

SYNALLOY CORP  
Form 10-Q  
May 17, 2010

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

FORM 10-Q

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

For the Quarterly Period Ended April 3, 2010

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

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 0-19687

SYNALLOY CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

57-0426694  
(IRS Employer  
Identification Number)

2155 West Croft Circle  
Spartanburg, South Carolina  
(Address of principal executive  
offices)

29302  
(Zip code)

(864) 585-3605  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes (X) No ( )

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ( ) No (X)

(Not yet applicable to Registrant)

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

Larger accelerated filer ( ) Accelerated filer ( )  
Non-accelerated filer ( ) (Do not check if a smaller reporting company) (X)

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

The number of shares outstanding of the registrant's common stock as of May 17, 2010 was 6,285,374.

Synalloy Corporation

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## PART I

## Item 1. FINANCIAL STATEMENTS

## Synalloy Corporation

## Condensed Consolidated Balance Sheets

|  | Apr 3, 2010<br>(Unaudited) | Jan 2, 2010<br>(Note) |
|--|----------------------------|-----------------------|
| Assets   |                            |                       |
| Current assets   |                            |                       |
| Cash and cash equivalents  | \$1,883,627                | \$14,096,557          |
| Accounts receivable, less allowance<br>for doubtful accounts                                     | 20,001,641                 | 14,041,130            |
| Inventories  |                            |                       |
| Raw materials  | 12,571,761                 | 8,639,078             |
| Work-in-process  | 10,150,601                 | 8,418,840             |
| Finished goods   | 8,397,742                  | 8,446,406             |
| Total inventories  | 31,120,104                 | 25,504,324            |
| Income taxes receivable  | 900,128                    | 919,743               |
| Deferred income taxes  | 1,832,545                  | 1,702,000             |
| Prepaid expenses and other current assets  | 573,586                    | 636,680               |
| Total current assets   | 56,311,631                 | 56,900,434            |
| Cash value of life insurance   | 2,971,637                  | 2,959,637             |
| Property, plant & equipment, net of accumulated<br>depreciation of \$37,386,714 and \$36,732,950 | 15,939,425                 | 15,796,882            |
| Goodwill   | 2,354,730                  | 2,354,730             |
| Deferred charges, net  | 240,000                    | 240,000               |
| Total assets   | \$77,817,423               | \$78,251,683          |
| Liabilities and Shareholders' Equity   |                            |                       |
| Current liabilities  |                            |                       |
| Accounts payable   | \$7,379,881                | \$6,581,631           |
| Accrued expenses   | 6,055,917                  | 5,820,748             |
| Current portion of environmental reserves  | 342,805                    | 375,000               |
| Total current liabilities  | 13,778,603                 | 12,777,379            |
| Environmental reserves   | 750,000                    | 750,000               |
| Deferred compensation  | 380,624                    | 380,562               |
| Deferred income taxes  | 1,623,000                  | 1,623,000             |
| Shareholders' equity   |                            |                       |
| Common stock, par value \$1 per share – authorized<br>12,000,000 shares; issued 8,000,000 shares | 8,000,000                  | 8,000,000             |
| Capital in excess of par value   | 825,346                    | 856,021               |
| Retained earnings  | 67,614,766                 | 69,113,403            |
| Less cost of Common Stock in treasury:<br>1,722,765 and 1,733,424 shares                         | (15,154,916)               | (15,248,682)          |

|  |              |              |
|--|--------------|--------------|
| Total shareholders' equity                 | 61,285,196   | 62,720,742   |
| Total liabilities and shareholders' equity | \$77,817,423 | \$78,251,683 |

Note: The balance sheet at January 2, 2010 has been derived from the audited consolidated financial statements at that date.

See accompanying notes to condensed consolidated financial statements.

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Synalloy Corporation  
Condensed Consolidated Statements of Income

| (Unaudited)   | Three Months Ended |               |
|---|--------------------|---------------|
|   | Apr 3, 2010        | Apr 4, 2009   |
| Net sales   | \$ 35,200,604      | \$ 30,393,304 |
| Cost of goods sold                                    | 32,450,943         | 27,477,175    |
| Gross profit  | 2,749,661          | 2,916,129     |
| Selling, general and administrative expense           | 2,627,719          | 2,344,735     |
| Operating income                                      | 121,942            | 571,394       |
| Other (income) and expense                            |                    |               |
| Interest expense                                      | 1,507              | 105,035       |
| Change in fair value of interest rate swap            | -                  | (49,000 )     |
| Other, net  | (9,012 )           | (66 )         |
| Income from continuing operations before income tax   | 129,447            | 515,425       |
| Provision for income taxes                            | 47,000             | 175,000       |
| Net income from continuing operations                 | 82,447             | 340,425       |
| Loss from discontinued operations before income taxes | -                  | (221,680 )    |
| Tax benefit   | -                  | (75,000 )     |
| Net loss from discontinued operations                 | -                  | (146,680 )    |
| Net income  | \$ 82,447          | \$ 193,745    |
| Net income (loss) per basic common share              |                    |               |
| Income from continuing operations                     | \$ 0.01            | \$ 0.05       |
| Loss from discontinued operations                     | \$ -               | \$ (0.02 )    |
| Net income  | \$ 0.01            | \$ 0.03       |
| Net income (loss) per diluted common share            |                    |               |
| Income from continuing operations                     | \$ 0.01            | \$ 0.05       |
| Loss from discontinued operations                     | \$ -               | \$ (0.02 )    |
| Net income  | \$ 0.01            | \$ 0.03       |

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Weighted average shares outstanding

|  |           |           |
|--|-----------|-----------|
| Basic  | 6,271,788 | 6,249,357 |
| Dilutive effect from stock<br>options and grants | 24,927    | 1,626     |
| Diluted  | 6,296,715 | 6,250,983 |

See accompanying notes to condensed consolidated financial statements.



Synalloy Corporation  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

|  | Three Months Ended |             |
|--|--------------------|-------------|
|  | Apr 3, 2010        | Apr 4, 2009 |
| <b>Operating activities</b>                                      |                    |             |
| Net income from continuing operations                            | \$82,447           | \$340,425   |
| Adjustments to reconcile net income to net cash                  |                    |             |
| (used in) provided by continuing operating activities:           |                    |             |
| Depreciation expense   | 653,764            | 644,661     |
| Amortization of deferred charges                                 | -                  | 8,814       |
| Deferred income taxes  | (130,545 )         | (89,821 )   |
| Provision for losses on accounts receivable                      | 69,605             | 130,531     |
| Provision for losses on inventory                                | 20,276             | (52,000 )   |
| Gain on sale of property, plant and equipment                    | (8,600 )           | (6,100 )    |
| Cash value of life insurance                                     | (12,000 )          | (19,249 )   |
| Environmental reserves   | (32,195 )          | 15,132      |
| Employee stock option and stock grant compensation               | 46,351             | 54,666      |
| Changes in operating assets and liabilities:                     |                    |             |
| Accounts receivable  | (6,030,116 )       | 2,171,419   |
| Inventories  | (5,636,056 )       | 2,059,991   |
| Other assets and liabilities                                     | 63,155             | (144,590 )  |
| Accounts payable   | 798,250            | (1,404,860) |
| Accrued expenses   | 235,170            | (773,012 )  |
| Income taxes payable   | 19,615             | 1,185,907   |
| Net cash (used in) provided by continuing operating activities   | (9,860,879 )       | 4,121,914   |
| Net cash provided by discontinued operating activities           | -                  | 804,878     |
| Net cash (used in) provided by operating activities              | (9,860,879 )       | 4,926,792   |
| <b>Investing activities</b>                                      |                    |             |
| Purchases of property, plant and equipment                       | (796,307 )         | (311,027 )  |
| Proceeds from sale of property, plant and equipment              | 8,600              | 6,100       |
| Net cash used in continuing investing activities                 | (787,707 )         | (304,927 )  |
| Sale of Organic Pigments, LLC assets, net                        | -                  | 1,441,006   |
| Other  | -                  | (46,803 )   |
| Net cash provided by discontinued operating investing activities | -                  | 1,394,203   |
| Net cash (used in) provided by investing activities              | (787,707 )         | 1,089,276   |
| <b>Financing activities</b>                                      |                    |             |
| Net payments on long-term debt                                   | -                  | (5,058,982) |
| Dividends paid   | (1,581,084 )       | (631,817 )  |
| Proceeds from exercised stock options                            | 16,740             | -           |
| Excess tax benefits from Stock Grant Plan                        | -                  | 1,914       |
| Net cash used in financing activities                            | (1,564,344 )       | (5,688,885) |
| (Decrease) increase in cash and cash equivalents                 | (12,212,930)       | 327,183     |
| Cash and cash equivalents at beginning of period                 | 14,096,557         | 97,215      |
| Cash and cash equivalents at end of period                       | \$1,883,627        | \$424,398   |

See accompanying notes to condensed consolidated financial statements.



Synalloy Corporation

Notes To Condensed Consolidated Financial Statements

(Unaudited)

April 3, 2010

#### NOTE 1-- BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended April 3, 2010, are not necessarily indicative of the results that may be expected for the year ending January 1, 2011. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the period ended January 2, 2010.

As further discussed in Note 9, the Company disposed of certain operations during 2009. Accordingly, for comparative purposes, certain amounts in the first quarter 2009 financial statements have been reclassified to reflect discontinued operations. Operating and investing portions of the 2009 cash flow statement attributable to the discontinued operations have been separately disclosed, which in prior periods were reported on a combined basis as a single amount. The cash flow statement for the first quarter of 2009 has been revised to conform to the 2009 full year presentation, which reflects discontinued operations.

#### NOTE 2--INVENTORIES

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

#### NOTE 3--STOCK OPTIONS AND EMPLOYEE STOCK GRANTS

During the first three months of 2010, options for 3,600 shares were exercised by employees for an aggregate exercise price of \$16,740. There were 29,093 stock options cancelled during the first quarter of 2010. Stock options compensation cost has been charged against income before taxes for the unvested options of \$7,000 and \$19,000 with the offset recorded in shareholders' equity for the three months ended April 3, 2010 and April 4, 2009, respectively. As of April 3, 2010, all compensation costs related to stock options granted under the Company's stock options plans have been recognized.

On February 24, 2010, the Board of Directors of the Company approved and granted under the Company's 2005 Stock Awards Plan, 51,500 shares under the Plan to certain management employees of the Company. The stock awards vest in 20 percent increments annually on a cumulative basis, beginning one year after the date of grant. In order for the awards to vest, the employee must be in the continuous employment of the Company since the date of the award. Any portion of an award that has not vested will be forfeited upon termination of employment. The Company may terminate any portion of the award that has not vested upon an employee's failure to comply with all conditions of the award or the Plan. Shares representing awards that have not yet vested will be held in escrow by the Company. An

employee is not entitled to any voting rights with respect to any shares not yet vested, and the shares are not transferable. Compensation costs charged against income totaled \$40,000 and \$36,000 before income taxes of \$14,000 and \$13,000 for the first quarters of 2010 and 2009, respectively. As of April 3, 2010, there was \$496,000 of total unrecognized compensation cost related to unvested stock grants under the Company's Stock Awards Plan.

## Synalloy Corporation

## Notes To Condensed Consolidated Financial Statements

(Unaudited)

April 3, 2010

A summary of Plan activity for the Company's Stock Awards Plan for 2010 is as follows:

|                                | Shares    | Weighted<br>Average<br>Grant Date<br>Fair Value |
|--------------------------------|-----------|---|
| Outstanding at January 2, 2010 | 23,134    | \$17.62   |
| Granted                        | 51,500    | \$7.88  |
| Vested                         | (7,059 )  | \$19.30   |
| Forfeited or expired           | (19,235 ) | \$8.89  |
| Outstanding at April 3, 2010   | 48,340    | \$10.47   |

## NOTE 4--INCOME TAXES

The Company did not have any unrecognized tax benefits accrued at April 3, 2010 and January 2, 2010. The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company has concluded all U.S. federal income tax matters for years through 2007 and substantially all material state and local income tax matters for years through 2005. The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

## NOTE 5--PAYMENT OF DIVIDENDS

On February 12, 2010, the Board of Directors of the Company voted to pay an annual dividend of \$0.25 per share which was paid on March 22, 2010 to holders of record on March 8, 2010, for a total cash payment of \$1,581,000, and declared and paid a \$0.10 dividend for a total of \$632,000 in the first quarter of 2009. The Board presently plans to review at the end of each fiscal year the financial performance and capital needed to support future growth to determine the amount of cash dividend, if any, which is appropriate.

## Synalloy Corporation

Notes To Condensed Consolidated Financial Statements  
(Unaudited)  
April 3, 2010

## NOTE 6--SEGMENT INFORMATION

The following information is for continuing operations only.

|  | THREE MONTHS<br>ENDED |              |
|--|-----------------------|--------------|
|  | Apr 3, 2010           | Apr 4, 2009  |
| Net sales  |                       |              |
| Metals Segment   | \$24,963,000          | \$22,627,000 |
| Specialty Chemicals Segment                              | 10,238,000            | 7,766,000    |
|  | \$35,201,000          | \$30,393,000 |
| Operating (loss) income                                  |                       |              |
| Metals Segment   | \$(402,000 )          | \$774,000    |
| Specialty Chemicals Segment                              | 1,086,000             | 490,000      |
|  | 684,000               | 1,264,000    |
| Unallocated expenses                                     |                       |              |
| Corporate  | 562,000               | 693,000      |
| Interest expense   | 2,000                 | 105,000      |
| Change in fair value of interest<br>rate swap            | -                     | (49,000 )    |
| Other income   | (9,000 )              | -            |
| Income from continuing operations<br>before income taxes | \$129,000             | \$515,000    |

The Specialty Chemicals segment previously contained Blackman Uhler Specialties, LLC (“BU”) business and the Organic Pigments (“OP”) business, both of which have been disposed of during 2009 and are considered discontinued operations, as discussed in Note 9. Accordingly, the segment information for the Specialty Chemicals Segment has been revised to exclude the results of operations of these discontinued operations.

## NOTE 7--FAIR VALUE DISCLOSURES

On February 23, 2006, the Company entered into an interest rate swap contract with its bank with a notional amount of \$4,500,000 pursuant to which the Company receives interest at Libor and pays interest at a fixed interest rate of 5.27 percent. The contract ran from March 1, 2006 to December 31, 2010, which equated to the expiration date of the bank Credit Agreement. The Company had estimated the fair value using an amount provided by the counterparty which represents the settlement amount of the contract if it were liquidated on the date of the financial statements. Although the swap was expected to effectively offset variable interest in the borrowing, hedge accounting was not utilized. Therefore, changes in its fair value were recorded in current assets or liabilities, as appropriate, with corresponding offsetting entries to other expense in the income statement. The swap liability was settled in December 2009 with a \$245,000 payment and the contract was terminated. The carrying amounts reported in the condensed

consolidated balance sheets for cash and cash equivalents, trade accounts receivable and cash value of life insurance approximate their fair value.

Synalloy Corporation

Notes To Condensed Consolidated Financial Statements  
(Unaudited)  
April 3, 2010

NOTE 8--PURCHASE OF RAM-FAB, INC.

On August 31, 2009, the Company entered into an Asset Purchase Agreement with Ram-Fab, Inc. to acquire certain assets and assume certain liabilities of its business for a purchase price of \$5,708,000. Ram-Fab, Inc. is a pipe fabricator located in Crossett, Arkansas. The acquisition was for cash and was paid from currently available funds. The purchase price of Ram-Fab, Inc. has initially been allocated to the assets acquired and liabilities assumed according to their estimated fair values at the time of acquisition. Historically, its primary business was to fabricate both carbon and stainless piping systems. Management will focus on expanding the carbon fabrication business which is a product line that we believe is strategically important for future growth. The carbon business will complement our stainless steel piping systems' operations generating new opportunities for stainless steel piping systems since many projects require that bidders quote both carbon and stainless steel fabrication. The new company operates as Ram-Fab, LLC and is assigned to our Metals Segment.

NOTE 9--SALE OF BLACKMAN UHLER SPECIALTIES, LLC and DISCONTINUED OPERATIONS

On October 2, 2009, the Company entered into an Asset Purchase Agreement with SantoLubes Manufacturing, LLC ("SM") to sell the specialty chemical business of Blackman Uhler Specialties, LLC ("BU") for a purchase price of \$10,366,000, along with certain property, plant and equipment held by Synalloy Corporation for a purchase price of \$1,130,000, all located at the Spartanburg, SC location. The purchase price of approximately \$11,496,000, payable in cash, was equal to the approximate net book values of the assets sold as of October 3, 2009, the effective date of the sale, and the Company recorded a loss of approximately \$250,000 in the third quarter of 2009 resulting primarily from transaction fees and other costs related to the transaction. Divesting BU's specialty chemicals business has freed up resources and working capital to allow further expansion into the Company's metals businesses. The Company has entered into a lease agreement with SM to lease office space in Spartanburg for corporate operations and has also entered into an outsourcing agreement with SM to provide SM with certain accounting and administration functions.

BU along with Organic Pigment, LLC's pigment dispersion business ("OP"), which was sold on March 6, 2009, were both physically located at the Spartanburg facility. OP completed all operating activities at the end of the third quarter of 2009. As a result, these two operations, which were included in the Specialty Chemicals Segment, are reported as discontinued operations for 2009.

NOTE 10 – LEGAL CONTINGENCIES

The Company is from time-to-time subject to various claims, other possible legal actions for product liability and other damages, and other matters arising out of the normal conduct of the Company's business. A Metals Segment customer alleged that the Segment delivered defective pipe in 2006 which the customer removed and replaced. Representatives from both Companies met in May 2010 and on May 12, 2010 agreed to settle this claim for a cash payment of \$1,900,000. The Company had a \$1,400,000 reserve for this claim at the end of 2009 and recorded an additional \$500,000 of claims expense in the first quarter of 2010. There was no claims expense in the first quarter of 2009. Other than environmental contingencies, management is not currently aware of any other asserted or unasserted matters which could have a significant effect on the financial condition or results of operations of the Company.





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Notes To Condensed Consolidated Financial Statements

(Unaudited)

April 3, 2010

**NOTE 11--SUBSEQUENT EVENTS**

The Company performs an evaluation of events that occur after a balance sheet date but before financial statements are issued or available to be issued for potential recognition or disclosure of such events in its financial statements. The Company evaluated subsequent events through the date that the financial statements were issued.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is managements' discussion of certain significant factors that affected the Company during the quarter ended April 3, 2010. As further discussed below, the Company disposed of two businesses in its Specialty Chemicals Segment during 2009. Accordingly, the discussion below is based upon the results of continuing operations when comparisons are made to the first quarter of 2009.

Consolidated sales for the first quarter of 2010 increased 16 percent to \$35,201,000 compared to \$30,393,000 for the same period one year ago. The Company showed net earnings of \$82,000 or \$0.01 per share for the first quarter of 2010 compared to net earnings from continuing operations of \$340,000 or \$0.05 per share for the first quarter of 2009.

Sales in the Metals Segment increased ten percent in the first quarter of 2010 from the same quarter a year earlier while operating income declined by \$1,176,000 from the first quarter of 2009, showing a loss of \$402,000 for the first quarter of 2010. The sales increase resulted from a 47 percent increase in unit volumes partially offset by a 24 percent reduction in average selling prices. The big percentage increase in unit volumes resulted from an aggressive effort to gain market share in commodity pipe together with the acquisition on August 31, 2009 of Ram-Fab, LLC, see below. The decrease in first quarter selling prices, when compared to 2009's first quarter, reflects lower stainless steel prices and to a lesser extent a change in product mix to a higher percent of lower-priced commodity pipe from higher-priced non-commodity pipe and piping systems.

The decrease in operating income for the Metals Segment was due to very competitive market conditions in commodity pipe that led to a significant decrease in gross profit margins plus a charge for claims expense in the first quarter of 2010. A Metals Segment customer alleged that the Segment delivered defective pipe in 2006 which the customer removed and replaced. Representatives from both Companies met in May 2010 and on May 12, 2010 agreed to settle this claim for a cash payment of \$1,900,000. The Company had a \$1,400,000 reserve for this claim at the end of 2009 and recorded an additional \$500,000 of claims expense in the first quarter of 2010. There was no claims expense in the first quarter of 2009. Also contributing to the lower margins was fixed costs being a larger percent of the much lower selling prices. It is encouraging that March showed a significant improvement in gross profit margins in commodity pipe compared to the first two months of the quarter. With stainless steel prices increasing, we are hopeful that pipe prices will be much higher in the second quarter.

On August 31, 2009, the Company acquired the business of Ram-Fab, Inc., a pipe fabricator located in Crossett, Arkansas, for a purchase price of \$5,708,000 which includes \$1,000,000 of goodwill. The acquisition was for cash and was paid from currently available funds. Historically, its primary business was to fabricate both carbon and stainless piping systems. Management will focus on expanding the carbon fabrication business which is a product line that we believe is strategically important for future growth. The carbon business will complement our stainless steel piping systems' operations generating new opportunities for stainless steel piping systems since many projects require that bidders quote both carbon and stainless steel fabrication. Management is optimistic about the ability of Bristol's much larger marketing organization to generate additional sales of carbon fabrication for the acquired business from Bristol's present customer base. The ability to bid on carbon pipe fabrication will significantly expand the Company's markets, especially in the energy and chemical industries.

The Specialty Chemicals Segment showed increased sales and operating income of 32 percent and 122 percent, respectively, from the first quarter of 2009. The sales increase resulted not only from a moderate increase in overall demand for the Company's products but there were new initiatives implemented during the later part of 2009 which resulted in gaining market share in many product categories. The Company experienced a 46 percent increase in chemical pounds sold during the first quarter of 2010 when compared to the first quarter of 2009. This



Synalloy Corporation

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

allowed profitability to increase as a result of higher plant utilization and throughput. This factor, combined with the stabilization of raw material costs and favorable product mix, resulted in the surge in operating income for the first quarter of 2010 compared to the same quarter last year.

Consolidated selling and administrative expense for the first quarter increased \$283,000 or twelve percent for the first quarter 2010 compared to the same quarter for the prior year. This expense category was seven and eight percent of sales for the first quarter of 2010 and 2009, respectively. The increase from the first quarter of 2009 resulted from additional costs associated with the acquisition of Ram-Fab in September 2009, higher current year performance based bonus accruals for the specialty chemicals segment and higher payroll taxes incurred in the first quarter of 2010. These costs were partially offset by reduced environmental charges resulting from the sale of BU at the end of the third quarter of 2009.

The Company's cash balance decreased during the quarter from \$14,097,000 at the end of 2009 to \$1,884,000 as of April 3, 2010. As a result of the higher sales activity during the first quarter of 2010, accounts receivable and inventory levels increased during the first quarter 2010 by \$11,576,000. The Company paid a \$0.25 cash dividend during the quarter, amounting to \$1,581,000. The dividend was declared by the Board of Directors based upon the excellent cash flow generated in the prior year combined with the elimination of bank debt during 2009. The Company had no bank debt outstanding as of the end of the first quarter of 2010. Management is currently in the process of negotiating a new credit facility to replace the current agreement which expires on December 31, 2010 and intends to have a new agreement in place by the end of the second quarter of 2010.

**Outlook** The Metals Segment's business is highly dependent on capital expenditures which have been significantly impacted by the economic turmoil. The weak demand significantly affected pipe products. Surcharges began falling in November 2009 but appear to have bottomed in January 2010 and are scheduled for increases through June 2010. Sales activity for both commodity and non-commodity pipe over the first quarter of 2010 has improved, indicating that distributors may be increasing their inventory levels in advance of further surcharge increases. Management believes it is benefiting from the stimulus spending by the Federal Government, which includes a "Buy-American" provision covering iron and steel, as we have seen increased bidding activity in both the water and wastewater treatment and power generation areas, significant parts of our piping systems business. However, business opportunities remain extremely competitive hurting product pricing in all of our markets. Although management is disappointed with the level of profitability in the first quarter of 2010, we remain confident that we are in an excellent position to benefit from the eventual improvement in economic conditions. While the impact from current economic conditions both domestically and worldwide makes it difficult to predict the performance of this Segment for the remainder of 2010, we are seeing improvements in business conditions within our markets. We believe we are the largest and most capable domestic producer of non-commodity stainless pipe and an effective producer of commodity stainless pipe which should serve us well in the long run. We also continue to be optimistic about the piping systems business over the long term. Piping systems continues to maintain a strong backlog, with approximately 90 percent of the backlog coming from paper, water and wastewater treatment projects. Piping systems' backlog was \$37,132,000 at April 3, 2010 compared to \$41,007,000 at the end of the first quarter of 2009 and \$44,300,000 at the end of 2009. We estimate that approximately 80 percent of the backlog should be completed over the next twelve months.

Management of the Specialty Chemicals Segment was successful in increasing revenues and profitability during the first quarter of 2010 and expects this trend to continue during the remainder of 2010. With the absence of raw material or utility cost increases, profitability should also continue to surpass prior year results. Even though management is confident that the initiatives implemented in 2009 and 2010 will continue to generate favorable results, current

economic conditions could affect operating performance negatively during the remainder of 2010.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Sale of Blackman Uhler Specialties & Discontinued Operations On October 2, 2009, the Company entered into an Asset Purchase Agreement with SantoLubes Manufacturing, LLC ("SM") to sell the specialty chemical business of Blackman Uhler Specialties, LLC ("BU") for a purchase price of \$10,366,000, along with certain property, plant and equipment held by Synalloy Corporation for a purchase price of \$1,130,000, all located at the Spartanburg, SC location. The purchase price of approximately \$11,496,000, payable in cash, was equal to the approximate net book values of the assets sold as of October 3, 2009, the effective date of the sale, and the Company recorded a loss of approximately \$250,000 in the third quarter of 2009 resulting primarily from transaction fees and other costs related to the transaction. Divesting BU's specialty chemicals business, which had annual sales of approximately \$14,500,000, has freed up resources and working capital to allow further expansion into the Company's metals businesses. The Company has entered into a lease agreement with SM to lease office space in Spartanburg for corporate operations and has also entered into an outsourcing agreement with SM to provide SM with certain accounting and administration functions.

BU along with Organic Pigment, LLC's pigment dispersion business ("OP"), which was sold on March 6, 2009 and had annual sales of approximately \$7,000,000, were both physically located at the Spartanburg facility. OP completed all operating activities at the end of the third quarter. As a result, these operations, which were included in the Specialty Chemicals Segment, are being reported as discontinued operations.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

This Form 10-Q includes and incorporates by reference "forward-looking statements" within the meaning of the securities laws. All statements that are not historical facts are "forward-looking statements." The words "estimate," "project," "intend," "expect," "believe," "anticipate," "plan," "outlook" and similar expressions identify forward-looking statements. The forward-looking statements are subject to certain risks and uncertainties, including without limitation those identified below, which could cause actual results to differ materially from historical results or those anticipated. Readers are cautioned not to place undue reliance on these forward-looking statements. The following factors could cause actual results to differ materially from historical results or those anticipated: adverse economic conditions; the impact of competitive products and pricing; product demand and acceptance risks; raw material and other increased costs; raw materials availability; customer delays or difficulties in the production of products; environmental issues; unavailability of debt financing on acceptable terms and exposure to increased market interest rate risk; inability to comply with covenants and ratios required by our debt financing arrangements; ability to weather the current economic downturn; loss of consumer or investor confidence and other risks detailed from time-to-time in Synalloy's Securities and Exchange Commission filings. Synalloy Corporation assumes no obligation to update any forward-looking information included in this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Information about the Company's exposure to market risk was disclosed in its Annual Report on Form 10-K for the year ended January 2, 2010, which was filed with the Securities and Exchange Commission on March 22, 2010. There have been no material quantitative or qualitative changes in market risk exposure since the date of that filing.





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Item 4. Controls and Procedures.

Based on the evaluation required by 17 C.F.R. Section 240.13a-15(b) or 240.15d-15(b) of the Company's disclosure controls and procedures (as defined in 17 C.F.R. Sections 240.13a-15(e) and 240.15d-15(e)), the Company's chief executive officer and chief financial officer concluded that such controls and procedures, as of the end of the period covered by this quarterly report, were effective.

There has been no change in the registrant's internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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## PART II: OTHER INFORMATION

## Item 1. Legal Proceedings

The Company is from time-to-time subject to various claims, other possible legal actions for product liability and other damages, and other matters arising out of the normal conduct of the Company's business. A Metals Segment customer alleged that the Segment delivered defective pipe in 2006 which the customer removed and replaced. Representatives from both Companies met in May 2010 and on May 12, 2010 agreed to settle this claim for a cash payment of \$1,900,000. The Company had a \$1,400,000 reserve for this claim at the end of 2009 and recorded an additional \$500,000 of claims expense in the first quarter of 2010. Other than environmental contingencies, management is not currently aware of any other asserted or unasserted matters which could have a significant effect on the financial condition or results of operations of the Company.

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

During the first quarter ended April 3, 2010, the Registrant issued shares of common stock to the following classes of persons upon the exercise of options issued pursuant to the Registrant's 1998 Stock Option Plan. Issuance of these shares was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 because the issuance did not involve a public offering.

| Date Issued | Class of Purchasers    | Number of Shares Issued | Aggregate Exercise Price |
|-------------|------------------------|-------------------------|--------------------------|
| 2/27/2010   | Officers and employees | 3,600                   | \$16,740                 |

| Issuer Purchases of Equity Securities |                                  | Total Number of Shares Purchased as Part of Publically | Total Number of Shares of Shares that may yet be Purchased Under |
|---------------------------------------|----------------------------------|--|--|
| Quarter Ended 2010 for the Period     | Average Price Paid per Share (1) | Announced Plans or Programs                            | the Plans or Programs  |
|                                       |                                  | -  | -  |

(1) This column reflects the surrender of previously owned shares of common stock to pay the exercise price

in connection with the exercise of stock options.

Item 6. Exhibits

The following exhibits are included herein:

- 31.1 Rule 13a-14(a)/15d-14(a) Certifications of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certifications of Interim Chief Financial Officer and Principal Accounting Officer
- 32 Certifications Pursuant to 18 U.S.C. Section 1350

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SYNALLOY CORPORATION  
(Registrant)

Date: May 17, 2010

By: /s/ Ronald H. Braam  
Ronald H. Braam  
President and Chief Executive Officer

Date: May 17, 2010

By: /s/ Richard D. Sieradzki  
Richard D. Sieradzki  
Interim Chief Financial Officer and  
Principal Accounting Officer



