

**FORM 10-Q**

**Securities and Exchange Commission  
Washington, D.C. 20549**

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Quarter Period Ended **March 30, 2002**

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)*

**P.O. Box 5627**

**Croft Industrial Park**

**Spartanburg, South Carolina**

*(Address of principal executive offices)*

**29304**

*(Zip code)*

**(864) 585-3605**

*(Registrant's telephone number, including area code)*

**NOT APPLICABLE**

*(Former name, former address and former fiscal year, if changed since last report)*

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 the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practical date.

<u>Title of Class</u>	<u>Number of shares Outstanding as of March 30, 2002</u>
<b>Common Stock, \$1.00 Par Value</b>	<b>5,964,304</b>

## PART I. FINANCIAL INFORMATION

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- Condensed consolidated balance sheets - March 30, 2002 and December 29, 2001
- Condensed consolidated statements of income - Three months ended March 30, 2002 and March 31, 2001
- Condensed consolidated statements of cash flows - Three months ended March 30, 2002 and March 31, 2001
- Notes to condensed consolidated financial statements - March 30, 2002
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## PART II. OTHER INFORMATION

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- Item 3. Defaults upon Senior Securities
- Item 4. Submission of Matters to a Vote of Security Holders
- Item 5. Other Information
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## PART 1. FINANCIAL STATEMENTS

### Synalloy Corporation

#### Condensed Consolidated Balance Sheets

Mar 30, 2002

Dec 29, 2001

(Unaudited)

(Note)

#### Assets

Current assets

Cash and cash equivalents	\$	232,232	\$	4,989
Accounts receivable, less allowance for doubtful accounts		11,810,230		11,337,899
Inventories				
Raw materials		8,117,599		7,101,443
Work-in-process		3,204,570		3,556,472
Finished goods		<u>12,612,362</u>		<u>14,682,330</u>
Total inventories		23,934,531		25,340,245
Deferred income taxes		325,000		325,000
Prepaid expenses and other current assets		<u>1,323,830</u>		<u>1,068,099</u>
Total current assets		37,625,823		38,076,232
Cash value of life insurance		2,310,521		2,344,139
Investment		611,117		885,194
Property, plant & equipment, net of accumulated depreciation of \$37,451,000 and \$36,622,000		25,220,906		25,500,074
Deferred charges and other assets		<u>2,972,790</u>		<u>2,953,348</u>
<b>Total assets</b>	\$	68,741,157	\$	69,758,987

#### **Liabilities and Shareholders' Equity**

##### *Current liabilities*

Notes payable	\$	7,070,000	\$	7,186,000
Accounts payable		6,585,278		6,425,074
Accrued expenses		2,216,750		1,900,479
Current portion of environmental reserves		<u>1,423,771</u>		<u>1,423,959</u>
Total current liabilities		17,295,799		16,935,512

Long-term debt, less current portion		10,000,000		10,000,000
Environmental reserves		1,248,383		1,361,005
Deferred compensation		806,403		1,074,644
Deferred income taxes		1,413,000		1,439,000
Contingencies				

##### Shareholders' equity

Common stock, par value \$1 per share - authorized

    12,000,000 shares; issued 8,000,000 shares

    Capital in excess of par value

Retained earnings

Accumulated other comprehensive income

Less cost of Common Stock in treasury

(17,087,361)

(17,087,361)

Total shareholders' equity	<u>37,977,572</u>	<u>38,948,826</u>
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<b>Total liabilities and shareholders' equity</b>	<b>\$ 68,741,157</b>	<b>\$ 69,758,987</b>
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Note: The balance sheet at December 29, 2001 has been derived from the audited financial statements at that date.

See accompanying notes to condensed consolidated financial statements.

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## Synalloy Corporation

### Condensed Consolidated Statements of Operations

(Unaudited)	Three Months Ended	
	Mar 30, 2002	Mar 31, 2001
Net sales	\$ 20,422,691	\$ 25,102,763
Cost of sales	<u>18,837,266</u>	<u>21,502,738</u>
Gross profit	1,585,425	3,600,025
Selling, general and administrative expense	<u>2,855,447</u>	<u>2,563,998</u>
Operating loss	(1,270,022)	(254,097)
Other (income) and expense		
Gain on sale of investment	(89,016)	-
Interest expense	219,096	281,277
Other, net	<u>23,763</u>	<u>3,575</u>
(Loss) income before taxes	(1,423,865)	751,175
Provision for income taxes	<u>(501,000)</u>	<u>265,000</u>
Net (loss) income	\$ (922,865)	\$ 486,175
Net (loss) income per common share		
Basic	(\$ .15)	\$.08
Diluted	(\$ .15)	\$.08

Dividends paid per		
common share	\$ .00	\$ .05
Average shares outstanding		
Basic	5,964,304	5,964,368
Diluted	5,964,304	5,964,368

See accompanying notes to condensed consolidated financial statements

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## Synalloy Corporation

### Condensed Consolidated Statements of Cash Flows

(Unaudited)

	<b>Three Months Ended</b>	
	<u>Mar 30, 2002</u>	- <u>Mar 31, 2001</u>
<b>Operating activities</b>		
Net (loss) income	\$ (922,865)	\$ 486,175
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	844,231	754,210
Amortization of deferred charges	35,642	84,109
Deferred compensation	(268,241)	(295,817)
Deferred income taxes	(26,000)	-
Provision for losses on accounts receivable	1,396	72,918
Loss (gain) on sale of property, plant and equipment	36,839	(17,900)
Cash value of life insurance	33,618	(17,485)
Environmental reserves	(112,810)	(88,297)
Changes in operating assets and liabilities:		
Accounts receivable	(473,727)	(91,920)
Inventories	1,405,714	3,541,086
Other assets	(495,387)	90,017
Accounts payable and accrued expenses	996,475	(209,018)
Income taxes payable	<u>(520,000)</u>	<u>1,351,200</u>
<b>Net cash provided by operating activities</b>	534,885	5,659,278
<b>Investing activities</b>		
Purchases of property, plant and equipment	(611,902)	(747,431)
Proceeds from sale of property, plant and equipment	10,000	17,900

Proceeds from sale of investment	285,260	-
Proceeds received from note receivables	<u>125,000</u>	<u>-</u>
<b>Net cash used in investing activities</b>	(191,642)	(729,531)
<b>Financing activities</b>		
Proceeds from revolving lines of credit	6,879,000	5,951,000
Payments on revolving lines of credit	(6,995,000)	(10,573,000)
Dividends paid	<u>-</u>	<u>(298,218)</u>
<b>Net cash used in financing activities</b>	<u>(116,000)</u>	<u>(4,920,218)</u>
<b>Increase in cash and cash equivalents</b>	227,243	9,529
<b>Cash and cash equivalents at beginning of year</b>	<u>4,989</u>	<u>467</u>
<b>Cash and cash equivalents at end of period</b>	\$ <u>232,232</u>	\$ <u>9,996</u>

See accompanying notes to condensed consolidated financial statements.

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## *Synalloy Corporation*

### *Notes To Condensed Consolidated Financial Statements*

*(Unaudited)*

**March 30, 2002**

#### **NOTE 1--BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles 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 March 30, 2002, are not necessarily indicative of the results that may be expected for the year ending December 28, 2002. 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 December 29, 2001.

#### **NOTE 2--INVENTORIES**

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

#### **NOTE 3--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. Management believes that based on present information, it is unlikely that liability, if any, exists that would have a materially adverse effect on the consolidated operating results or financial position of the Company.

#### **NOTE 4--COMPREHENSIVE INCOME**

Comprehensive (loss) and income was approximately (\$923,000) and \$496,000 for the three months ended March 30, 2002 and March 31, 2001, respectively. Comprehensive income consists of net income plus unrealized gains on the Company's equity investments of \$0 and \$9,000, net of deferred income taxes of \$0 and \$5,000 for the three months ended March 30, 2002 and March 31, 2001, respectively, and is recorded in Shareholders' Equity.

#### **NOTE 5--SEGMENT INFORMATION**

(Dollar amounts are in thousands.)

	<b>THREE MONTHS ENDED</b>	
	<u>Mar 30, 2002</u>	<u>Mar 31, 2001</u>
<i>(Dollar amount in thousands)</i>		
<b>Net sales</b>		
Colors Group	\$ 4,664	\$ 6,028
Specialty Chemicals Group	<u>5,508</u>	<u>5,592</u>
Chemicals Segment	10,172	11,620
Metals Segment	<u>10,251</u>	<u>13,483</u>
	\$ 20,423	\$ 25,103
<b>Operating (loss) income</b>		
Colors Group	(528)	(62)
Specialty Chemicals Group	<u>(123)</u>	<u>248</u>
Chemicals Segment	(651)	186
Metals Segment	<u>(333)</u>	<u>1,100</u>
	(984)	1,286
<b>Unallocated expenses</b>		
Corporate	197	250
Interest, net	<u>243</u>	<u>285</u>
<b>(Loss) income before income taxes</b>	\$ (1,424)	\$ 751

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## *Synalloy Corporation*

### *Notes To Condensed Consolidated Financial Statements*

*(Unaudited)*

**March 30, 2002**

#### **NOTE 6--STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS ISSUED IN 2001**

In June 2001, the FASB issued Statements of Financial Accounting Standards SFAS No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets." Under the new rules, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually for impairment. Separate intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. We are initially applying Statement 142 on January 1, 2002. The goodwill was acquired prior to July 1, 2001 and prior to the adoption of Statement 142, was amortized using the straight-line method over 40 years. We expect to perform the first of the required impairment tests of goodwill in the second quarter of 2002, and do not believe the impact of adopting SFAS 141 and 142 will have a material effect on our Consolidated Financial Statements. The amortization expense and adjusted net income of the Company for the first quarter of initial application and the same quarter last year are as follows (we recognized no extraordinary items in those periods):

	<u>Mar 30, 2002</u>	<u>Mar 31, 2001</u>
Reported net (loss) income	\$ (922,865)	\$ 486,175
Goodwill amortization	=	42,528
Tax effect	<u>-</u>	<u>(15,000)</u>
Adjusted net (loss) income	\$ (922,865)	\$ 513,703
Basic and diluted (loss) earnings per share		
Reported net (loss) income	\$(.15)	\$.08
Goodwill amortization, net of tax	<u>-</u>	<u>.01</u>
Adjusted net (loss) income	\$(.15)	\$.09

#### **NOTE 7--LONG-TERM DEBT**

On March 6, 2002, the Company was notified by its bank that it would not renew the \$9 million bank line of credit, which was to expire on May 1, 2002, but was amended to expire on June 15, 2002. The Company also has a \$10 million line of credit with the same bank, and

although it expires May 31, 2003, the Company expects the line to be renewed as part of a new refinancing agreement with another lender. The Company is in the process of obtaining replacement financing for both loans and has a preliminary agreement with a replacement lender. The Company expects to have the agreement in place by May 31, 2002. The Company anticipates that such financing will be at slightly higher effective rates of interest with those charged on the existing loans.

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## ***Synalloy Corporation***

### ***Management's Discussion and Analysis Of Financial Condition***

#### ***And Results Of Operations***

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The following is management's discussion of certain significant factors that affected the Company during the quarter ended March 30, 2002.

Consolidated sales for the quarter were down, decreasing 19 percent compared to the same period one year ago. The Company realized a consolidated net loss of \$923,000 for the quarter, or \$.15 per share compared to net income of \$486,000 or \$.08 per share reported the same period one year ago.

Sales in the Colors Group were down 23 percent from a year earlier resulting in an operating loss of \$528,000 compared to a \$62,000 loss reported in 2001's first quarter. The poor unit volume and prices experienced in the last two months of 2001 continued through the first quarter for dyes, causing the loss. Although sales were slightly below last year's fourth quarter total of \$4,689,000, the operating loss improved from the prior quarter's loss of \$695,000. Pigment colors accounted for the sequential improvement realizing a small profit for the quarter. Although the level of dye sales is expected to increase over the balance of the year due to obtaining several successful bids, it will be difficult for the Group to return to profitability by the end of the year. Management is currently evaluating options to minimize future losses and better utilize the capital employed by this Group.

The Specialty Chemicals Group had a 2 percent decline in sales, but incurred an operating loss of \$123,000 compared to \$248,000 of operating income for the same quarter last year. However, the loss came in the first month as the Group was profitable for the last two months of the quarter. Sales increased 15 percent from last year's fourth quarter total of \$4,808,000 and the operating loss was a substantial improvement over the prior quarter's loss of \$553,000. The improvement came from a combination of slightly improved business conditions and increased production at the Spartanburg plant from the timing of certain toll projects. We believe this Group should continue to show improvement consistent with the general economy, but there can be no assurance that this will occur.

Dollar sales in the Metals Segment declined 24 percent from a year earlier as a result of 34 percent lower average selling prices partially offset by 15 percent higher unit volumes. Although end-use demand has appeared to improve slightly, pricing has continued to deteriorate as commodity prices have fallen to the record low levels of 1999. Commodity stainless pipe sales prices were down 18 percent from a year earlier, and 5 percent from the fourth quarter of 2001. The lower average selling prices also resulted from a less favorable product mix with higher-priced piping systems contributing a much smaller percentage of sales than in the first quarter of 2001.

The operating loss of \$333,000 incurred by the Metals Segment was significantly below last year's first quarter operating income of \$1,100,000. The decline came from the lower selling prices coupled with very poor piping system sales as piping systems more than accounted for the operating loss. Market conditions continue to be very competitive as stainless pipe prices have continued to decline over the past six quarters. In recent weeks however, we have seen increases in demand and selling prices. We are hopeful that this trend will continue over the balance of the year, which should generate an improvement in profitability, but there can be no assurance that this will occur.

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## ***Management's Discussion And Analysis Of Financial Condition***

### ***And Results Of Operations - Continued***

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Prospects for the piping systems are very poor as very few quoting opportunities are available. The weakened economy has curtailed power generation construction, which appeared to be the most promising industrial construction activity only a few months ago, restricting our ability to penetrate that market. We are attempting to pursue new markets to increase piping system sales and although it will take time to materialize, based on prior business cycles, management believes we can increase our backlog to a profitable level.

Consolidated selling and administrative expense for the quarter increased \$291,000, or 11 percent, compared to the first quarter of last year. Increased selling expenses from the acquisition of the Dalton, Georgia business, accounted for the increase.

Cash flows from operations totaled \$535,000 during the first three months of 2002 compared to \$5,659,000 generated during the same period one year ago. The decline came primarily from a \$3,541,000 reduction in inventories during the first quarter of last year. Decreases in income taxes payable of \$1,871,000 and the first quarter's net loss before depreciation and amortization of \$43,000 compared to net income before depreciation and amortization of \$1,324,000 realized last year, also contributed to the decline. The Company expects that available cash and existing lines of credit will be sufficient to meet normal operating requirements, including capital expenditures over the near term (See Footnote 7 on Page 7).

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

The statements contained in this management discussion and analysis that are not historical facts may be 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, which speak only as of their dates. 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, 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 herein.

## **PART II: OTHER INFORMATION**

### ***Synalloy Corporation***

Item 1. Legal Proceedings

None

Item 2. Change In Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission Of Matters To A Vote Of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits And Reports On Form 8-K

The following exhibits are included herein:

None

The Company did not file any reports on Form 8-K during the three months ended March 30, 2002.

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*Synalloy Corporation*

**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)

By: /s/ **Ralph Matera**  
Ralph Matera.  
Chief Executive Officer

By: /s/ **Gregory M. Bowie**  
Gregory M. Bowie  
Vice President Finance