**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 March 31, 2021

**OR**

☐ 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

**Synalloy Corporation**
*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Delaware** | **57-0426694** |
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| **4510 Cox Road, Suite 201, Richmond, Virginia** | **23060** |
| *(Address of principal executive offices)* | *(Zip Code)* |

**(804) 822-3260**
*(Registrant's telephone number, including area code)*

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol | Name of exchange on which registered |
|---|---|---|
| Common Stock, par value $1.00 per share | SYNL | NASDAQ Global Market |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☒ No ☐

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

| | | | | | |
|---|---|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ | Non-accelerated filer | ☒ |
| Smaller reporting company | ☒ | Emerging growth company | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes ☐ No ☐

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

The number of shares outstanding of the registrant's common stock as of May 7, 2021 was 9,202,045

**Synalloy Corporation**
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**Forward-Looking Statements**

This Quarterly Report on Form 10-Q includes and incorporates by reference "forward-looking statements" within the meaning of the federal securities laws. All statements that are not historical facts are "forward-looking statements." The words "estimate," "project," "intend," "expect," "believe," "should," "anticipate," "hope," "optimistic," "plan," "outlook," "should," "could," "may" 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, including risks relating to the impact and spread of and the government's response to COVID-19; inability to weather an economic downturn; a prolonged decrease in nickel and oil prices; the impact of competitive products and pricing; product demand and acceptance risks; raw material and other increased costs; raw materials availability; financial stability of our customers; customer delays or difficulties in the production of products; loss of consumer or investor confidence; employee relations; ability to maintain workforce by hiring trained employees; labor efficiencies; risks associated with mergers, acquisitions, dispositions and other expansion activities; environmental issues; negative or unexpected results from tax law changes; inability to comply with covenants and ratios required by our debt financing arrangements; and other risks detailed from time-to-time in the Company's SEC filings. The Company assumes no obligation to update the information included in this Quarterly Report on Form 10-Q.

**Part I - Financial Information**
**Item 1. Financial Statements**

**SYNALLOY CORPORATION**
**Condensed Consolidated Balance Sheets**
(in thousands, except par value and share data)

| | (Unaudited) March 31, 2021 | December 31, 2020 |
|---|---|---|
| **Assets** | | |
| *Current assets* | | |
| Cash and cash equivalents | $ 398 | $ 236 |
| Accounts receivable, net of allowance for credit losses of $508 and $496, respectively | 39,352 | 28,183 |
| Inventories, net | 88,763 | 85,080 |
| Prepaid expenses and other current assets | 9,440 | 13,384 |
| Total current assets | 137,953 | 126,883 |
| | | |
| Property, plant and equipment, net | 33,477 | 35,096 |
| Right-of-use assets, operating leases, net | 31,429 | 31,769 |
| Goodwill | 1,355 | 1,355 |
| Intangible assets, net | 10,746 | 11,426 |
| Deferred charges, net | 367 | 455 |
| **Total assets** | $ 215,327 | $ 206,984 |
| | | |
| **Liabilities and Shareholders' Equity** | | |
| *Current liabilities* | | |
| Accounts payable | $ 26,089 | $ 19,732 |
| Accrued expenses and other current liabilities | 5,506 | 6,123 |
| Current portion of long-term debt | 1,313 | 875 |
| Current portion of earn-out liability | 2,773 | 3,434 |
| Current portion of operating lease liabilities | 897 | 867 |
| Current portion of finance lease liabilities | 14 | 19 |
| Total current liabilities | 36,592 | 31,050 |
| | | |
| Long-term debt | 62,454 | 60,495 |
| Long-term portion of earn-out liability | 144 | 287 |
| Long-term portion of operating lease liabilities | 32,524 | 32,771 |
| Long-term portion of finance lease liabilities | 34 | 37 |
| Deferred income taxes | 1,916 | 1,957 |
| Other long-term liabilities | 87 | 92 |
| Total non-current liabilities | 97,159 | 95,639 |
| *Commitments and contingencies – See Note 13* | | |
| | | |
| *Shareholders' equity* | | |
| Common stock, par value $1 per share; authorized 24,000,000 shares; issued 10,300,000 shares | 10,300 | 10,300 |
| Capital in excess of par value | 37,668 | 37,719 |
| Retained earnings | 43,929 | 42,835 |
| | 91,897 | 90,854 |
| Less: cost of common stock in treasury - 1,097,956 and 1,123,319 shares, respectively | 10,321 | 10,559 |
| Total shareholders' equity | 81,576 | 80,295 |
| **Total liabilities and shareholders' equity** | $ 215,327 | $ 206,984 |

*Note: The condensed consolidated balance sheet at December 31, 2020 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)**
(in thousands, except per share data)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Net sales | $ 69,778 | $ 74,697 |
| Cost of sales | 61,043 | 67,546 |
| Gross profit | 8,735 | 7,151 |
| Expenses | | |
| Selling, general and administrative | 6,869 | 7,770 |
| Acquisition costs and other | — | 304 |
| Proxy contest costs and recoveries | (464) | — |
| Earn-out adjustments | 225 | 4 |
| Operating income (loss) | 2,105 | (927) |
| Other expense (income) | | |
| Interest expense | 387 | 719 |
| Loss on extinguishment of debt | 223 | — |
| Change in fair value of interest rate swaps | (2) | 85 |
| Other, net | 162 | 827 |
| Income (loss) before income taxes | 1,335 | (2,558) |
| Income tax provision (benefit) | 241 | (1,380) |
| Net income (loss) | $ 1,094 | $ (1,178) |
| | | |
| Net income (loss) per common share: | | |
| Basic | $ 0.12 | $ (0.13) |
| Diluted | $ 0.12 | $ (0.13) |
| | | |
| Weighted average shares outstanding: | | |
| Basic | 9,191 | 9,074 |
| Dilutive effect from stock options and grants | 97 | — |
| Diluted | 9,288 | 9,074 |

*See accompanying notes to condensed consolidated financial statements.*

**SYNALLOY CORPORATION**
**Condensed Consolidated Statement of Cash Flows (Unaudited)**
(in thousands)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| **Operating activities** | | |
| Net income (loss) | $ 1,094 | $ (1,178) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation expense | 1,817 | 1,958 |
| Amortization expense | 680 | 810 |
| Amortization of debt issuance costs | 21 | 40 |
| Loss on extinguishment of debt | 223 | — |
| Unrealized loss on equity securities | — | 852 |
| Deferred income taxes | (41) | 1,319 |
| Earn-out adjustments | 225 | 4 |
| Payments on earn-out liabilities in excess of acquisition date fair value | — | (292) |
| Provision for losses on accounts receivable | 12 | 141 |
| Provision for losses on inventories | 184 | 358 |
| Loss on disposal of property, plant and equipment | 28 | — |
| Non-cash lease expense | 124 | 128 |
| Non-cash lease termination loss | — | 11 |
| Change in fair value of interest rate swap | (2) | 85 |
| Stock-based compensation expense | 187 | 336 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (11,181) | (7,737) |
| Inventories | (3,866) | 676 |
| Other assets and liabilities | 38 | 2 |
| Accounts payable | 6,357 | 5,668 |
| Accrued expenses | (569) | (1,085) |
| Accrued income taxes | 3,901 | (2,738) |
| **Net cash used in operating activities** | (768) | (642) |
| **Investing activities** | | |
| Purchases of property, plant and equipment | (245) | (587) |
| Proceeds from disposal of property, plant and equipment | 18 | — |
| **Net cash used in investing activities** | (227) | (587) |
| **Financing activities** | | |
| Borrowings from line of credit | 14,730 | 3,201 |
| Payments on long-term debt | (12,333) | (1,000) |
| Principal payments on finance lease obligations | (10) | (64) |
| Payments for finance lease terminations | — | (14) |
| Payments on earn-out liabilities | (1,029) | (863) |
| Payments for termination of interest rate swap | (46) | — |
| Repurchase of common stock | — | (635) |
| Payments for deferred financing costs | (155) | — |
| **Net cash provided by financing activities** | 1,157 | 625 |
| Increase (decrease) in cash and cash equivalents | 162 | (604) |
| **Cash and cash equivalents at beginning of period** | 236 | 626 |
| **Cash and cash equivalents at end of period** | $ 398 | $ 22 |
| | | |
| **Supplemental disclosure** | | |
| Cash paid for: | | |
| Interest | $ 315 | $ 667 |

*See accompanying notes to condensed consolidated financial statements.*

**SYNALLOY CORPORATION**
**Condensed Consolidated Statement of Shareholders' Equity (Unaudited)**
(in thousands)

| | Three Months Ended March 31, 2021 | | | | |
|---|---|---|---|---|---|
| | Common Stock | Capital in Excess of Par Value | Retained Earnings | Cost of Common Stock in Treasury | Total |
| **Balance December 31, 2020** | $ 10,300 | $ 37,719 | $ 42,835 | $ (10,559) | $ 80,295 |
| Net income | — | — | 1,094 | — | 1,094 |
| Issuance of 25,363 shares of common stock from treasury | — | (238) | — | 238 | — |
| Stock-based compensation | — | 187 | — | — | 187 |
| **Balance March 31, 2021** | $ 10,300 | $ 37,668 | $ 43,929 | $ (10,321) | $ 81,576 |

*See accompanying notes to condensed consolidated financial statements.*

| | Three Months Ended March 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Common Stock | Capital in Excess of Par Value | Retained Earnings | Cost of Common Stock in Treasury | Total |
| **Balance December 31, 2019** | $ 10,300 | $ 37,407 | $ 70,552 | $ (11,748) | $ 106,511 |
| Net loss | — | — | (1,178) | — | (1,178) |
| Cumulative adjustment due to adoption of ASU 2016-13 | — | — | (450) | — | (450) |
| Issuance of 75,440 shares of common stock from treasury | — | (708) | — | 708 | — |
| Stock-based compensation | — | 336 | — | — | 336 |
| Purchase of common stock | — | — | — | (635) | (635) |
| **Balance March 31, 2020** | $ 10,300 | $ 37,035 | $ 68,924 | $ (11,675) | $ 104,584 |

*See accompanying notes to condensed consolidated financial statements.*

Unless indicated otherwise, the terms "Company," "we," "us," and "our" refer to Synalloy Corporation and its consolidated subsidiaries.

**Note 1: Basis of Presentation**

*Basis of Financial Statement Presentation*

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") 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 notes 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 as required by Regulation S-X, Rule 10-01.

These interim unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2020 (the "Annual Report"). The financial results for the interim periods may not be indicative of the financial results for the entire year.

*COVID-19 Update*

During the first quarter of 2021, aspects of the Company's business continued to be affected by macroeconomic factors related to the COVID-19 pandemic, specifically with delays in production and deliveries at our plants. The full extent of the future impact of the COVID-19 pandemic on the Company's operational and financial performance is currently uncertain and will depend on many factors outside of the Company's control.

*Recently Issued Accounting Standards - Adopted*

On September 30, 2020, the Company early adopted ASU No. 2019-12 *"Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes."* This ASU removes certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences as well as adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for goodwill and allocating taxes to members of a consolidated group. The most significant impact to the Company is the removal of a limit on the tax benefit recognized on pre-tax losses in interim periods. The adoption of this standard by the Company did not have a material effect on the condensed consolidated financial statements or footnote disclosures.

*Recently Issued Accounting Standards - Not Yet Adopted*

Recent accounting pronouncements pending adoption, other than those stated above, are not expected to have a material impact on the Company.

**Note 2: Revenue Recognition**

Revenues are recognized when control of the promised goods is transferred to our customers or when a service is rendered, in an amount that reflects the consideration we are to receive in exchange for those goods or services.

The following table presents the Company's revenues, disaggregated by product group. Substantially all of the Company's revenues are derived from contracts with customers where performance obligations are satisfied at a point-in-time.

| | **Three Months Ended March 31,** | |
|---|---|---|
| *(in thousands)* | **2021** | **2020** |
| Fiberglass and steel liquid storage tanks and separation equipment | $ 141 | $ 3,419 |
| Heavy wall seamless carbon steel pipe and tube | 7,818 | 7,314 |
| Stainless steel pipe and tube | 39,911 | 43,728 |
| Galvanized pipe and tube | 7,343 | 6,203 |
| Specialty chemicals | 14,565 | 14,033 |
| Net sales | $ 69,778 | $ 74,697 |

**Arrangements with Multiple Performance Obligations**

Our contracts with customers may include multiple performance obligations. For such arrangements, revenue for each performance obligation is based on its stand-alone selling price and revenue is recognized as each performance obligation is satisfied. The Company generally determines stand-alone selling prices based on the prices charged to customers using the adjusted market assessment approach or expected cost plus margin.

**Note 3: Fair Value of Financial Instruments**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To measure fair value, we use a three-tier valuation hierarchy based upon observable and non-observable inputs:

*Level 1* - Unadjusted quoted prices that are available in active markets for identical assets or liabilities at the measurement date.

*Level 2* - Significant other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

*Level 3* - Significant unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using model-based techniques, including option pricing models, discounted cash flow models, probability weighted models, and Monte Carlo simulations.

The Company's financial instruments include cash and cash equivalents, accounts receivable, derivative instruments, accounts payable, earn-out liabilities, a revolving line of credit, a term loan, and equity securities investments.

***Assets and Liabilities Measured at Fair Value on a Recurring Basis***

The fair value hierarchy requires the use of observable market data when available. In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

*Level 1: Equity securities*

For the three months ended March 31, 2020, the Company recorded a net unrealized loss of $0.9 million on the investments in equity securities held, which is included in "Other expense (income)" on the accompanying unaudited condensed consolidated statements of operations.

The Company held no equity securities as of March 31, 2021 and December 31, 2020, respectively.

*Level 3: Contingent consideration (earn-out) liabilities*

The fair value of contingent consideration ("earn-out") liabilities resulting from the 2017 MUSA-Stainless acquisition, 2018 MUSA-Galvanized acquisition, and 2019 American Stainless acquisition are classified as Level 3. Each quarter-end, the Company re-evaluates its assumptions for all earn-out liabilities and adjusts to reflect the updated fair values. Changes in the estimated fair value of the earn-out liabilities are reflected in operating income in the periods in which they are identified. Changes in the fair value of the earn-out liabilities may materially impact and cause volatility in the Company's operating results. The significant unobservable inputs used in the fair value measurement of the Company's earn-out liabilities are the discount rate, timing of the estimated payouts, and future revenue projections. Significant increases (decreases) in any of those inputs would not have resulted in a material difference in the fair value measurement of the earn-out liabilities for the three months ended March 31, 2021.

The following table presents a summary of changes in fair value of the Company's Level 3 earn-out liabilities measured on a recurring basis for the three months ended March 31, 2021:

| *(in thousands)* | MUSA-Stainless | MUSA-Galvanized | American Stainless | Total |
|---|---|---|---|---|
| Balance December 31, 2020 | $ 375 | $ 941 | $ 2,405 | $ 3,721 |
| Earn-out payments during the period | (385) | (171) | (473) | (1,029) |
| Changes in fair value during the period | 10 | 45 | 170 | 225 |
| Balance March 31, 2021 | $ — | $ 815 | $ 2,102 | $ 2,917 |

For the three months ended March 31, 2021, the Company had no unrealized gains or losses included in other comprehensive income for recurring Level 3 fair value instruments.

*Quantitative Information about Significant Unobservable Inputs Used in Level 3 Fair Value Measurements*

The following table summarizes the significant unobservable inputs in the fair value measurement of our contingent consideration (earn-out) liabilities as of March 31, 2021:

| Instrument | Fair Value March 31, 2021 | Principal Valuation Technique | Significant Unobservable Inputs | Range | Weighted Average |
|---|---|---|---|---|---|
| Contingent consideration (earn-out) liabilities | $2,917 | Probability Weighted Expected Return | Discount rate | - | 5% |
| | | | Timing of estimated payouts | 2021 - 2022 | - |
| | | | Future revenue projections | $4.7M - 7.9M | $6.7M |

The weighted average discount rate was calculated by applying an equal weighting to each contingent consideration's (earn-out liabilities) discount rate. The weighted average future revenue projection was calculated by applying an equal weighting of probabilities to each forecasted scenario within the valuation models to determine the probability weighted sales applicable to the contingent consideration (earn-out liabilities).

***Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis***

During the three months ended March 31, 2021 and 2020, the Company had no significant measurements of assets or liabilities at fair value on a non-recurring basis subsequent to their initial recognition.

***Fair Value of Financial Instruments***

For short-term instruments, other than those required to be reported at fair value on a recurring and non-recurring basis and for which additional disclosures are included above, management concluded the historical carrying value is a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization. Therefore, as of March 31, 2021 and December 31, 2020, the carrying amounts for cash and cash equivalents, accounts receivable, accounts payable, and the Company's revolving line of credit, which is based on a variable interest rate, approximate their fair value.

**Note 4: Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost is determined by either specific identification or weighted average methodsThe components of inventories are as follows:

| *(in thousands)* | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Raw materials | $ 38,892 | $ 36,349 |
| Work-in-process | 22,963 | 20,520 |
| Finished goods | 27,765 | 28,929 |
| | 89,620 | 85,798 |
| Less: inventory reserves | (857) | (718) |
| Inventories, net | $ 88,763 | $ 85,080 |

**Note 5: Property, Plant and Equipment**

Property, plant and equipment consist of the following:

| *(in thousands)* | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Land | $ 3 | $ 3 |
| Leasehold improvements | 2,955 | 2,939 |
| Buildings | 84 | 84 |
| Machinery, fixtures and equipment | 100,737 | 100,352 |
| Construction-in-progress | 2,187 | 2,772 |
| | 105,966 | 106,150 |
| Less: accumulated depreciation and amortization | (72,489) | (71,054) |
| Property, plant and equipment, net | $ 33,477 | $ 35,096 |

**Note 6: Intangible Assets and Deferred Charges**

Intangible assets represent the fair value of intellectual, non-physical assets resulting from business acquisitions and are amortized over their estimated useful life using either an accelerated or straight-line method over a period of eight to 15 years.

The balance of intangible assets subject to amortization are as follows:

| *(in thousands)* | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Intangible assets, gross | $ 30,866 | $ 30,866 |
| Accumulated amortization of intangible assets | (20,120) | (19,440) |
| Intangible assets, net | $ 10,746 | $ 11,426 |

Estimated amortization expense related to intangible assets for the next five years are as follows:

| *(in thousands)* | |
|---|---|
| Remainder of 2021 | $ 2,041 |
| 2022 | 2,501 |
| 2023 | 1,050 |
| 2024 | 952 |
| 2025 | 855 |
| 2026 | 758 |
| Thereafter | 2,589 |

**Deferred Charges**

Deferred charges represent debt issuance costs and are amortized over their estimated useful lives using the straight-line method over a period offour years.

On January 15, 2021, the Company and its subsidiaries entered into a new Credit Agreement (the "Credit Agreement") with BMO Harris Bank, N.A ("BMO") providing the Company with a new four-year revolving credit facility and replacing the Company's previous asset based revolving line of credit and term loan with Truist Bank ("Truist"). The Company accounted for this refinance as a debt extinguishment and, as a result, $0.2 million of unamortized debt issuance costs associated with the Company's previously existing bank debt were written off as a loss on extinguishment of debt during the three months ended March 31, 2021. See Note 7 for additional information on the Company's new Credit Agreement.

The balance of deferred charges subject to amortization are as follows:

| *(in thousands)* | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Deferred charges, gross | $ 388 | $ 792 |
| Accumulated amortization of deferred charges | (21) | (337) |
| Deferred charges, net | $ 367 | $ 455 |

**Note 7: Long-term Debt**

Long-term debt consists of the following:

| *(in thousands)* | March 31, 2021 | December 31, 2020 |
|---|---|---|
| $150 million revolving line of credit, due January 15, 2025 | $ 62,454 | $ — |
| $100 million revolving line of credit, due December 20, 2021 | — | 49,037 |
| $20 million term loan, due February 1, 2024 | — | 11,458 |
| Current portion of long-term debt | 1,313 | 875 |
| Total long-term debt | $ 63,767 | $ 61,370 |

On January 15, 2021, the Company and its subsidiaries entered into a new Credit Agreement with BMO. The new Credit Agreement provides the Company with a newfour-year revolving credit facility with up to $150.0 million of borrowing capacity (the "Facility"). The Facility refinances and replaces the Company's previous $100.0 million asset based revolving line of credit with Truist, which was scheduled to mature on December 20, 2021, and the remaining portion of the Company's five-year $20 million term loan with Truist, which was scheduled to mature on February 1, 2024.

The initial borrowing capacity under the Facility totals $110.0 million consisting of a $105.0 million revolving line of credit and a $5.0 million delayed draw term loan. The revolving line of credit includes a $17.5 million machinery and equipment sub-limit which requires quarterly payments of $0.4 million starting in July 2021 with a balloon payment due upon maturity of the Facility in January 2025.

Availability under the Credit Agreement is based on eligible accounts receivable, inventory and fixed assets. Amounts outstanding under the revolving line of credit portion of the Facility currently bear interest, at the Company's option, at (a) the Base Rate (as defined in the Credit Agreement) plus 0.50%, or (b) LIBOR plus 1.50%. Amounts outstanding under the delayed draw term loan portion of the Facility bear interest at LIBOR plus 1.65%. The Facility also provides an unused commitment fee based on the daily used portion of the Facility. The weighted average interest rate per annum was 2.42% as of March 31, 2021.

Pursuant to the Credit Agreement, the Company was required to pledge all of its tangible and intangible properties, including the stock and membership interests of its subsidiaries. The Facility contains covenants requiring the maintenance of a minimum consolidated fixed charge coverage ratio if excess availability falls below the greater of (i) $7.5 million and (ii) 10% of the revolving credit facility (currently $10.5 million). As of March 31, 2021, the Company had $41.2 million of remaining available capacity under the Facility.

**Note 8: Leases**

**Balance Sheet Presentation**

Operating and finance lease amounts included in the unaudited condensed consolidated balance sheet are as follows (in thousands):

| Classification | Financial Statement Line Item | March 31, 2021 | December 31, 2020 |
|---|---|---|---|
| Assets | Right-of-use assets, operating leases | $ 31,429 | $ 31,769 |
| Assets | Property, plant and equipment | 47 | 56 |
| Current liabilities | Current portion of lease liabilities, operating leases | 897 | 867 |
| Current liabilities | Current portion of lease liabilities, finance leases | 14 | 19 |
| Non-current liabilities | Non-current portion of lease liabilities, operating leases | 32,524 | 32,771 |
| Non-current liabilities | Non-current portion of lease liabilities, finance leases | 34 | 37 |

**Total Lease Cost**

Individual components of the total lease cost incurred by the Company are as follows:

| *(in thousands)* | Three Months Ended March 31, 2021 | Three Months Ended March 31, 2020 |
|---|---|---|
| Operating lease cost | $ 1,023 | $ 1,035 |
| Finance lease cost: | | |
| Amortization of right-of-use assets | 9 | 59 |
| Interest on finance lease liabilities | — | 17 |
| Total lease cost | $ 1,032 | $ 1,111 |

Reduction in carrying amounts of right-of-use assets held under finance leases is included in depreciation expense. Minimum rental payments under operating leases are recognized on a straight-line method over the term of the lease including any periods of free rent and are included in selling, general, and administrative expense on the unaudited condensed consolidated statement of operations.

**Maturity of Leases**

The amounts of undiscounted future minimum lease payments under leases as of March 31, 2021 are as follows:

| *(in thousands)* | Operating | Finance |
|---|---|---|
| Remainder of 2021 | $ 2,711 | $ 13 |
| 2022 | 3,665 | 15 |
| 2023 | 3,699 | 15 |
| 2024 | 3,549 | 8 |
| 2025 | 3,619 | — |
| Thereafter | 43,540 | — |
| Total undiscounted minimum future lease payments | 60,783 | 51 |
| Imputed interest | 27,362 | 3 |
| Present value of lease liabilities | $ 33,421 | $ 48 |

**Lease Term and Discount Rate**

| Weighted-average remaining lease term | March 31, 2021 | December 31, 2021 |
|---|---|---|
| Operating leases | 15.24 years | 15.47 years |
| Finance leases | 2.92 years | 2.91 years |
| Weighted-average discount rate | | |
| Operating leases | 8.33 % | 8.33 % |
| Finance leases | 2.31 % | 2.44 % |

During the three months ended March 31, 2021,no right-of-use assets were recognized in exchange for new operating lease liabilities.

**Note 9: Shareholders' Equity**

**Share Repurchase Program**

On February 17, 2021, the Board of Directors re-authorized the Company's share repurchase program. The previous share repurchase program had a term of24 months and terminated on February 21, 2021. The share repurchase program allows for repurchase of up to 790,383 shares of the Company's outstanding common stock over24 months. The shares will be purchased from time to time at prevailing market prices, through open market or privately negotiated transactions, depending on market conditions. Under the program, the purchases will be funded from available working capital, and the repurchased shares will be returned to the status of authorized, but unissued shares of common stock or held in treasury. There is no guarantee as to the exact number of shares that will be repurchased by the Company, and the Company may discontinue purchases at any time that management determines additional purchases are not warranted. As of March 31, 2021, the Company has 790,383 shares of its share repurchase authorization remaining.

Shares repurchased for the three months ended March 31, 2021 and 2020 were as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Number of shares repurchased | — | 59,617 |
| Average price per share | $ — | $ 10.65 |
| Total cost of shares repurchased | $ — | $ 636,940 |

**Note 10: Exit Activities**

On February 17, 2021 the Board of Directors authorized the permanent closure of the Company's Palmer facility. The Company will cease operations and divest all remaining assets at the facility. The amounts, nature, and timing of charges associated with the intended closure of the Palmer facility cannot be reasonably estimated at this time. The closure is not expected to have a material impact on any of the Company's other operating units.

**Note 11: Earnings (Loss) Per Share**

The following table sets forth the computation of basic and diluted earnings (loss) per share:

| | Three Months Ended March 31, | |
|---|---|---|
| *(in thousands, except per share data)* | **2021** | **2020** |
| Numerator: | | |
| Net income (loss) | $ 1,094 | $ (1,178) |
| Denominator: | | |
| Denominator for basic earnings per share - weighted average shares | 9,191 | 9,074 |
| Effect of dilutive securities: | | |
| Employee stock options and stock grants | 97 | — |
| Denominator for diluted earnings per share - weighted average shares | 9,288 | 9,074 |
| Net income (loss) per share: | | |
| Basic | $ 0.12 | $ (0.13) |
| Diluted | $ 0.12 | $ (0.13) |

The diluted earnings per share calculations exclude the effect of potentially dilutive shares when the inclusion of those shares in the calculation would have an anti-dilutive effect. The Company had 0.2 million shares of common stock that were anti-dilutive for the three months ended March 31, 2021 and 2020, respectively.

**Note 12: Income Taxes**

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company is no longer subject to U.S. federal examinations for years before 2015 or state examinations for years before 2014. During the first three months of 2021 and 2020, the Company did not identify nor reserve for any unrecognized tax benefits.

Our income tax provision (benefit) and overall effective tax rates for the periods presented are as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| *(in thousands)* | **2021** | **2020** |
| Income tax provision (benefit) | $ 241 | $ (1,380) |
| Effective income tax rate | 18.1 % | 54.0 % |

The effective tax rate was18.1% and 54.0% for the three months ended March 31, 2021 and 2020, respectively. The March 31, 2021 effective tax rate was lower than the U.S. statutory rate of 21.0% primarily due to a reduction in the valuation allowance in the current period. The March 31, 2020 effective tax rate was higher than the statutory rate of 21.0% due to discrete tax benefits on our stock compensation plan and estimated tax benefits associated with the Coronavirus, Aid, Relief, and Economic Security Act ("CARES Act") which was signed into law on March 27, 2020. The CARES Act included various income and payroll tax provisions, notably, enabling the Company to carry back net operating losses and recover taxes paid in prior years.

**Note 13: Commitments and Contingencies**

The Company is from time-to-time subject to various claims, possible legal actions for product liability and other damages, and other matters arising out of the normal conduct of the Company's business.

Management is not currently aware of any asserted or unasserted matters which could have a material effect on the financial condition or results of operations of the Company.

**Note 14: Industry Segments**

The following table summarizes certain information regarding segments of the Company's operations:

| | Three Months Ended March 31, | |
|---|---|---|
| *(in thousands)* | **2021** | **2020** |
| **Net sales** | | |
| Metals Segment | $ 55,213 | $ 60,664 |
| Specialty Chemicals Segment | 14,565 | 14,033 |
| | $ 69,778 | $ 74,697 |
| **Operating income** | | |
| Metals Segment | $ 2,577 | $ 934 |
| Specialty Chemicals Segment | 1,056 | 466 |
| | | |
| Unallocated corporate expenses | 1,767 | 2,019 |
| Acquisition costs and other | — | 304 |
| Proxy contest costs and recoveries | (464) | — |
| Earn-out adjustments | 225 | 4 |
| Operating income (loss) | 2,105 | (927) |
| Interest expense | 387 | 719 |
| Loss on extinguishment of debt | 223 | — |
| Change in fair value of interest rate swap | (2) | 85 |
| Other, net | 162 | 827 |
| **Income (loss) before income taxes** | $ 1,335 | $ (2,558) |

| | As of | |
|---|---|---|
| *(in thousands)* | **March 31, 2021** | **December 31, 2020** |
| **Identifiable assets** | | |
| Metals Segment | $ 151,657 | $ 141,799 |
| Specialty Chemicals Segment | 27,612 | 25,039 |
| Corporate | 36,058 | 40,146 |
| | $ 215,327 | $ 206,984 |

**Note 15: Proxy Contest Costs and Recoveries**

During the six months ended June 30, 2020, the Company engaged in a proxy contest with Privet Fund Management, LLC ("Privet") and UPG Enterprises, LLC ("UPG"), which parties acted as a group during the proxy contest. During the year ended December 31, 2020, total costs incurred by the Company relating to the proxy contest were $3.1 million.

During the three months ended March 31, 2021, the Company recorded a receivable for insurance recoveries of $0.5 million related to a claim for a portion of the costs associated with the proxy contest. The funds were received in the second quarter of 2021. The Company continues to seek coverage under its policies for reimbursement of costs associated with the proxy contest; however, any future reimbursement under the policies are neither probable nor estimable at this time.

**Note 16: Subsequent Events**

On April 13, 2021, the Compensation Committee approved inducement stock grants in conjunction with the appointment of the Company's Executive Vice President, Synalloy Metals where 15,228 shares with a market price of $9.85 per share were granted, with 50% of the award vesting at the end of a three-year vest period beginning from the date of grant and 50% of the award vesting when the thirty-day volume weighted average price of a Company common share equals $14.50 or more.

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

This discussion and analysis summarizes the significant factors affecting our consolidated operating results, liquidity, and capital resources during the three months ended March 31, 2021 and 2020, respectively. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements that are included in our Annual Report on Form 10-K for the year ended December 31, 2020 (the Annual Report), as well as the condensed consolidated financial statements (unaudited) and notes to the condensed consolidated financial statements (unaudited) contained in this report. Unless otherwise specified, all comparisons made are to the corresponding period of 2020. This discussion and analysis is presented in five sections:

- Business Overview
- Results of Operations and Non-GAAP Financial Measures
- Liquidity and Capital Resources
- Off-Balance Sheet Arrangements and Contractual Obligations
- Significant Accounting Policies and Estimates

**Business Overview**

Synalloy Corporation, a Delaware corporation, was incorporated in 1958 as the successor to a chemical manufacturing business founded in 1945. Its charter is perpetual. The name was changed on July 31, 1967 from Blackman Uhler Industries, Inc. The Company's executive office is located at 4510 Cox Road, Suite 201, Richmond, Virginia 23060. Unless indicated otherwise, the terms "Synalloy", "Company," "we" "us," and "our" refer to Synalloy Corporation and its consolidated subsidiaries.

The Company's business is divided into two reportable operating segments, the Metals Segment and the Specialty Chemicals Segment. The Metals Segment operates as three reporting units, all International Organization for Standardization ("ISO") certified manufacturers, including Welded Pipe & Tube Operations, a unit that includes Bristol Metals, LLC ("BRISMET") and American Stainless Tubing, LLC ("ASTI"), Palmer of Texas Tanks, Inc. ("Palmer"), and Specialty Pipe & Tube, Inc. ("Specialty"). Welded Pipe & Tube Operations manufactures stainless steel, galvanized, ornamental stainless steel pipe and tube, and other alloy pipe and tube. Palmer manufactures liquid storage solutions and separation equipment. As discussed in Note 10, the Company will permanently cease operations and divest all assets at the Palmer facility. Specialty is a master distributor of seamless carbon pipe and tube. The Metals Segment serves markets through the master distribution of pipe and tube and customers in the appliance, architectural, automotive and commercial transportation, brewery, chemical, petrochemical, pulp and paper, mining, power generation, (including nuclear), water and waste-water treatment, liquid natural gas ("LNG"), food processing, pharmaceutical, oil and gas and other heavy industries. The Specialty Chemicals Segment operates as one reporting unit which includes Manufacturers Chemicals, LLC ("MC"), a wholly-owned subsidiary of Manufacturers Soap and Chemical Company ("MS&C"), and CRI Tolling, LLC ("CRI Tolling"). MC manufactures lubricants, surfactants, defoamers, reaction intermediaries and sulfated fats and oils. CRI Tolling provides chemical tolling manufacturing resources to global and regional chemical companies and contracts with other chemical companies to manufacture certain, pre-defined products. The Specialty Chemicals Segment produces specialty chemicals for the chemical, pulp and paper, coatings, adhesives, sealants and elastomers (CASE), textile, automotive, household, industrial and institutional, water and waste-water treatment, construction, oil and gas and other industries.

*Impacts of COVID-19*

The impact of COVID-19, including changes in consumer behavior, pandemic fears, and market downturns as well as restrictions on business and individual activities has created significant volatility in the global economy and led to reduced economic activity. There have been extraordinary actions taken by federal, state, and local public health and governmental authorities to contain the spread of COVID-19 with many restrictions that have been in place since the onset of the pandemic only recently easing in many localities. We are an essential business and remain open in all locations, adhering to health guidelines to operate safely provided by our government officials and the U.S. Centers for Disease Control and Prevention. Throughout the COVID-19 pandemic, our first priority has been to safeguard the health of our employees. This includes restricting outside personnel and visitors as well as requiring a face covering when a visitor is on-site, creating space between work areas for employees, providing ample PPE and cleaning supplies in our offices and manufacturing plants, restricting travel, and having formal policies for mitigation in the event of cases of illness.

The Company has seen wide ranging impacts partially attributable to COVID-19 to date, including an adverse effect on our reported results and operations for 2020. During the first quarter of 2021, the Company continued to experience the effects of ongoing macroeconomic challenges related to COVID-19, specifically with delays in production and deliveries, however, we did experience increased demand for our products driving positive operating results in the period. During the quarter, the Company also took a number of steps to continue to improve its financial position including:

- refinancing and expanding its revolving line of credit with a new lender to give the Company more favorable terms and increased liquidity;
- making the decision to permanently cease operations and divest all remaining assets at the curtailed Palmer facility; and
- divesting the Company's ownership interest in N845BB Partners, LLC related to the corporate jet.

We will continue to closely monitor the impact of the outbreak of COVID-19 on all aspects of our business, including the impacts to our customers, employees and supply chain. There remains significant uncertainty concerning the magnitude of the impact and the duration of the COVID-19 pandemic and we are unable to predict the ultimate impact it may have on our business, future operations, financial position or cash flows. The extent that our operations will continue to be impacted by the COVID-19 pandemic will depend on future developments, including the development of new strains of COVID-19, the sufficiency and amounts of vaccines available and widely distributed and continued actions by government authorities to contain and treat the outbreak. All of which are highly uncertain and cannot be accurately predicted. See Part I - Item 1A, "Risk Factors," included in our Annual Report on Form 10-K for our risk factors regarding risks associated with the COVID-19 pandemic.

**Results of Operations**

*Consolidated Performance Summary*

Consolidated net sales for the first quarter of 2021 were $69.8 million representing a decrease of $4.9 million, or 6.6%, compared to net sales for the first quarter of 2020. Excluding Palmer, net sales for the first quarter of 2021 were $69.6 million representing a decrease of $1.6 million, or 2.3%, compared to net sales for the first quarter of 2020 (April 1, 2020, the Company curtailed operations at Palmer and as discussed in Note 10, in the first quarter of 2021, the Board of Directors authorized the permanent closure of the Company's Palmer facility).

For the first quarter of 2021, consolidated gross profit increased 22.2% to $8.7 million, or 12.5% of sales, compared to $7.2 million, or 9.6% of sales in the first quarter of 2020. The increase in dollars and percentage of sales were attributable to operational efficiencies and an increasing surcharge market environment.

Consolidated selling, general, and administrative expense for the first quarter of 2021 leveraged 56 basis points as a percentage of sales decreasing to $6.9 million, or 9.8% of sales, compared to $7.8 million, or 10.4% of sales in the first quarter of 2020. The decrease in expense was primarily driven by the curtailment of operations at the Palmer facility. Additionally, the decrease was driven by salaries and benefits partially offset by increases in professional fees.

For the first quarter of 2021, the Company recorded net income of $1.1 million, or $0.12 diluted earnings per share, compared to a net loss of $1.2 million, or $0.13 diluted loss per share for the first quarter of 2020. Included in the first quarter 2021 results are $0.5 million of insurance recovery proceeds related to the proxy contest costs in 2020, a $0.4 million non-cash loss as part of the Company's divestiture of its ownership interest in N845BB Partners, LLC. related to the corporate jet and a $0.2 million loss on extinguishment of debt related to the Company's debt refinance with BMO.

*Metals Segment*

Net sales for the Metals Segment in the first quarter of 2021 totaled $55.2 million, a decrease of $5.5 million, or 9.0%, from the first quarter of 2020. Excluding Palmer, net sales for the Metals Segment in the first quarter of 2021 totaled $55.1 million, a decrease of $2.2 million or 3.8%, from the first quarter of 2020. Excluding Palmer, the decrease was driven by a 4.2% decrease in average selling price related to a less favorable product mix over the comparable prior year period.

The net sales decrease for the first quarter of 2021 compared to the first quarter of 2020 is summarized as follows:

| *($ in thousands)* | | **$** | **%** | **Average selling price [(1)]** | **Units shipped** |
|---|---|---|---|---|---|
| Fiberglass and steel liquid storage tanks and separation equipment | $ | (3,278) | (95.9)% | (13.5)% | (94.8)% |
| Heavy wall seamless carbon steel pipe and tube | | 504 | 6.9% | (3.5)% | 10.4% |
| Stainless steel pipe and tube | | (3,817) | (8.7)% | (6.7)% | (2.7)% |
| Galvanized pipe and tube | | 1,140 | 18.4% | 18.3% | (0.3)% |
| Total decrease | $ | (5,451) | | | |

(1) Average price increases (decreases) for the first quarter of 2021 as compared to the first quarter of 2020 primarily relate to the following:

- Fiberglass and steel liquid storage tanks and separation equipment - decline due to the curtailment of Palmer operations and decision to cease operations and divest remaining assets;
- Heavy wall seamless carbon steel pipe and tube - decline based on lower mix of energy based sales;
- Stainless steel pipe and tube - decline due to a less favorable product mix, offset by increasing surcharges; and,
- Galvanized pipe and tube - primarily due to improvement in indexed pricing

Selling, general, and administrative expense leveraged 33 basis points as a percentage of sales in the first quarter of 2021 decreasing 12.8% to $4.2 million compared to $4.8 million in the first quarter of 2020. The decrease in expense was primarily driven by the curtailment of operations at the Palmer facility.

Operating income increased $1.6 million, or 175.8%, to $2.5 million for the first quarter of 2021 compared to $0.9 million for the first quarter of 2020. Current quarter operating results were affected by increasing surcharges for 304 and 316 alloys. First quarter 2021 surcharges on 304 and 316 alloy were higher by approximately 43% and 36%, respectively, than the first quarter of 2020 and higher by approximately 23% and 24%, respectively, compared to surcharges in place at the end of 2020.

*Specialty Chemicals Segment*

Net sales for the Specialty Chemicals Segment in the first quarter of 2021 totaled $14.6 million, representing a $0.5 million, or 3.8%, increase from the first quarter of 2020. The increase was driven by a 7.0% increase in pounds shipped partially offset by a 3.1% decrease in average selling price.

Selling, general, and administrative expense leveraged 50 basis points as a percentage of sales decreasing $33,576, or 3.2%, to $1.0 million in the first quarter of 2021. The most significant decreases for the first quarter of 2021 compared to the same period in the prior year resulted from decreases in salaries and benefits, travel expense and bad debt expense.

Operating income increased $0.6 million, or 126.5%, to $1.1 million for the first quarter of 2021 compared to $0.5 million for the first quarter of 2020. The increase in operating income is primarily driven by 342 basis points of gross profit leverage in the quarter due to favorable operating efficiencies and increased production.

*Other Items*

Unallocated corporate expenses for the first quarter of 2021 decreased $0.3 million, or 12.5%, to $1.8 million (2.5% of sales) compared to $2.0 million (2.7% of sales) in the prior year comparative period. The first quarter decreases resulted primarily from lower salaries and benefits and stock compensation expense partially offset by increases in professional fees.

Interest expense was $0.4 million and $0.7 million for the first quarter of 2021 and 2020, respectively. The decrease was related to the Company's debt refinance in the first quarter of 2021 and favorability of interest rates associated with the new Credit Agreement.

The effective tax rate was 18.1% and 54.0% for the three months ended March 31, 2021 and 2020, respectively. The March 31, 2021 effective tax rate was lower than the U.S. statutory rate of 21.0% primarily due to expectations over current period valuation allowances. The March 31, 2020 effective tax rate was higher than the statutory rate of 21.0% due to discrete tax benefits on our stock compensation plan and estimated tax benefits associated with the CARES Act which was signed into law on March 27, 2020. The CARES Act included various income and payroll tax provisions, notably, enabling the Company to carry back net operating losses and recover taxes paid in prior years.

The Company's cash balance increased $0.2 million to $0.4 million as of March 31, 2021 compared to $0.2 million at December 31, 2020. Fluctuations affecting cash flows during the three months ended March 31, 2021 were comprised of the following:

a) Net inventories increased $3.7 million at March 31, 2021 when compared to December 31, 2020, mainly due to purchases of inventory to support increased customer demand. Inventory turns, calculated on a three-month average basis, increased from 1.69 turns at December 31, 2020 to 2.17 turns at March 31, 2021;

b) Accounts payable increased $6.4 million as of March 31, 2021 as compared to December 31, 2020, primarily due increased inventory purchases to support increased customer demand. Accounts payable days outstanding, calculated on a three-month average basis, were approximately 34 days at March 31, 2021 compared to 32 days at December 31, 2020;

c) Net accounts receivable increased $11.2 million at March 31, 2021 as compared to December 31, 2020, due primarily to increased sales volume in the first quarter of 2021 compared to the fourth quarter of 2020. Days sales outstanding, calculated using a three-month average basis, was 44 days outstanding at March 31, 2021 and 47 days at December 31, 2020, respectively;

d) Capital expenditures for the first three months of 2020 were $0.2 million; and

e) The Company paid $1.0 million during the first three months of 2020 related to the earn-out liabilities from the 2019 American Stainless, 2018 MUSA-Galvanized and 2017 MUSA-Stainless acquisitions.

**Non-GAAP Financial Measures**

To supplement our consolidated financial statements, which are prepared and presented in accordance with accounting principles generally accepted in the United States ("GAAP"), we use the following non-GAAP financial measures: EBITDA and Adjusted EBITDA. Management believes that these non-GAAP measures provide additional useful information to allow readers to compare the financial results between periods. Non-GAAP measures should not be considered as an alternative to any measure of performance or financial condition as promulgated under GAAP, and investors should consider the Company's performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the Company. Non-GAAP measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of the Company's results or financial condition as reported under GAAP.

*EBITDA and Adjusted EBITDA*

We define "EBITDA" as earnings before interest (including change in fair value of interest rate swap), income taxes, depreciation and amortization. We define "Adjusted EBITDA" as EBITDA further adjusted for the impact of non-cash and other items we do not consider in our evaluation of ongoing performance. These items include: goodwill impairment, asset impairment, gain on lease modification, stock-based compensation, non-cash lease cost, acquisition costs and other fees, proxy contest costs and recoveries, shelf registration costs, loss on extinguishment of debt, earn-out adjustments, realized and unrealized (gains) and losses on investments in equity securities and other investments, retention costs and restructuring and severance costs from net income. We caution investors that amounts presented in accordance with our definitions of EBITDA and Adjusted EBITDA may not be comparable to similar measures disclosed by other companies because not all companies calculate EBITDA and Adjusted EBITDA in the same manner. We present EBITDA and Adjusted EBITDA because we consider them to be important supplemental measures of our performance and investors' understanding of our performance is enhanced by including these non-GAAP financial measures as a reasonable basis for comparing our ongoing results of operations.

Consolidated EBITDA and Adjusted EBITDA are as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| *($ in thousands)* | **2021** | **2020** |
| **Consolidated** | | |
| Net income (loss) | $ 1,094 | $ (1,178) |
| Adjustments: | | |
| Interest expense | 387 | 719 |
| Change in fair value of interest rate swap | (2) | 85 |
| Income taxes | 241 | (1,380) |
| Depreciation | 1,817 | 1,958 |
| Amortization | 680 | 810 |
| EBITDA | 4,217 | 1,014 |
| Acquisition costs and other | — | 304 |
| Proxy contest costs and recoveries | (464) | — |
| Loss on extinguishment of debt | 223 | — |
| Earn-out adjustments | 225 | 4 |
| Loss on investments in equity securities and other investments | 363 | 852 |
| Stock-based compensation | 187 | 336 |
| Non-cash lease expense | 124 | 128 |
| Adjusted EBITDA | $ 4,875 | $ 2,638 |
| % of sales | 7.0 % | 3.5 % |

Metals Segment EBITDA and Adjusted EBITDA are as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| *($ in thousands)* | **2021** | **2020** |
| **Metals Segment** | | |
| Net income | $ 2,538 | $ 926 |
| Adjustments: | | |
| Interest expense | — | 4 |
| Depreciation | 1,393 | 1,511 |
| Amortization | 680 | 810 |
| EBITDA | 4,611 | 3,251 |
| Acquisition costs and other | — | 4 |
| Earn-out adjustments | 225 | 4 |
| Stock-based compensation | 38 | 41 |
| Metals Segment Adjusted EBITDA | $ 4,874 | $ 3,300 |
| % of segment sales | 8.8 % | 5.4 % |

Specialty Chemicals Segment EBITDA and Adjusted EBITDA are as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| *($ in thousands)* | **2021** | **2020** |
| **Specialty Chemicals Segment** | | |
| Net income | $ 1,055 | $ 480 |
| Adjustments: | | |
| Interest expense | — | 8 |
| Depreciation | 386 | 403 |
| EBITDA | 1,441 | 891 |
| Stock-based compensation | 31 | 38 |
| Specialty Chemicals Segment Adjusted EBITDA | $ 1,472 | $ 929 |
| % of segment sales | 10.1 % | 6.6 % |

**Liquidity and Capital Resources**

We closely manage our liquidity and capital resources. Our liquidity requirements depend on key variables, including level of investment required to support our business strategies, the performance of our business, capital expenditures, credit facilities and working capital management. Capital expenditures and share repurchases are a component of our cash flow and capital management strategy which we can adjust in response to economic and other changes in our business environment. We have a disciplined approach to capital allocation focusing on priorities that support our business and growth.

*Sources of Liquidity*

Funds generated by operating activities supplemented by our available cash and cash equivalents and our credit facilities are our most significant sources of liquidity. As of March 31, 2021, we held $0.4 million of cash and cash equivalents, as well as $41.2 million of remaining available capacity on our revolving line of credit. We believe our sources of liquidity will be sufficient to fund operations and anticipated capital expenditures as well as repay our debt obligations as they become due over the next 12 months.

*Cash Flows*

Cash flows from total operations were as follows ($ in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Total cash (used in) provided by: | | |
| Operating activities | $ (768) | $ (642) |
| Investing activities | (227) | (587) |
| Financing activities | 1,157 | 625 |
| Net increase (decrease) in cash and cash equivalents | $ 162 | $ (604) |

*Operating Activities*

The increase in cash used in operating activities for the three months ended March 31, 2021 compared to the three months ended March 31, 2020 was primarily driven by changes in working capital. Accounts receivable increased for the first three months of 2021 by $11.1 million, compared to an increase of $7.7 million for the first three months of 2020, driving a reduction of $3.4 million in operating cash flows for the first quarter of 2021. Inventories increased $3.6 million in the first three months of 2021 compared to a decrease of $1.0 million in the first three months of 2020, driving a reduction of $4.5 million in operating cash flow for the first quarter of 2021. The increase in accounts receivable and inventory was due to a larger increase in sales volume over prior quarter in the first three months of 2021 than the increase experienced in the first three months of 2020 and higher inventory purchases to meet customer demand in the first three months of 2021. The increases in cash used from accounts receivable and inventory were partially offset by increases in accounts payable due to higher inventory purchases to meet customer demand and an increase in days payables outstanding from 32 days in the first three months of 2020 to 34 days in the first three months of 2021 as well as changes in accrued income taxes due to tax benefits the Company continues to receive as part of the CARES Act.

*Investing Activities*

Net cash used in investing activities primarily consists of transactions related to capital expenditures. The decrease in cash used in investing activities for the three months ended March 31, 2021 compared to the three months ended March 31, 2020 was primarily due to a decrease in capital expenditures in the current year compared to the prior year.

*Financing Activities*

Net cash provided by financing activities primarily consists of transactions related to our long-term debt. The increase in cash provided by financing activities for the three months ended March 31, 2021 compared to the three months ended March 31, 2020 was primarily due to borrowings from the Company's line of credit partially offset by payments to pay off the Company's previous term loan as part of the Company's debt refinancing in the first quarter of 2021 and payments for the Company's earnout liabilities.

*Long-term Debt*

On January 15, 2021, the Company and its subsidiaries entered into a new Credit Agreement with BMO providing the Company with a new four-year revolving credit facility and replacing the Company's previous asset based revolving line of credit and term loan with Truist. As of March 31, 2021, the Company had $63.8 million of total borrowings outstanding with its lender, an increase of $2.4 million from the balance at December 31, 2020. The Facility contains covenants requiring the maintenance of a minimum consolidated fixed charge coverage ratio if excess availability falls below the greater of (i) $7.5 million and (ii) 10% of the revolving credit facility (currently $10.5 million). See Note 7 in the notes to the unaudited condensed consolidated financial statements for additional information on the Company's line of credit.

*Share Repurchases and Dividends*

We have a share repurchase program, authorized by the Company's Board of Directors, that is executed through purchases made from time to timeat prevailing market prices, through open market or privately negotiated transactions, depending on market conditions. Shares repurchased are returned to status of authorized, but unissued shares of common stock or held in treasury. The following table presents the total number of shares repurchased, average price paid per share, and the total amount paid per share for the three months ended March 31, 2021 and 2020.

| | Three Months Ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Number of shares repurchased | — | 59,617 |
| Average price per share | $ — | $ 10.65 |
| Total cost of shares repurchased | $ — | $ 636,940 |

At the end of each fiscal year the Board of Directors reviews the financial performance and capital needed to support future growth to determine the amount of cash dividend, if any, which is appropriate. In 2020, no dividends were declared or paid by the Company.

*Other Financial Measures*

Below are additional financial measures that we believe are important in understanding the Company's liquidity position from year to year. The metrics are defined as:

Current ratio = current assets divided by current liabilities

Debt to capital = total debt divided by total capital

Return on average equity = net income divided by the trailing 12-month average of equity

Results of these additional measures are as follows:

| | March 31, 2021 | December 31, 2020 |
|---|---|---|
| Current ratio | 3.8 | 4.1 |
| Debt to capital | 44% | 43% |
| Return on average equity | 1.2% | (29.2)% |

**Off-Balance Sheet Arrangements and Contractual Obligations**

The Company has no off-balance sheet arrangements that are reasonably likely to have a material current or future effect on the Company's financial position, revenues, results of operations, liquidity, or capital expenditures.

Our Annual Report on Form 10-K for the year ended December 31, 2020 includes a table in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, summarizing our contractual obligations as of December 31, 2020, including approximately $54.1 million of long-term debt obligations and projected future interest due in 2021. As discussed in Note 7, on January 15, 2021, the Company and its subsidiaries entered into a new Credit Agreement with BMO providing the Company with a new four-year revolving credit facility and replacing the Company's previous asset based revolving line of credit and term loan with Truist.

As of March 31, 2021, the Company's contractual obligations and other commitments were as follows:

| | | Payment Obligations for the Year Ended | | | | | |
|---|---|---|---|---|---|---|---|
| *(in thousands)* | Total | 2021 | 2022 | 2023 | 2024 | 2025 | Thereafter |
| Obligations: | | | | | | | |
| Revolving credit facility | $ 63,767 | $ 875 | $ 1,750 | $ 1,750 | $ 1,750 | $ 57,642 | $ — |
| Interest on line of credit | 4,692 | 1,212 | 1,178 | 1,145 | 1,112 | 45 | — |
| Finance lease | 51 | 13 | 15 | 15 | 8 | — | — |
| Operating leases | 60,783 | 2,711 | 3,665 | 3,699 | 3,549 | 3,619 | 43,540 |
| Total | $ 129,293 | $ 4,811 | $ 6,608 | $ 6,609 | $ 6,419 | $ 61,306 | $ 43,540 |

**Significant Accounting Policies and Estimates**

We describe our significant accounting policies in Note 1,*Summary of Significant Accounting Policies*, of the notes to the consolidated financial statements presented in the Annual Report on Form 10-K for the year ended December 31, 2020. We discuss our critical accounting estimates in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, in the Annual Report on Form 10-K for the year ended December 31, 2020. There have been no significant changes in our significant accounting policies or critical accounting estimates since the end of 2020.

**Item 3. Quantitative and Qualitative Disclosures about Market Risks**

We are a smaller reporting company as defined in Rule 12b-2 of the Exchange Act; therefore, we are not required to provide the information required by this Item.

**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.

**Changes in Internal Control over Financial Reporting**

The Company's management, including the Chief Executive Officer and Chief Financial Officer, identified no change in the Company's internal control over financial reporting that occurred during the most recent quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II**

**Item 1. Legal Proceedings**

It is not unusual for us and our subsidiaries to be involved in various unresolved legal actions, administrative proceedings and claims in the ordinary course of business involving, among other things, product liability, commercial, employment, workers' compensation, and environmental matters. We establish reserves in a manner that is consistent with accounting principles generally accepted in the U.S. for costs associated with such matters when a liability is probable and those costs are capable of being reasonably estimated. We cannot predict with any certainty the outcome of these unresolved legal actions or the range of possible loss or recovery. Based on current information, however, we believe that the eventual outcome of these unresolved legal actions, either individually or in the aggregate, will not have a material adverse effect on our financial position, results of operations or cash flows. There were no material changes in our Legal Proceedings, as discussed in Part I, Item 3 in the Company's Annual Report on Form 10-K for the period ending December 31, 2020.

**Item 1A. Risk Factors**

There were no material changes in our assessment of risk factors as discussed in Part I, Item 1A in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

| Exhibit No. | Description |
|---|---|
| 31.1 | Rule 13a-14(a)/15d-14(a) Certifications of Chief Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer |
| 32 | Certifications Pursuant to 18 U.S.C. Section 1350 |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL document and included in Exhibit 101*) |
| * | In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed "furnished" and not "filed." |

**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 10, 2021 | By: | **/s/ Christopher G. Hutter** |
| | | | Christopher G. Hutter<br>Interim President and Chief Executive Officer<br>(principal executive officer) |
| Date: | May 10, 2021 | By: | **/s/ Sally M. Cunningham** |
| | | | Sally M. Cunningham<br>Senior Vice President and Chief Financial Officer<br>(principal accounting officer) |

**Exhibit 31.1**

**CERTIFICATIONS**

I, Christopher G. Hutter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Synalloy Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

| | | |
|---|---|---|
| Date: | May 10, 2021 | /s/ Christopher G. Hutter |
| | | Christopher G. Hutter |
| | | Interim Chief Executive Officer |

Exhibit 31.2

## CERTIFICATIONS

I, Sally M. Cunningham, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Synalloy Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2021

/s/ Sally M. Cunningham
Sally M. Cunningham
Chief Financial Officer

**Exhibit 32**

**Certifications Pursuant to 18 U.S.C. Section 1350**

The undersigned, who are the chief executive officer and the chief financial officer of Synalloy Corporation, each hereby certifies that, to the best of his knowledge, the accompanying Form 10-Q of the issuer fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and that information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

| | | |
|---|---|---|
| Date: | May 10, 2021 | /s/ Christopher G. Hutter |
| | | Christopher G. Hutter |
| | | Interim Chief Executive Officer |
| | | |
| Date: | May 10, 2021 | /s/ Sally M. Cunningham |
| | | Sally M. Cunningham |
| | | Chief Financial Officer |