, LLP

We have served as the Company's auditor since 2022.

Richmond, Virginia
April 17, 2023

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Smith-Midland Corporation
Midland, Virginia

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Smith-Midland Corporation and subsidiaries (the “Company”) as of December 31, 2021, the related consolidated statements of income, stockholders’ equity, and cash flows for the year then ended, 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 at December 31, 2021, and the results of its operations and its cash flows for the year then ended, 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 audit. 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 audit 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 audit 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 served as the Company’s auditor from 1996 to April 4, 2022.

Richmond, Virginia
March 31, 2022

**Smith-Midland Corporation
and Subsidiaries**

Consolidated Balance Sheets
(in thousands, except share data)

	December 31,	
	2022	2021
ASSETS		
Current assets		
Cash	\$ 6,726	\$ 13,492
Accounts receivable, net		
Trade - billed (less allowance for doubtful accounts of \$781 and \$437), including contract retentions	16,223	10,013
Trade – unbilled	990	439
Inventories, net		
Raw materials	1,776	1,143
Finished goods	2,042	1,702
Prepaid expenses	706	551
Refundable income taxes	477	411
Total current assets	28,940	27,751
Property and equipment, net	25,124	21,926
Deferred buy-back lease asset, net	—	3,390
Other assets	249	208
Total assets	\$ 54,313	\$ 53,275

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

**Smith-Midland Corporation
and Subsidiaries**

Consolidated Balance Sheets
(in thousands, except share data)
(continued)

	December 31,	
	2022	2021
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable – trade	\$ 5,816	\$ 2,071
Accrued expenses and other liabilities	799	657
Deferred revenue	2,243	2,454
Accrued compensation	788	1,036
Accrued income tax	146	2,033
Deferred buy-back lease obligation	—	3,776
Operating lease liabilities	77	89
Current maturities of notes payable	618	462
Customer deposits	737	1,325
Total current liabilities	11,224	13,903
Deferred revenue	2,174	1,865
Operating lease liabilities	45	122
Notes payable - less current maturities	5,730	3,680
Deferred tax liability	2,085	1,955
Total liabilities	21,258	21,525
Commitments and contingencies	-	-
Stockholders' equity		
Preferred stock, \$0.01 par value; authorized 1,000,000 shares, none issued and outstanding	—	—
Common stock, \$0.01 par value; authorized 8,000,000 shares; 5,345,189 and 5,353,095 issued and 5,256,413 and 5,229,658 outstanding, respectively	53	53
Additional paid-in capital	7,440	6,935
Treasury stock, at cost, 40,920 shares	(102)	(102)
Retained earnings	25,664	24,864
Total stockholders' equity	33,055	31,750
Total liabilities and stockholders' equity	\$ 54,313	\$ 53,275

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

**Smith-Midland Corporation
and Subsidiaries**

Consolidated Statements of Income
(in thousands, except per share data)

	Year Ended December 31,	
	2022	2021
Revenue		
Product sales	\$ 27,821	\$ 28,500
Barrier rentals	6,545	9,925
Royalty income	2,498	2,216
Shipping and installation revenue	13,267	10,001
Total revenue.....	50,131	50,642
Cost of goods sold.....	40,662	36,222
Gross profit	9,469	14,420
General and administrative expenses	5,551	5,416
Selling expenses.....	3,064	2,836
Total operating expenses	8,615	8,252
Operating income.....	854	6,168
Other income (expense)		
Interest expense	(260)	(190)
Interest income.....	14	35
Gain on sale of assets.....	109	317
Gain on forgiveness of PPP loan	—	2,692
Other income	228	72
Total other income (expense), net.....	91	2,926
Income before income tax expense	945	9,094
Income tax expense.....	145	1,524
Net income	\$ 800	\$ 7,570
Basic and diluted earnings per share	\$ 0.15	\$ 1.45

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

**Smith-Midland Corporation
and Subsidiaries**

Consolidated Statements of Stockholders' Equity
(in thousands, except share data)

	<u>Common Stock</u>		<u>Treasury Stock</u>		<u>Additional</u>	<u>Retained</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Earnings</u>	<u>Total</u>
					<u>Capital</u>		
Balance, December 31, 2020.....	5,279,411	\$ 52	(40,920)	\$ (102)	\$ 6,405	\$ 17,294	\$ 23,649
Restricted stock issued.....	73,684	—	—	—	—	—	—
Vesting of restricted stock	—	1	—	—	530	—	531
Net income.....	—	—	—	—	—	7,570	7,570
Balance, December 31, 2021.....	5,353,095	\$ 53	(40,920)	\$ (102)	\$ 6,935	\$ 24,864	\$ 31,750
Vesting of restricted stock	—	—	—	—	505	—	505
Restricted stock forfeited.....	(7,906)	—	—	—	—	—	—
Net income.....	—	—	—	—	—	800	800
Balance, December 31, 2022.....	<u>5,345,189</u>	<u>\$ 53</u>	<u>(40,920)</u>	<u>\$ (102)</u>	<u>\$ 7,440</u>	<u>\$ 25,664</u>	<u>\$ 33,055</u>

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

**Smith-Midland Corporation
and Subsidiaries**

Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,	
	2022	2021
Reconciliation of net income to net cash provided by (used in) operating activities		
Net income (loss)	\$ 800	\$ 7,570
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	2,881	2,671
Gain on forgiveness of PPP loan	—	(2,692)
(Gain) loss on sale of fixed assets	(109)	(311)
(Gain) loss on sale of investment securities	—	(6)
Allowance for doubtful accounts	344	40
Stock compensation	505	531
Deferred taxes	130	(506)
(Increase) decrease in		
Accounts receivable – billed	(6,554)	(255)
Accounts receivable – unbilled	(551)	302
Inventories	(973)	(651)
Prepaid expenses and other assets	(227)	92
Refundable income taxes	(66)	(411)
Increase (decrease) in		
Accounts payable – trade	3,745	205
Accrued expenses and other liabilities	142	(219)
Deferred revenue	98	1,945
Accrued compensation	(248)	(282)
Accrued income taxes	(1,887)	1,563
Deferred buy-back lease obligation, net	(3,776)	(1,216)
Customer deposits	(588)	756
Net cash provided by (used in) operating activities	<u>\$ (6,334)</u>	<u>\$ 9,126</u>

**Smith-Midland Corporation
and Subsidiaries**

Consolidated Statements of Cash Flows
(in thousands)
(continued)

	December 31,	
	2022	2021
Cash flows from investing activities		
Purchases of investment securities available-for-sale	\$ —	\$ (23)
Sale of investment securities available-for-sale	—	1,247
Purchases of property and equipment.....	(2,749)	(5,367)
Proceeds from sale of fixed assets.....	118	489
Net cash provided by (used in) investing activities	(2,631)	(3,654)
Cash flows from financing activities		
Proceeds from long-term borrowings.....	2,805	49
Repayments of long-term borrowings	(581)	(793)
Capitalized Loan Costs.....	(25)	-
Net cash provided by (used in) financing activities	2,199	(744)
Net increase (decrease) in cash	(6,766)	4,728
Cash, beginning of year.....	13,492	8,764
Cash, end of year.....	\$ 6,726	\$ 13,492
Supplemental cash flow information:		
Cash payments for interest.....	\$ 260	\$ 190
Cash payments for income taxes.....	\$ 2,260	\$ 917
Non-cash transaction - PPP loan forgiveness	\$ —	\$ 2,692

See accompanying summary of significant 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 and systems 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

Cash is maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has not experienced any losses related to these balances.

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 \$88 and \$74 at December 31, 2022 and 2021, respectively.

Property and Equipment

Property and equipment is stated at cost. Expenditures for ordinary maintenance and repairs are expensed as incurred. Costs of improvements, 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 expense is computed using the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	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

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.

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 2019. The Company does not have any uncertain tax positions as of December 31, 2022, and believes there will be no material changes in unrecognized tax positions over the next twelve months.

Stock Compensation

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

Product Sales - Over Time

Under Topic 606, the Company recognizes revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for goods or services provided. Revenue associated with contracts with customers for customized products is recognized over time as the Company's performance creates or enhances customer-controlled assets or creates or enhances an asset with no alternative use, which the Company has an enforceable right to receive compensation as defined under the contract for performance completed. To determine the amount of revenue to recognize over time, the Company recognizes revenue over the contract terms based on the output method. The Company applied the "as invoiced" practical expedient as the amount of consideration the Company has the right to invoice corresponds directly with the value of the Company's performance to date.

As the output method is driven by units produced, the Company recognizes revenues based on the value transferred to the customer relative to the remaining value to be transferred. The Company also matches the costs associated with the units produced. If a contract is projected to result in a loss, the entire contract loss is recognized in the period when the loss was first determined and the amount of the loss is updated in subsequent reporting periods. Revenue recognition also includes an amount related to a contract asset or contract liability. If the recognized revenue is greater than the amount billed to the customer, a contract asset is recorded in accounts receivable trade - unbilled. Conversely, if the amount billed to the customer is greater than the recognized revenue, a contract liability is recorded in customer deposits. Changes in the job performance, job conditions, and final contract settlements are factors that influence management's assessment of total contract value and therefore, profit and revenue recognition.

A portion of the work the Company performs requires financial assurances in the form of performance and payment bonds at the time of execution of the contract. Some contracts include retention provisions of up to 10%, which are generally withheld from each progress payment as retainage until the contract work has been completed and approved.

Product Sales - Point in Time

For certain product sales that do not meet the over time criteria, under Topic 606 the Company recognizes revenue when the product has been shipped to the destination in accordance with the terms outlined in the contract where a present obligation to pay exists and the customers have gained control of the product.

Accounts Receivable and Contract Balances

The timing of when we bill our customers is generally dependent upon advance billing terms, milestone billings based on the completion of certain phases of the work, or when services are provided or products are shipped. Projects with performance obligations recognized over time that have costs and estimated earnings recognized to date in excess of cumulative billings are reported on our Consolidated Balance Sheets as "Accounts receivable trade - unbilled" (contract assets). Projects with performance obligations recognized over time that have cumulative billings in excess of costs and estimate earnings recognized to date, are reported on our Consolidated Balance Sheets as "Customer deposits" (contract liabilities). For the year ended December 31, 2022, the Company recognized \$983 of revenue related to contract liabilities reported as of December 31, 2021.

Any uncollected billed amounts for our performance obligations recognized over time, including contract retentions, are recorded within accounts receivable trade - billed. At December 31, 2022 and December 31, 2021, accounts receivable included contract retentions (in thousands) of approximately \$932 and \$1,139, respectively, which are considered contract assets. It is expected that substantially all of the outstanding retainage balance outstanding as of December 31, 2022 will be collected within one year.

Our billed and unbilled revenue may be exposed to potential credit risk if our customers should encounter financial difficulties, and we maintain reserves for potentially uncollectible receivables. At December 31, 2022 and December 31, 2021, our allowances for doubtful accounts (in thousands) were \$781 and \$437, respectively.

Sale to Customer with a Buy-Back Guarantee - Lease Income

The Company entered into a buy-back agreement with one specific customer. Under this agreement, the Company guaranteed to buy-back barrier at a predetermined price at the end of the long-term project, subject to the condition of the product. Although the Company received payment in full when the product was produced, we were required to account for these transactions as operating leases. The amount of sale proceeds equal to the buy-back obligation, included in “Deferred buy-back lease obligation” in the liabilities section of the consolidated balance sheet, was deferred until the buy-back was executed. The remaining sale proceeds were deferred in the same account and recognized on a straight-line basis over the usage period, such usage period commencing on delivery to the job-site and ending at the time the buy-back was executed. The Company capitalized the cost of the product on the consolidated balance sheet shown in “Deferred buy-back lease asset, net”, and depreciated the value, less residual value, to cost of leasing revenue in “Cost of goods sold” over the estimated useful life of the asset.

Pursuant to an amendment entered into by the Company with the customer on April 13, 2022, the Company agreed to purchase barrier back in the amount equal to the buy-back guarantee. Accordingly, the Company settled any remaining deferred balances, in excess of the buy-back payment, to leasing revenue, and reclassified the net book value of the purchased product to “Property and equipment, net”. The revenue is being recognized in accordance with Topic 842, *Leases*. See Note 7. Commitments for additional information regarding the amendment.

Barrier Rentals - Lease Income

Leasing fees are paid by customers 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, in accordance with Topic 842, *Leases*.

Royalty Income

The Company licenses certain products to other precast companies to produce the Company’s products to engineering specifications under the licensing agreements. The agreements are typically for five-year terms and require royalty payments from 4% to 6% of total sales of licensed products, which are paid every month. The revenues from licensing agreements are recognized in the month earned, in accordance with Topic 606-10-55-65.

Shipping and Installation

Shipping and installation revenues are recognized as a distinct performance obligation in the period the shipping and installation services are provided to the customer, in accordance with Topic 606.

Disaggregation of Revenue

In the following table, revenue is disaggregated by primary sources of revenue (in thousands):

Revenue by Type (Disaggregated Revenue)	2022	2021	Change	% Change
Product Sales:				
Soundwall Sales.....	\$ 4,128	\$ 8,025	\$ (3,897)	(49)%
Architectural Sales.....	4,269	4,932	(663)	(13)%
SlenderWall Sales.....	1,489	1,795	(306)	(17)%
Miscellaneous Wall Sales.....	3,475	2,352	1,123	48%
Barrier Sales.....	6,717	4,686	2,031	43%
Easi-Set and Easi-Span Building Sales.....	4,089	3,036	1,053	35%
Utility Sales.....	2,023	2,468	(445)	(18)%
Miscellaneous Sales.....	1,631	1,206	425	35%
Total Product Sales.....	27,821	28,500	(679)	(2)%
Barrier Rentals.....	6,545	9,925	(3,380)	(34)%
Royalty Income.....	2,498	2,216	282	13%
Shipping and Installation Revenue.....	13,267	10,001	3,266	33%
Total Service Revenue.....	22,310	22,142	168	1%
Total Revenue.....	\$ 50,131	\$ 50,642	\$ (511)	(1)%

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 warranty claims, historically such amounts are minimal.

The revenue items: soundwall sales, architectural sales, SlenderWall sales, miscellaneous wall sales, miscellaneous sales, barrier rentals, and royalty income are recognized as revenue over time. The revenue items: barrier sales, Easi-Set and Easi-Span building sales, utility sales, and shipping and installation revenue are recognized as revenue at a point in time.

Concentration of Risk

Historically, various customers have comprised greater than 10% of revenue during a given quarter or year. These customers are typically not the same quarter to quarter or year to year. The Company views revenue details by jobs, and not by customers. In the event a customer were to go out of business during a project, it is likely that the owner of the project would assign a new contractor to the job, and the Company would complete its scope of work. Therefore, the Company believes that it does not have a short-term vulnerability of severe impact to operations. In cases where customers are less than 10% of revenue, the Company assesses if there is a near term severe impact. The Company has determined that no customer, if lost, would result in a near term severe impact to the Company's operations.

Sales and Use Taxes

The Company excludes sales taxes as part of revenue, and includes use taxes on construction materials reported in cost of goods sold.

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.

Risks and Uncertainties

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and on March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2022.

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 regular 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, comparative accounts receivable aging statistics, and other customer-specific considerations existing and known as of the time of the analysis. Based on this information, along with other related factors, the Company develops an estimate of the uncollectible amounts included in accounts receivable. Management believes the allowance for doubtful accounts at December 31, 2022 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 a 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 except for long-term debt approximates fair value because of the short-term nature of those instruments. The Company's long-term debt has a carrying value of \$6,365 based on the fixed rates applicable to the related loans compared to a fair market value of approximately \$6,535.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) 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 \$421 and \$459 in 2022 and 2021, respectively.

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 assets including 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 during the two years ended December 31, 2022.

Recently Adopted Accounting Pronouncement

The FASB issued ASU No. 2016-13, “*Measurement of Credit Losses on Financial Instruments*.” This standard replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects estimates of expected credit losses over their contractual life that are recorded at inception based on historical information, current conditions, and reasonable and supportable forecasts. The pronouncement is effective for smaller reporting companies for fiscal years beginning after December 15, 2022. We adopted this standard, and all related amendments, effective January 1, 2023, on a modified retrospective basis. We are finalizing our evaluation of the impact that the adoption of this accounting guidance will have on the consolidated financial statements.

SMITH-MIDLAND CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. PROPERTY AND EQUIPMENT

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

	December 31,	
	2022	2021
Land and land improvements.....	\$ 7,245	\$ 7,105
Buildings and improvements	9,536	9,470
Machinery and equipment	15,139	14,394
Rental equipment.....	10,264	6,187
	42,184	37,156
Less: accumulated depreciation and amortization	(17,060)	(15,230)
	<u>\$ 25,124</u>	<u>\$ 21,926</u>

Depreciation expense and amortization (in thousands) was approximately \$2,892 and \$2,671 for the years ended December 31, 2022 and 2021, respectively.

2. NOTES PAYABLE

Notes payable consist of the following (in thousands):

	December 31,	
	2022	2021
Note payable to Summit Community Bank (the “Bank”), maturing February 2037; with monthly payments of approximately \$21 of principal and interest fixed at 4.09%; net of \$24 of deferred loan costs; collateralized by the related real property.....	\$ 2,668	\$ —
Note payable to the Bank, maturing October 2029; with monthly payments of approximately \$22 of principal and interest fixed at 3.64% under a Promissory Notes Rate Conversion Agreement; net of \$18 and \$21 of deferred loan costs; collateralized by all assets of Smith-Carolina Corporation and guaranteed by the Company.....	1,590	1,791
Note payable to the Bank, maturing March 2030; with monthly payments of approximately \$27 of principal and interest fixed at 3.99%; net of \$25 and \$29 of deferred loan costs; net of collateralized by the Company’s property, plant, and buildings.	2,039	2,275
Installment notes, collateralized by certain machinery and equipment maturing at various dates; with monthly payments varying from \$0.9 to \$3.4 with annual interest rates between 2.90% and 4.50%.	51	76
A revolving line-of-credit evidenced by promissory note with the Bank, with the available amount of \$5,000, maturing October 1, 2023, with interest only payments and an initial rate of 3.50% adjustable monthly (3.50% at December 31, 2022). The amount available is based on the lower of the maximum \$5,000 or eligible inventory and accounts receivable balances at the financial statement date. 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.	—	—
Total Notes Payable Outstanding.....	6,348	4,142
Less current maturities.....	(618)	(462)
	<u>\$ 5,730</u>	<u>\$ 3,680</u>

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

The total notes payable balance is offset by debt issuance costs associated with securing the loans summarized above and are amortized over the term of the related loan. The total unamortized costs as of December 31, 2022 is \$68.

In addition to the notes payable discussed above, on April 16, 2020, the Company obtained a loan, evidenced by a promissory note, under the Paycheck Protection Program (the “PPP”) from the Bank in the amount of \$2,692. The PPP provides for loans to qualifying businesses, the proceeds of which may only be used for payroll costs, rent, utilities, mortgage interest, and interest on other pre-existing indebtedness. The interest rate per the promissory note, dated April 16, 2020 and executed by the Company in favor of the Bank, was fixed at 1.00% per annum, with principal and interest payments starting thirty (30) days after the amount of forgiveness is determined under section 1106 of the CARES Act. The proceeds of the loan were required to be utilized pursuant to the requirements of the PPP, and all or a portion of the loan could be forgiven in accordance with the PPP applicable rules, regulations, and guidelines. On July 9, 2021, the Company received loan forgiveness for the full amount of the loan of \$2,692.

The Company’s notes payable includes certain restrictive covenants, which require the Company to maintain minimum levels of tangible net worth, places limits on annual capital expenditures, and limits on the payment of cash dividends. At December 31, 2022, the Company was in compliance with all covenants.

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,

2023	\$	618
2024		636
2025		658
2026		671
2027		699
Thereafter.....		<u>3,066</u>
	\$	<u>6,348</u>

3. RELATED PARTY TRANSACTIONS

The Company has an employment agreement with its former Chief Executive Officer and Chairman of the Board, Rodney I. Smith. Mr. Smith received his salary, pursuant to the terms of the agreement, through September 2021. While Mr. Smith has ceased providing executive officer services pursuant to such agreement, the agreement provides for an annual royalty fee of \$99 payable as consideration for his assignment to the Company of all of his rights, title and interest in certain patents. Payment of the royalty continues for as long as the Company is using the inventions underlying the patents. Mr. Smith also received compensation from the Company for his services as a Director and Chairman of the Board, until his resignation in January 2022.

4. INCOME TAXES

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

	December 31,	
	2022	2021
Federal:		
Current	\$ (63)	\$ 1,574
Deferred	212	(382)
	<u>149</u>	<u>1,192</u>
State:		
Current	78	456
Deferred	(82)	(124)
	<u>(4)</u>	<u>332</u>
	<u>\$ 145</u>	<u>\$ 1,524</u>

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

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,			
	2022		2021	
Income taxes at statutory rate	\$ 199	21.0%	\$ 1,910	21.0%
Increase (decrease) in taxes resulting from:				
State income taxes, net of federal benefit	(22)	(2.3)%	267	2.9%
Stock Compensation	(11)	(1.2)%	(63)	(0.7)%
Deferred true-ups	—	0.0%	17	0.2%
Provision-to-return	(2)	(0.2)%	5	0.1%
CARES Act Benefit	—	—%	(4)	(0.1)%
PPP Loan Forgiveness	—	—%	(565)	(6.2)%
Other	(19)	(1.9)%	(43)	(0.4)%
	<u>\$ 145</u>	<u>15.4%</u>	<u>\$ 1,524</u>	<u>16.8%</u>

Deferred tax assets (liabilities) are as follows (in thousands):

	December 31,	
	2022	2021
Deferred tax assets:		
Net operating loss carryforwards	\$ 319	\$ 51
Allowance for doubtful accounts	180	109
Accrued vacation	59	61
Deferred buy-back asset	—	942
Deferred income	768	774
Right-of-use asset	28	53
Other	118	102
Gross deferred tax assets	1,472	2,092
Deferred tax liabilities:		
Retainage	(240)	(284)
Deferred buy-back obligation	—	(846)
Fixed assets	(3,195)	(2,770)
Prepaid expenses	(76)	(72)
Amortization – intangibles	(14)	(16)
Realized gain loss	(4)	(6)
Lease liability	(28)	(53)
Gross deferred tax liabilities	(3,557)	(4,047)
Net deferred tax liability	<u>\$ (2,085)</u>	<u>\$ (1,955)</u>

In assessing the need for a valuation allowance, management must determine that there will be sufficient taxable income to realize deferred tax assets. Based upon the historical and anticipated future positive earnings, management has determined that the deferred tax assets are realizable.

As of December 31, 2022 and 2021, the Company had approximately \$2,395 and \$2,361, respectively, of state net operating losses (NOLs) available to offset future state taxable income. The state NOLs begin expiring at various times between 2028 and 2037.

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

5. EMPLOYEE BENEFIT PLANS

The Company has a savings plan that qualifies under Section 401(k) of the Internal Revenue Code (“IRC”). Participating employees may elect to contribute a percentage of their salary, subject to certain limitations. The Company contributes 50% of the participant’s contribution, up to 4% of the participant’s compensation, as a matching contribution. Total match contributions (in thousands) by the Company for the years ended December 31, 2022 and 2021 were approximately \$225 and \$211, respectively.

6. STOCK COMPENSATION

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 restricted 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 total intrinsic value (in thousands) of the outstanding shares of restricted stock at December 31, 2022 and 2021 is \$608 and \$1,027, respectively.

The fair value of restricted stock awards is estimated to be the market price of the Company’s common stock at the close of date of grant. The Company assumes no forfeitures as they are granted to key executives and board members.

Restricted stock activity during the years ended December 31, 2021 and 2022 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Non-vested, December 31, 2020	36,336	\$ 8.98
Granted	73,684	13.94
Vested	27,500	11.84
 Non-vested, December 31, 2021	 82,520	 12.45
Vested	26,755	12.01
Forfeited.....	7,906	12.50
 Non-vested, December 31, 2022	 47,859	 \$ 12.70

The actual number of performance-based shares of common stock of the Company, if any, to be earned by the award recipients is determined over a three year performance measurement period based on measures that include Earnings Before Interest Taxes Depreciation and Amortization (“EBITDA”) margin, revenue growth, and free cash flow. The EBITDA margin and revenue growth performance targets have been set for each of the Minimum, Target, and Maximum levels. The actual performance amount received is determined by the Compensation Committee and may be adjusted for items determined to be unusual in nature or infrequent in occurrence. A smaller portion is also earned based on Board discretion and continued service. The stock compensation cost is recognized over the requisite performance/service period using the straight-line method and can be periodically adjusted for the probable number of shares to be awarded.

Awards are being amortized to expense ratably, based upon the vesting schedule. Stock compensation (in thousands) for the years ended December 31, 2022 and 2021 were approximately \$505 and \$531, respectively, based upon the value at the date of grant. There was \$316 of unrecognized compensation cost related to the non-vested restricted stock as of December 31, 2022.

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

7. COMMITMENTS AND CONTINGENCIES

On April 13, 2022, the Company and its customer entered into an amendment to the buy-back agreement described in 'Revenue Recognition-Sale to Customer with a Buy-Back Guarantee - Lease Income'. Pursuant to the amendment, the Company agreed to purchase all of the barrier subject to the buy-back agreement, 210,000 linear feet, as well as approximately an additional 115,000 linear feet. The total estimated purchase price is \$5,000, representing the barrier, associated loading, freight, and yarding. In accordance with ASC 842 Leases, a portion of the total \$5,000 buy-back was previously recorded as a deferred buy-back obligation on the Consolidated Balance Sheets. The deferred buy-back lease asset and obligation are reduced as the Company picks up the original 210,000 linear feet. Costs in excess of the original deferred buy-back obligation will be capitalized for as incurred.

The Company is party to legal proceedings and disputes which may arise in the ordinary course of business. In the opinion of the Company, it is unlikely that liabilities, if any, arising from legal disputes will have a material adverse effect on the consolidated financial position of the Company.

8. EARNINGS PER SHARE

Earnings per share are calculated as follows (in thousands, except earnings per share):

	December 31,	
	2022	2021
Basic earnings per share		
Income available to common shareholder	\$ 800	\$ 7,570
Weighted average shares outstanding	5,233	5,205
Basic earnings per share.....	\$ 0.15	\$ 1.45
Diluted earnings per share		
Income available to common shareholder	\$ 800	\$ 7,570
Weighted average shares outstanding	5,233	5,205
Dilutive effect of restricted stock	20	27
Total weighted average shares outstanding	5,253	5,232
Diluted earnings per share	\$ 0.15	\$ 1.45

There was no restricted stock excluded from the diluted earnings per share calculation for the years ended December 31, 2022 and December 31, 2021.

BOARD OF DIRECTORS & KEY OPERATIONS PERSONNEL

BOARD OF DIRECTORS

Ashley B. Smith, Chairman of the Board
Wesley A. Taylor, Director
Russell Bruner, Director
Richard Gerhardt, Director
Edward G. Broenniman, Advisor
Matthew I. Smith, Advisor
Arthur X. Miles, Advisor

CORPORATE OFFICERS

Ashley B. Smith, CEO & President
Stephanie Poe, CFO, Secretary & Treasurer



KEY OPERATIONS PERSONNEL

Matthew I. Smith
VP of Sales & Marketing
President, Concrete Safety Systems

Arthur X. Miles
President, Easi-Set Worldwide

Steve Demas
VP of Project Management

Ali Shahid
VP of Engineering

Roderick Smith
GM, North Carolina Plant

Scott Hicks
GM, South Carolina Plant

Sarah Crandall
Advertising Manager, Midland Advertising

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