

SYNALLOY CORP  
Form 10-Q  
November 12, 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 October 2, 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 29302

(Address of principal executive  
offices)

(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 November 12, 2010 was 6,289,408.

Synalloy Corporation

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## PART I

## Item 1. FINANCIAL STATEMENTS

## Synalloy Corporation

## Condensed Consolidated Balance Sheets

|  | Oct 2, 2010<br>(Unaudited) | Jan 2, 2010<br>(Note) |
|--|----------------------------|-----------------------|
| Assets   |                            |                       |
| Current assets   |                            |                       |
| Cash and cash equivalents  | \$1,428,824                | \$14,096,557          |
| Accounts receivable, less allowance<br>for doubtful accounts                                     | 22,192,655                 | 14,041,130            |
| Inventories  |                            |                       |
| Raw materials  | 14,001,007                 | 8,639,078             |
| Work-in-process  | 11,979,878                 | 8,418,840             |
| Finished goods   | 10,589,786                 | 8,446,406             |
| Total inventories  | 36,570,671                 | 25,504,324            |
| Income taxes receivable  | 209,028                    | 919,743               |
| Deferred income taxes  | 1,832,545                  | 1,702,000             |
| Prepaid expenses and other current assets  | 50,488                     | 636,680               |
| Total current assets   | 62,284,211                 | 56,900,434            |
| Cash value of life insurance   | 3,025,800                  | 2,959,637             |
| Property, plant & equipment, net of accumulated<br>depreciation of \$38,039,952 and \$36,732,950 | 18,564,038                 | 15,796,882            |
| Goodwill   | 2,354,730                  | 2,354,730             |
| Deferred charges, net  | 298,712                    | 240,000               |
| Total assets   | \$86,527,491               | \$78,251,683          |
| Liabilities and Shareholders' Equity   |                            |                       |
| Current liabilities  |                            |                       |
| Accounts payable   | \$13,844,082               | \$6,581,631           |
| Accrued expenses   | 4,069,528                  | 5,820,748             |
| Current portion of environmental reserves  | 205,608                    | 375,000               |
| Total current liabilities  | 18,119,218                 | 12,777,379            |
| Long-term debt   | 1,772,568                  | -                     |
| Environmental reserves   | 750,000                    | 750,000               |
| Deferred compensation  | 312,139                    | 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   | 895,223                    | 856,021               |
| Retained earnings  | 70,104,353                 | 69,113,403            |

Less cost of Common Stock in treasury:

|                                |              |              |
|--------------------------------|--------------|--------------|
| 1,710,592 and 1,733,424 shares | (15,049,010) | (15,248,682) |
| Total shareholders' equity     | 63,950,566   | 62,720,742   |

|  |              |              |
|--|--------------|--------------|
| Total liabilities and shareholders' equity | \$86,527,491 | \$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.

Synalloy Corporation  
Condensed Consolidated Statements of Operations  
(Unaudited)

|   | Three Months Ended |              | Nine Months Ended |              |
|---|--------------------|--------------|-------------------|--------------|
|   | Oct 2, 2010        | Oct 3, 2009  | Oct 2, 2010       | Oct 3, 2009  |
| Net sales   | \$41,932,059       | \$25,712,110 | \$113,481,348     | \$77,797,009 |
| Cost of goods sold                                      | 37,312,332         | 22,690,998   | 101,901,687       | 69,875,540   |
| Gross profit  | 4,619,727          | 3,021,112    | 11,579,661        | 7,921,469    |
| Selling, general and administrative expense             | 2,380,249          | 2,394,490    | 7,510,878         | 7,056,502    |
| Operating income  | 2,239,478          | 626,622      | 4,068,783         | 864,967      |
| Other (income) and expense                              |                    |              |                   |              |
| Interest expense  | 21,996             | 90,676       | 36,243            | 285,148      |
| Change in fair value of interest rate swap              | -                  | (37,000 )    | -                 | (114,000 )   |
| Other, net  | (1,184 )           | 145,726      | (11,494 )         | 143,844      |
| Income from continuing operations before income tax     | 2,218,666          | 427,220      | 4,044,034         | 549,975      |
| Provision for income taxes                              | 807,000            | 146,000      | 1,472,000         | 188,000      |
| Net income from continuing operations                   | 1,411,666          | 281,220      | 2,572,034         | 361,975      |
| Income from discontinued operations before income taxes | -                  | 281,495      | -                 | 211,891      |
| Tax provision   | -                  | 96,000       | -                 | 72,000       |
| Net income from discontinued operations                 | -                  | 185,495      | -                 | 139,891      |
| Net income  | \$1,411,666        | \$466,715    | \$2,572,034       | \$501,866    |
| Net income per basic common share:                      |                    |              |                   |              |
| Continuing operations                                   | \$0.22             | \$0.04       | \$0.41            | \$0.06       |
| Discontinued operations                                 | -                  | 0.03         | -                 | 0.02         |
| Net income  | \$0.22             | \$0.07       | \$0.41            | \$0.08       |
| Net income per diluted common share:                    |                    |              |                   |              |
| Continuing operations                                   | \$0.22             | \$0.04       | \$0.41            | \$0.06       |
| Discontinued operations                                 | -                  | 0.03         | -                 | 0.02         |
| Net income  | \$0.22             | \$0.07       | \$0.41            | \$0.08       |
| Weighted average shares outstanding:                    |                    |              |                   |              |
| Basic   | 6,285,781          | 6,266,576    | 6,280,193         | 6,260,215    |
| Dilutive effect from stock options and grants           | 28,900             | 11,320       | 24,264            | 6,589        |

|         |           |           |           |           |
|---------|-----------|-----------|-----------|-----------|
| Diluted | 6,314,681 | 6,277,896 | 6,304,457 | 6,266,804 |
|---------|-----------|-----------|-----------|-----------|

See accompanying notes to condensed consolidated financial statements.

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Synalloy Corporation  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

|  | Nine Months Ended |              |
|--|-------------------|--------------|
|  | Oct 2, 2010       | Oct 3, 2009  |
| <b>Operating activities</b>                                    |                   |              |
| Net income from continuing operations                          | \$ 2,572,034      | \$ 361,975   |
| Adjustments to reconcile net income to net cash                |                   |              |
| (used in) provided by continuing operating activities:         |                   |              |
| Depreciation expense   | 2,004,721         | 1,968,904    |
| Amortization of deferred charges                               | 5,340             | 50,442       |
| Deferred income taxes  | (130,545 )        | (387,051 )   |
| Provision for losses on accounts receivable                    | 114,754           | 235,593      |
| Provision for (reduction of) losses on inventory               | 50,502            | (1,382,467 ) |
| Gain on sale of property, plant and equipment                  | (46,223 )         | (20,721 )    |
| Cash value of life insurance                                   | (66,163 )         | (43,249 )    |
| Provision for (reduction of) environmental reserves            | (169,392 )        | 176,726      |
| Issuance of treasury stock for director fees                   | 67,478            | 75,010       |
| Employee stock option and stock grant compensation             | 132,331           | 158,126      |
| Changes in operating assets and liabilities:                   |                   |              |
| Accounts receivable  | (8,266,279 )      | 5,008,477    |
| Inventories  | (11,116,849)      | 17,981,777   |
| Other assets and liabilities                                   | 453,716           | (197,701 )   |
| Income taxes receivable  | 710,715           | (4,755,584 ) |
| Accounts payable   | 7,262,451         | (2,710,506 ) |
| Accrued expenses   | (1,751,220 )      | 1,253,173    |
| Net cash (used in) provided by continuing operating activities | (8,172,629 )      | 17,772,924   |
| Net cash provided by discontinued operating activities         | -                 | 1,478,154    |
| Net cash (used in) provided by operating activities            | (8,172,629 )      | 19,251,078   |
| <b>Investing activities</b>                                    |                   |              |
| Purchases of property, plant and equipment                     | (4,782,486 )      | (1,383,903 ) |
| Proceeds from sale of property, plant and equipment            | 56,832            | 1,150,643    |
| Acquisition of Ram-Fab, Inc.                                   | -                 | (5,707,773 ) |
| Net cash used in continuing investing activities               | (4,725,654 )      | (5,941,033 ) |
| Sale of Blackman Uhler Specialties, LLC assets, net            | -                 | 10,365,757   |
| Sale of Organic Pigments, LLC assets, net                      | -                 | 1,441,006    |
| Other  | -                 | (501,346 )   |
| Net cash provided by discontinued investing activities         | -                 | 11,305,417   |
| Net cash (used in) provided by investing activities            | (4,725,654 )      | 5,364,384    |
| <b>Financing activities</b>                                    |                   |              |
| Borrowings from (payments on) long-term debt, net              | 1,772,568         | (10,425,648) |
| Dividends paid   | (1,581,084 )      | (631,817 )   |
| Proceeds from exercised stock options                          | 39,066            | -            |
| Excess tax benefits from Stock Grant Plan                      | -                 | 1,914        |
| Net cash provided by (used in) financing activities            | 230,550           | (11,055,551) |
| (Decrease) increase in cash and cash equivalents               | (12,667,733)      | 13,559,911   |
| Cash and cash equivalents at beginning of period               | 14,096,557        | 97,215       |

|  |    |           |    |            |
|--|----|-----------|----|------------|
| Cash and cash equivalents at end of period | \$ | 1,428,824 | \$ | 13,657,126 |
|--|----|-----------|----|------------|

See accompanying notes to condensed consolidated financial statements.

Synalloy Corporation  
Notes To Condensed Consolidated Financial Statements  
(Unaudited)

October 2, 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 nine-month period ended October 2, 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 year ended January 2, 2010.

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 nine months of 2010, options for 9,900 shares were exercised by employees and directors for an aggregate exercise price of \$49,185 with the proceeds generated from the repurchase of 1,016 shares from directors totaling \$10,119, and cash received of \$39,066. Stock options compensation cost has been charged against income before taxes for the unvested options of \$7,000 with the offset recorded in shareholders' equity for the nine months ended October 2, 2010. There was no stock option compensation cost for the third quarter of 2010 since these costs have been fully recognized as of the end of the first quarter of 2010. Stock options compensation costs were \$19,000 and \$57,000 for the three and nine months ended October 3, 2009, respectively.

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 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 \$43,000 and \$126,000 before income taxes for the three and nine months ended October 2, 2010, respectively. Compensation costs before income taxes for the same periods of 2009 were \$32,000 and \$101,000, respectively, for stock awards. As of October 2, 2010, there was \$410,000 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)

October 2, 2010

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

|                                | Shares   | Weighted<br>Average<br>Grant<br>Date<br>Fair<br>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 October 2, 2010 | 48,340   | \$ 10.47  |

#### NOTE 4--INCOME TAXES

The Company did not have any unrecognized tax benefits accrued at October 2, 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 declare 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)

October 2, 2010

NOTE 6--SEGMENT INFORMATION

The following information is for continuing operations only.

|   | Three Months Ended |               | Nine Months Ended |               |
|---|--------------------|---------------|-------------------|---------------|
|   | Oct 2, 2010        | Oct 3, 2009   | Oct 2, 2010       | Oct 3, 2009   |
| Net sales   |                    |               |                   |               |
| Metals Segment  | \$ 30,871,000      | \$ 16,857,000 | \$80,970,000      | \$ 53,619,000 |
| Specialty Chemicals Segment                           | 11,061,000         | 8,855,000     | 32,511,000        | 24,178,000    |
|   | \$ 41,932,000      | \$ 25,712,000 | \$113,481,000     | \$ 77,797,000 |
| Operating income                                      |                    |               |                   |               |
| Metals Segment  | \$ 1,772,000       | \$ 307,000    | \$2,333,000       | \$ 973,000    |
| Specialty Chemicals Segment                           | 856,000            | 1,004,000     | 3,183,000         | 1,940,000     |
|   | 2,628,000          | 1,311,000     | 5,516,000         | 2,913,000     |
| Unallocated expenses (income)                         |                    |               |                   |               |
| Corporate   | 388,000            | 684,000       | 1,447,000         | 2,048,000     |
| Interest expense                                      | 22,000             | 91,000        | 36,000            | 285,000       |
| Change in fair value of interest rate swap            | -                  | (37,000 )     | -                 | (114,000 )    |
| Other expense (income)                                | (1,000 )           | 146,000       | (11,000 )         | 144,000       |
| Income from continuing operations before income taxes | \$ 2,219,000       | \$ 427,000    | \$4,044,000       | \$ 550,000    |

The Specialty Chemicals segment previously contained the 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 2009 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 received interest at Libor and paid 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.

Synalloy Corporation  
Notes To Condensed Consolidated Financial Statements  
(Unaudited)

October 2, 2010

The carrying amounts reported in the condensed consolidated balance sheets for cash and cash equivalents, trade accounts receivable, cash value of life insurance and borrowings under the Company's line of credit approximate their fair value.

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

On August 31, 2009, the Company acquired the business of Ram-Fab, Inc., a stainless and carbon steel 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. The Ram-Fab, LLC acquisition has resulted in new piping system opportunities since many projects require both carbon and stainless steel fabrication and expanded the Company's markets, especially in the energy and chemical industries

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 MATTERS

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. The Company settled a claim with a Metals Segment customer for a cash payment of \$1,900,000, which was paid during the second quarter of 2010. 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. The Company did not record any other claims expense during the nine

month period ended October 2, 2010. There was no claims expense in the first nine months 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.

Synalloy Corporation  
Notes To Condensed Consolidated Financial Statements  
(Unaudited)

October 2, 2010

NOTE 11--NEW CREDIT FACILITY

On June 30, 2010, the Company entered into a Credit Agreement with a regional bank to provide a \$20,000,000 line of credit that expires on June 30, 2013. The Company's previous debt facility, with a different lender, was going to expire at the end of 2010. Interest on the new Credit Agreement is calculated using the One Month LIBOR Rate, plus a pre-defined spread, which is determined by the Company's Total Funded Debt to EBITDA ratio. Borrowings under the line of credit are limited to an amount equal to a borrowing base calculation that includes eligible accounts receivable, inventories and cash surrender value of the Company's life insurance. Additionally, the credit facility requires an agreement not to pledge the fixed assets of the Company. Covenants under the new agreement include maintaining a certain Funded Debt to EBITDA ratio, a minimum tangible net worth, and total liabilities to tangible net worth ratio. The Company will also be limited to a maximum amount of capital expenditures per year, which is in line with the Company's currently projected needs. As of October 2, 2010, the Company had \$1,773,000 borrowed against this credit facility and is in compliance with all covenants.

NOTE 12--SUBSEQUENT EVENTS

The Company performs an evaluation of events that occur after a balance sheet date but before financial statements are 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.

Synalloy Corporation

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

The following is management's discussion and analysis of the financial condition and results of operations of the Company for the three and nine month periods ended October 2, 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 same periods of 2009.

Consolidated sales for the third quarter of 2010 increased 63 percent to \$41,932,000 compared to sales from continuing operations of \$25,712,000 for the third quarter of 2009. The third quarter of 2010 produced net earnings of \$1,412,000, or \$0.22 per share. This compares to net income from continuing operations of \$281,000, or \$0.04 per share, in 2009's third quarter. For the nine months ended October 2, 2010, sales were \$113,481,000, up 46 percent from sales of \$77,797,000 from continuing operations for the same period of 2009. Net earnings for the first nine months of 2010 were \$2,572,000 or \$0.41 per share. Net earnings from continuing operations for the first nine months of 2009 were \$362,000 or \$0.06 per share.

Metals Segment Sales of \$30,871,000 increased 83 percent in the third quarter of 2010 while operating income was \$1,772,000 an increase of 477 percent from the comparable quarter last year. The sales increase resulted from a 73 percent increase in unit volumes combined with a six percent increase in average selling prices. The increase in unit volume resulted primarily from higher commodity pipe sales that reflect the more aggressive marketing of these products to gain market share. The increased unit volumes let us operate the plant at a more efficient level and retain our experienced employees. Non-commodity pipe unit sales volume also increased, reflecting stronger fabrication sales which include the impact of the August 31, 2009 acquisition of Ram-Fab, LLC. Third quarter's selling prices, when compared to 2009's third quarter, reflects higher stainless steel prices partially offset by a change in product mix to a higher percent of lower-priced commodity pipe from higher-priced non-commodity pipe and piping systems. Sales and operating income for the first nine months of 2010 for the Metals Segment increased 51 percent and 140 percent, respectively, from the same period of 2009. The nine month sales increase was comprised of a 63 percent increase in unit volumes partially offset by a seven percent decrease in average selling prices.

The increase in operating income for the third quarter was due to the increase in sales, a more favorable product mix and higher plant utilization and throughput as the segment produced a significantly higher number of pounds during the third quarter of 2010 compared to 2009. In addition, due to an increase in selling prices of commodity pipe, the Metals Segment generated higher profits from selling lower cost inventories, which contributed to the significant gross profit improvement experienced for the third quarter and first nine months of 2010 compared to the same periods in the prior year. Operating income for the first nine months of 2010 also reflects a \$500,000 charge during the first quarter of 2010 for a product claim made by a Metals Segment customer.

On August 31, 2009, the Company acquired the business of Ram-Fab, Inc., a stainless and carbon steel 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. The Ram-Fab, LLC acquisition has resulted in new piping system opportunities since many projects require both carbon and stainless steel fabrication and expanded the Company's markets, especially in the energy and chemical industries

Specialty Chemicals Segment The Specialty Chemicals Segment increased sales by 25 percent in the third quarter and 34 percent for the first nine months of 2010 over the same periods of 2009. Operating income



Synalloy Corporation

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

decreased 15 percent for the quarter but had a substantial increase of 64 percent for the first nine months of 2010 compared to the same periods last year. The sales gains came from increases in the sulfated product line and additives for dust control, carpet and agricultural chemicals. Contract manufacturing also contributed to the sales growth. The decrease in operating income during the third quarter resulted from increases in raw material and other costs not yet passed on in sales prices, changes in product mix and the very high profit margins in last year's third quarter. The increase in profits for the nine months was primarily the result of higher sales.

Consolidated selling, general and administrative expense for the third quarter and first nine months of 2010 decreased \$14,000 or one percent and increased \$454,000 or six percent, respectively, compared to the same periods for the prior year. This expense category was six percent and nine percent of sales for the third quarter of 2010 and 2009, respectively, and seven percent and nine percent of sales for the first nine months of 2010 and 2009, respectively. This cost category decreased for the third quarter of 2010 compared to the third quarter of 2009 due to the accrual of various transaction costs in the prior year associated with the sale of certain corporate property, plant and equipment that was included in the sale of BU. The nine month increase for 2010 compared to 2009 resulted from additional administrative expense associated with the acquisition of Ram-Fab, LLC in September 2009, increased payroll and related benefit costs plus higher current year performance based bonus accruals for the specialty chemicals segment partially offset by lower environmental charges resulting from the sale of BU at the end of the third quarter of 2009. Other (income) expense for the third quarter and first nine months of 2009 reflects a \$150,000 medical settlement with a former employee of its Augusta, Georgia chemical operation which was closed in 2001.

The Company's cash balance decreased during the first nine months of 2010 from \$14,097,000 at the end of 2009 to \$1,429,000 as of October 2, 2010. In addition, the Company had \$1,773,000 outstanding on its bank line of credit as of October 2, 2010. There was no bank indebtedness at the end of 2009. As a result of higher sales and production activity during the first nine months of 2010, compared to 2009, accounts receivable, inventory and accounts payable levels increased at October 2, 2010 when compared to the prior year end, resulting in a \$12,121,000 net use of cash for the first nine months of 2010. Other significant cash outlays during the first nine months of 2010 included the purchase of the land and buildings at our Crossett, AR facility which were previously leased from the seller plus the annual dividend of \$1,581,000 that was paid in the first quarter of 2010.

On June 30, 2010, the Company entered into a Credit Agreement with a regional bank to provide a \$20,000,000 line of credit that expires on June 30, 2013. The Company's previous debt facility, with a different lender, was going to expire at the end of 2010. Interest on the new Credit Agreement is calculated using the One Month LIBOR Rate, plus a pre-defined spread, which is determined by the Company's Total Funded Debt to EBITDA ratio. Borrowings under the line of credit are limited to an amount equal to a borrowing base calculation that includes eligible accounts receivable, inventories and cash surrender value of the Company's life insurance. Additionally, the credit facility requires an agreement not to pledge the fixed assets of the Company. Covenants under the new agreement include maintaining a certain Funded Debt to EBITDA ratio, a minimum tangible net worth, and total liabilities to tangible net worth ratio. The Company will also be limited to a maximum amount of capital expenditures per year, which is in line with the Company's currently projected needs. The Company is in compliance with all covenants as of October 2, 2010.

**Outlook** Management is very pleased with achieving substantial increases in sales and profits in both our segments during a period of slow economic activity. The Metals Segment's business is highly dependent on its customers' capital expenditures which have been significantly impacted by economic conditions. Stainless steel surcharges, which affect our costs of raw materials and selling prices, have increased consistently through June 2010, dropped slightly for the

third quarter and are scheduled to increase during the fourth quarter of 2010. While the project and specialty products activities have been soft, there is some recent increase in these sectors. We believe we are the largest and most capable domestic producer of non-commodity stainless pipe and an effective

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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. Approximately 90 percent of the piping systems backlog comes from paper, water and wastewater treatment projects. Piping systems' backlog was \$33,398,000 at October 2, 2010 compared to \$33,046,000 at the end of the second quarter 2010 and \$54,000,000 at the end of the third quarter of 2009. We estimate that approximately 80 percent of the backlog should be completed over the next twelve months.

The higher sales levels the Specialty Chemicals Segment experienced during the first nine months of the year should continue into the fourth quarter. Management will continue to monitor raw material cost increases and control spending in order to minimize their effect on Segment profitability.

**Sale of Blackman Uhler Specialties & Discontinued Operations** On October 2, 2009, the Company entered into an Asset Purchase Agreement with SantoLubes Manufacturing, LLC to sell the specialty chemical business of Blackman Uhler Specialties, LLC ("BU") along with certain property, plant and equipment held by Synalloy Corporation. As a result, this operation, which was previously included in the Specialty Chemicals Segment, is being reported as discontinued operations in 2009 results.

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, customer delays or difficulties in the production of products, 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 and other risks detailed from time-to-time in Synalloy's Securities and Exchange Commission filings. Synalloy Corporation assumes no obligation to update the 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.

Synalloy Corporation

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.

## PART II: OTHER INFORMATION

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

During the first quarter of 2010 the Registrant issued shares of common stock to Non-Employee Directors in lieu of cash for services rendered. 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. During the third quarter of 2010, a Non-employee Director resigned from the Board of Directors and accordingly the following previously issued shares for 2010 director services were forfeited.

| Date Issued | Class of Purchasers    | Number of Shares Forfeited | Consideration     |
|-------------|------------------------|----------------------------|-------------------|
| 9/24/2010   | Non-Employee Directors | (766)                      | Director Services |

Also during the third quarter, 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 |
|-------------|------------------------|-------------------------|--------------------------|
| 9/23/2010   | Officers and Employees | 4,800                   | \$22,320                 |

## 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 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: November 12, 2010 By: /s/ Ronald H. Braam  
Ronald H. Braam  
President and Chief Executive Officer

Date: November 12, 2010 By: /s/ Richard D. Sieradzki  
Richard D. Sieradzki  
Chief Financial Officer and  
Principal Accounting Officer



