

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

FORM 8-K/A
(Amendment No. 1)
CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): October 22, 2021



Synalloy Corporation

(Exact name of registrant as specified in its charter)

Delaware <i>(State or other jurisdiction of incorporation or organization)</i>	0-19687 <i>(Commission File Number)</i>	57-0426694 <i>(I.R.S. Employer Identification No.)</i>
4510 Cox Road, Suite 201, Richmond, Virginia <i>(Address of principal executive offices)</i>	(804) 822-3260 <i>(Registrant's telephone number, including area code)</i>	23060 <i>(Zip Code)</i>
Inapplicable <i>(Former name or former address if changed since last report)</i>		

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of exchange on which registered</u>
Common Stock, par value \$1.00 per share	SYNL	NASDAQ Global Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2 of this chapter).

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.

EXPLANATORY NOTE

On October 25, 2021, Synalloy Corporation ("Synalloy" or the "Company") filed a Current Report on Form 8-K (the "Initial Report") with the Securities and Exchange Commission ("SEC") announcing it had closed on a transaction to acquire DanChem Technologies, Inc ("DanChem") pursuant to that certain Stock Purchase Agreement, dated October 22, 2021 (the "Acquisition"), and indicating that the Company intended to provide the required Item 9.01(a) Financial Statements of Business Acquired and Item 9.01(b) Pro Forma Financial Information through an amendment to the Initial Report no later than 71 days from the date on which such Report was required to be filed.

This Amendment No. 1 to Current Report on Form 8-K/A ("Amendment No. 1") amends the Initial Report to provide the financial statements and pro forma financial information referred to in parts (a) and (b) of Item 9.01 below relating to the Acquisition that were previously omitted from the Initial Report as permitted by Item 9.01(a)(3) and 9.01(b)(2). This Amendment No. 1 does not amend any other item of the Initial Report and all other information previously reported in or filed with the Initial Report is hereby incorporated by reference to this Amendment No. 1. This Amendment No. 1 should be read in connection with the Initial Report.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired

The following audited financial statements of DanChem (with independent auditors' report thereon) are attached hereto as Exhibit 99.1 and incorporated by reference herein:

- Balance Sheet as of December 31, 2020
- Statement of Income for the year ended December 31, 2020
- Statement of Changes in Stockholders' Equity for the year ended December 31, 2020
- Statement of Cash Flows for the year ended December 31, 2020
- Notes to Financial Statements

The following unaudited condensed financial statements of DanChem are attached hereto as Exhibit 99.2 and incorporated by reference herein:

- Balance Sheet as of September 30, 2021
- Statement of Income for the nine months ended September 30, 2021
- Statement of Changes in Stockholders' Equity for the nine months ended September 30, 2021
- Statement of Cash Flows for the nine months ended September 30, 2021
- Notes to Unaudited Financial Statements

(b) Pro Forma Financial Information

The following unaudited pro forma financial information of Synalloy is attached hereto as Exhibit 99.3 and incorporated by reference hereto:

- Unaudited Pro Forma Combined Condensed Consolidated Balance Sheet as of September 30, 2021
- Unaudited Pro Forma Combined Consolidated Statement of Operations and Comprehensive Loss for the year ended December 31, 2020
- Unaudited Pro Forma Combined Condensed Consolidated Statement of Operations for the nine months ended September 31, 2021
- Notes to Unaudited Pro Forma Combined Financial Information

The pro forma financial information included in this Form 8-K/A has been presented for informational purposes only and is not necessarily indicative of the combined financial position or results of operations that would have been realized had the Acquisition occurred as of the dates indicated, nor is it meant to be indicative of any anticipated combined financial position or future results of operations that the Company will experience after the Acquisition.

(d) Exhibits

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
23.1	Consent of RSM US LLP
99.1	Audited financial statements of DanChem Technologies, Inc. for the year ended December 31, 2020
99.2	Unaudited condensed financial information of DanChem Technologies, Inc. for the nine months ended September 30, 2021
99.3	Unaudited pro forma information of Synalloy Corporation
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURE

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

Dated: January 4, 2022

SYNALLOY CORPORATION

By: /s/ Aaron M. Tam

Aaron M. Tam

Chief Financial Officer

Consent of Independent Auditor

We agree to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-230447) and Form S-8 (No. 333-188937 and 333-188936) of Synalloy Corporation of our report, dated March 19, 2021, relating to the financial statements of DanChem Technologies, Inc. appearing in this Current Report on Form 8-K/A.

/s/ RSM US LLP

Greensboro, North Carolina
January 4, 2022

DanChem Technologies, Inc.

Financial Report
December 31, 2020

Contents

Independent auditor's report	1
<hr/>	
Financial statements	
Balance sheet	2
Statement of income	3
Statement of changes in stockholders' equity	4
Statement of cash flows	5
Notes to financial statements	6-12

Independent Auditor's Report

Board of Directors
DanChem Technologies, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of DanChem Technologies, Inc. (the Company), which comprise the balance sheet as of December 31, 2020, the related statements of income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DanChem Technologies, Inc. as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ RSM US LLP

Greensboro, North Carolina
March 19, 2021



DanChem Technologies, Inc.

Balance Sheet
December 31, 2020

Assets

Current assets:

Cash	\$	1,504
Trade accounts receivable, less allowance for doubtful accounts \$314,471		5,730,563
Inventories		1,170,971
Prepaid expenses		346,860
Total current assets		<u>7,249,898</u>

Other assets		138,000
Property and equipment, net		<u>11,467,994</u>

Total assets \$ 18,855,892

Liabilities and Stockholders' Equity

Current liabilities:

Checks issued in excess of bank balance	\$	489,699
Current portion of long-term debt		6,303,524
Accounts payable		1,952,544
Accrued expenses		1,303,010
Total current liabilities		<u>10,048,777</u>

Long-term debt, less current portion		1,316,667
Deferred income taxes		205,792
		<u>11,571,236</u>

Stockholders' equity:

Common stock, par value \$0.01 per share; authorized, issued and outstanding 3,000 shares		30
Additional paid-in capital		6,797,589
Retained earnings		487,037
Total stockholders' equity		<u>7,284,656</u>

\$ 18,855,892

See notes to financial statements



DanChem Technologies, Inc.

Statement of Income
Year Ended December 31, 2020

Net sales	\$ 26,365,288
Cost of goods sold	<u>21,265,555</u>
Gross profit	5,099,733
Operating expenses:	
General and administrative expenses	<u>4,333,977</u>
Operating income	<u>765,756</u>
Interest expense	<u>320,790</u>
Income before income tax expense	444,966
Deferred income tax expense	<u>129,975</u>
Net income	<u><u>\$ 314,991</u></u>

See notes to financial statements.



DanChem Technologies, Inc.

Statement of Changes in Stockholders' Equity
Year Ended December 31, 2020

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance, January 1, 2020	\$ 30	\$ 6,748,589	\$ 172,046	\$ 6,920,665
Profit interest units compensation expense	-	49,000	-	49,000
Net income	-	-	314,991	314,991
Balance, December 31, 2020	\$ 30	\$ 6,797,589	\$ 487,037	\$ 7,284,656

See notes to financial statements.



DanChem Technologies, Inc.

Statement of Cash Flows

Year Ended December 31, 2020

Cash flows from operating activities:	
Net income	\$ 314,991
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	2,369,797
Deferred income tax expense	129,975
Profit interest units compensation expense	49,000
Changes in assets and liabilities:	
(Increase) in:	
Trade accounts receivable	(1,557,790)
Inventories	(45,532)
Prepaid expenses	(66,210)
Increase (decrease) in:	
Accounts payable	(584,585)
Accrued expenses	573,622
Net cash provided by operating activities	<u>1,183,268</u>
Cash flows used in investing activities:	
Purchase of property and equipment	<u>(615,074)</u>
Cash flows from financing activities:	
Decrease in checks issued in excess of bank balance	(130,230)
Net proceeds from revolver line of credit	(1,672,388)
Proceeds from loan	1,975,000
Principal payments of long-term debt	(739,752)
Net cash used in financing activities	<u>(567,370)</u>
Net increase in cash and cash equivalents	824
Cash and cash equivalents:	
Beginning	<u>680</u>
Ending	<u>\$ 1,504</u>
Supplemental disclosure of cash flow information:	
Cash payments for Interest	<u>\$ 320,790</u>
Supplemental disclosure of noncash investing and financing activities:	
Incurrence of accounts payable for equipment purchases	<u>\$ 315,518</u>

See notes to financial statements.

DanChem Technologies, Inc.

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: DanChem Technologies, Inc. (the Company) provides contract manufacturing services to the fine and specialty chemical industries. The Company's horizontal reactor base enables the Company to run chemistries with very specific characteristics.

A summary of the Company's significant accounting policies follows:

Accounts receivable: The Company records trade accounts receivable at cost, which approximates fair value at the balance sheet date. The Company estimates an allowance for doubtful accounts based on a combination of historical and current information as it relates to the individual accounts. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Inventories: Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. Cost of finished goods and raw materials are determined by standard cost methods, which approximate actual cost.

Property and equipment: Property and equipment are stated at cost. Depreciation is computed by the straight-line method, based on estimated useful lives. The Company's policy is to assign 20 year lives to the buildings and 7-12 year lives to the machinery and equipment.

Income taxes: Deferred income taxes are provided on the difference between the financial reporting and the income tax basis of assets and liabilities and for loss carryforwards. Deferred income taxes are adjusted for the effects of changes in tax laws and rates on the date of enactment. Valuation allowances are established when necessary to reserve deferred income tax assets to the amount expected to be realized in future years.

Management evaluated the Company's tax positions and concluded that the Company has taken no uncertain tax positions that require adjustment to the financial statements.

Revenue recognition: The Company recognizes revenue in accordance with Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers, which provides a five-step model for recognizing revenue from contracts with customers as follows: 1) identify the contract with the customer; 2) identify the performance obligations; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract; and 5) recognize revenue when or as the performance obligations are satisfied.

The Company's revenue is derived from the sale of products and manufacturing services to customers located primarily in the United States. Sales from products and services are subject to economic conditions and may fluctuate based on changes in the industrial or financial markets.

The Company's only performance obligations required by the customer contracts are delivery of product or performance of manufacturing services. No multiple performance obligations exist. The Company considers its obligations to be met upon shipment to the customer or completion of manufacturing services and revenue is recognized at this point. Shipping terms are primarily FOB shipping point.

Rights of return exist only to the extent of a quality issue with the product delivered to the customer. Technical specifications are provided by the customer and are analyzed by the Company prior to shipment of the product.



DanChem Technologies, Inc.

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The transaction price for each product or service is agreed upon with the customer on a case by case basis. Once the price is agreed for the product or service, a purchase order is required to be provided by the customer which reflects the agreed upon price.

No financing component considerations are necessary as the period between transfer of the product to a customer or completion of a service and payment by the customer is less than a year in all cases. Typical payment terms are 30 to 45 days.

The Company typically does not charge sales tax or any other government assessed taxes due to the nature of the product and services being provided.

Profit interest units compensation expense: Profit interest units compensation expense represents awards granted to employees and Board of Director members. The fair value of the units is calculated using the Black-Scholes pricing model as of the award date and is recognized over the service period.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events: All the effects of subsequent events that provide additional evidence about conditions that existed at the financial statement date, including the estimates inherent in the process of preparing the financial statements, are recognized in the financial statements. The Company does not recognize subsequent events that provide evidence about conditions that did not exist at the financial statement date but arose after, but before the financial statements are available to be issued. In some cases, nonrecognized subsequent events are disclosed to keep the financial statements from being misleading.

The Company has evaluated its subsequent events (occurring after December 31, 2020), through March 19, 2021, which represents the date the financial statements were available to be issued.

Recent accounting pronouncements – not yet adopted: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842) Codification Improvements*, which exempts entities from having to provide the interim disclosures required by ASC 250- 10-50-3 in the fiscal year in which a company adopts the new leases standard. A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative- effect adjustment. The new standard is effective for fiscal years beginning after December 15, 2021. The Company is currently evaluating the effect that the standard will have on its financial statements.



DanChem Technologies, Inc.

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including trade receivables) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of operations as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact of adopting this new guidance on its financial statements and does not expect the impact to be significant.

Note 2. Ownership of DanChem Technologies, Inc.

DanChem Technologies, Inc. is a wholly owned subsidiary of DanChem Holdings, LLC. DanChem Holdings, LLC is a holding company and has no operations. DanChem Holdings, LLC has Class A and Class B Members. Class B units have been issued as profit interest units to certain employees and a board member of DanChem Technologies, Inc. (see Note 9).

Note 3. Inventories

Inventories consist of the following at December 31, 2020:

Finished goods	\$ 531,502
Raw materials	278,736
Parts and supplies	610,666
	<u>1,420,904</u>
Less reserves	(249,933)
	<u>\$ 1,170,971</u>

Note 4. Property and Equipment

Property and equipment consists of the following at December 31, 2020:

Land	\$ 333,889
Land improvements	41,481
Buildings	5,679,533
Furniture and fixtures	921,683
Machinery and equipment	13,444,425
Construction in progress	297,718
	<u>20,718,729</u>
Less accumulated depreciation	(9,250,735)
	<u>\$ 11,467,994</u>



DanChem Technologies, Inc.

Notes to Financial Statements

Note 5. Related Party Transactions

The Company is required to pay management fees to the major member of their parent company, DanChem Holdings, LLC. The Company recorded management fees of \$186,766 for the year ended December 31, 2020.

Note 6. Long-Term Debt

Long-term debt consists of the following at December 31, 2020:

Revolver loan	\$ 78,124
CapEx loan	575,709
Term loan	4,991,358
Paycheck Protection Program loan	1,975,000
	<u>7,620,191</u>
Less current portion	(6,303,524)
	<u><u>\$ 1,316,667</u></u>

The Company has a credit facility dated December 2, 2016, which includes a revolving credit loan, a term loan and a capex loan. The credit facility is secured by substantially all assets of the Company.

The original capex loan with a commitment of up to \$2,000,000 was not used by the Company and expired at December 2, 2018. A new capex facility with a commitment up to \$1,100,000 was executed on May 17, 2019, and expired on December 31, 2020. The Company borrowed \$606,011 in total against this facility and owed \$575,709 at December 31, 2020. The capex facility requires quarterly interest payments beginning June 30, 2019, and quarterly principal payments equal to 1/20th of the balance beginning December 31, 2020, with a final balloon payment due on December 2, 2021. The borrowing rates are based off of a computation of senior leverage ratio and were prime plus 1.00% at December 31, 2020, (4.25% at December 31, 2020).

The Company has up to a \$3,000,000 revolving credit loan, which expires December 2, 2021. Borrowing rates are determined based off a computation of senior leverage ratio and were prime plus 1.00% at December 31, 2020 (4.25% at December 31, 2020). Borrowings permitted under the revolving credit loan are subject to limitations based upon accounts receivable and inventory levels. At December 31, 2020, the Company had availability under the revolving credit loan of \$2,900,000. The revolving credit loan requires quarterly interest payments.

The Company has a \$7,567,500 term loan. The loan requires quarterly principal and interest payments with the principal payments being \$236,484 for the last three quarters of 2020 and \$283,781 for the first three quarters of 2021 with a final balloon payment on December 2, 2021. The borrowing rates are based off of a computation of senior leverage ratio and were prime plus 1.00% at December 31, 2020 (4.25% at December 31, 2020). The term loan has an excess cash flow payment requirement if the Company meets certain criteria as defined in the agreement. The Company is required to make an additional principal payment of \$680,458 within 150 days after year end, due to excess cash flow for the year ended December 31, 2020.

The credit facility has certain financial covenants which include maximum senior leverage ratio, minimum fixed charge coverage ratio and limitations on capital expenditures.



DanChem Technologies, Inc.

Notes to Financial Statements

Note 6. Long-Term Debt (Continued)

Effective April 24, 2020, the Company executed a promissory note of \$1,975,000 bearing interest at 1% per annum as part of the Paycheck Protection Program to help keep its employees employed during the COVID-19 pandemic. The loan is in deferment until May 2021, during which time the Company intends to apply for loan forgiveness, which would relieve the Company from all or partial principal and interest obligations. The Company is accounting for the loan as a liability under FASB ASC 470 until forgiveness is granted. Barring forgiveness, the loan is scheduled to be repaid in monthly installments of \$82,291.67 beginning no later than May 2021, with the balance due April 2022.

Future principal payments of all debt agreements are due as follows:

2021	\$ 6,303,524
2022	<u>1,316,667</u>
	<u><u>\$ 7,620,191</u></u>

Note 7. Income Taxes

Income tax expense for the year ended December 31, 2020, consisted of deferred income tax expense.

The net deferred tax liability consists of the following components at December 31, 2020:

Deferred tax assets:	
Net operating loss carryforwards	\$ 1,333,533
Other	<u>342,727</u>
	<u>1,676,260</u>
Deferred tax liabilities:	
Property and equipment	(1,799,673)
Other	<u>(82,379)</u>
	<u>(1,882,052)</u>
Net deferred tax liability	<u><u>\$ (205,792)</u></u>

The Company has federal net operating loss carryforwards of approximately \$5,578,000, of which \$510,000 expire in 2037, \$2,885,000 expire in 2038 and \$2,183,000 has no expiration date.

Note 8. Retirement Plan

The Company maintains a defined contribution retirement plan that meets the requirements of Internal Revenue Code Section 401(k). Substantially all employees are eligible to participate in the plan. The Company matches 100% of employee contributions up to the first 3% of the employee's compensation and 50% for employee contributions from 3% to 6% of the employee's compensation. The Company is also required to make additional quarterly contributions for hourly employees who had a hire date prior to June 1, 2013. The Company recorded expenses of \$338,661 for 2020 in connection with the plan.



DanChem Technologies, Inc.

Notes to Financial Statements

Note 9. Profit Interests Units

The parent company of DanChem Technologies, Inc. (DanChem Holdings, LLC), has the following classes of membership interests:

Class A Units: The parent company has 1,000 Class A Units authorized, issued and outstanding.

Class B Units: The parent company has 175.12 Class B Units authorized for management and Board of Directors of DanChem Technologies, Inc. The parent company awarded 76.74 Class B Units to a member of management and a board member in 2017. The parent company awarded 22.69 Class B Units to a member of management in 2018. These units were forfeited in 2019. The parent company awarded 32.91 Class B Units to a member of management in 2019. The parent company awarded 21.00 Class B Units to a member of management in 2020. These Class B Units vest over three years.

Distribution rights: Class A Units receive their aggregate member contributions and an additional return as described in the Amended and Restricted Operating Agreement before Class A Units and Class B Units share pro rata in distributions.

Class B Units awards: The parent company awarded 21.00 Class B Units in 2020. The fair value of these units were estimated on the date of award using the Black-Scholes pricing model, which requires estimates of the expected life of the awards, the expected volatility of the parent company's membership interests, dividend yield and the risk-free interest rate. The assumptions used for the 2020 awards were as follows: 2.00 year expected life; 1.40% risk-free interest rate; 30% volatility and zero dividend yield. The weighted-average award date fair value of these awards was approximately \$1,059 per unit. fair value of these awards was approximately \$1,059 per unit. The Company recognized \$6,408 of award-based compensation during 2020. The unrecognized compensation expense of \$15,822 will be recognized over a weighted-average period of one and three-fourths years.

The parent company awarded 32.91 Class B Units in 2019. The fair value of these units was estimated on the date of award using the Black-Scholes pricing model, which requires estimates of the expected life of the awards, the expected volatility of the parent company's membership interests, dividend yield and the risk-free interest rate. The assumptions used for the 2019 awards were as follows: 3.00 year expected life; 2.85% risk-free interest rate; 30% volatility and zero dividend yield. The weighted-average award date fair value of these awards was approximately \$1,527 per unit. approximately \$1,527 per unit. The Company recognized \$20,106 of award-based compensation during 2020. The unrecognized compensation expense of \$15,080 will be recognized during 2021.

The parent company awarded 22.69 Class B Units in 2018. The fair value of these units was estimated on the date of award using the Black-Scholes pricing model, which requires estimates of the expected life of the awards, the expected volatility of the parent company's membership interests, dividend yield and the risk-free interest rate. The assumptions used for the 2018 awards were as follows: 4.00 year expected life; 2.85% risk-free interest rate; 30% volatility and zero dividend yield. The weighted-average award date fair value of these awards was approximately \$1,840 per unit. These units were forfeited in 2019. approximately \$1,840 per unit. These units were forfeited in 2019. The Company recognized \$6,960 of award-based compensation during 2018. The Company reversed the \$6,960 as a reduction of award-based compensation in 2019.

The parent company awarded 76.74 Class B Units in 2017. The fair value of these units was estimated on the date of award using the Black-Scholes pricing model, which requires estimates of the expected life of the awards, the expected volatility of the parent company's membership interests, dividend yield and the risk-free interest rate. The assumptions used for the 2017 awards were as follows: 5.00 year expected life; 1.22% risk-free interest rate; 30% volatility and zero dividend yield. The weighted-average award date fair value of these awards was approximately \$1,758 per unit. The Company recognized \$22,485 of award-based compensation during 2020.

DanChem Technologies, Inc.

Notes to Financial Statements

Note 10. Major Customers

Net sales for the year ended December 31, 2020, included sales to the following major customers, together with the receivable due from these customers at December 31, 2020:

	Amount of Sales	Receivables Balance
Customer A	\$ 5,956,664	\$ 1,038,887
Customer B	4,316,943	110,875
Customer C	3,266,252	761,358
Customer D	2,950,460	1,275,432

Note 11. Litigation

The Company, at times, has claims and legal proceedings that generally involve product liability. These proceedings are, in the opinion of management, ordinary routine matters incidental to the normal business conducted by the Company. In the opinion of management, such proceedings are substantially covered by insurance, and the ultimate disposition of such proceedings are not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

Note 12. Liquidity

As discussed in Note 6, the Company's term loan, capex loan and revolving credit facility will mature in 2021. The Company's financial performance greatly improved in 2020 and this trend is expected to continue. The Company has a good working relationship with its lender and expects to begin negotiations in the second half of 2021 to extend the debt agreements beyond 2021.

DanChem Technologies, Inc.

Unaudited Financial Report
September 30, 2021

Contents

Financial statements

Balance sheet	1
Statement of income	2
Statement of changes in stockholders' equity	3
Statement of cash flows	4
Notes to financial statements	5-11

DanChem Technologies, Inc.

Balance Sheet
September 30, 2021
(Unaudited)

Assets

Current assets:

Cash	\$ 2,750
Trade accounts receivable, less allowance for doubtful accounts \$117,987	6,125,186
Inventories	1,284,992
Prepaid expenses	466,434
Total current assets	<u>7,879,362</u>

Other assets	138,000
Property and equipment, net	<u>10,320,681</u>

Total assets \$ 18,338,043

Liabilities and Stockholders' Equity

Current liabilities:

Checks issued in excess of bank balance	\$ 145,021
Current portion of long-term debt	500,000
Accounts payable	1,836,369
Accrued expenses	797,293
Income taxes payable	111,722
Total current liabilities	<u>3,390,405</u>

Long-term debt, less current portion	4,471,228
Deferred income taxes	296,284
	<u>8,157,917</u>

Stockholders' equity:

Common stock, par value \$0.01 per share; authorized, issued and outstanding 3,000 shares	30
Additional paid-in capital	6,819,589
Retained earnings	3,360,507
Total stockholders' equity	<u>10,180,126</u>

\$ 18,338,043

DanChem Technologies, Inc.

Statement of Income
Nine-Months Ended September 30, 2021
(Unaudited)

Net sales	\$ 22,273,269
Cost of goods sold	<u>17,855,007</u>
Gross profit	4,418,262
Operating expenses:	
General and administrative expenses	<u>3,079,877</u>
Operating income	<u>1,338,385</u>
Other income (expense):	
Interest expense	(154,569)
Gain on forgiveness of PPP loan	<u>1,975,000</u>
	<u>1,820,431</u>
Income before income tax expense	3,158,816
Income tax expense	<u>285,346</u>
Net income	<u>\$ 2,873,470</u>

See notes to financial statements.



DanChem Technologies, Inc.

Statement of Changes in Stockholders' Equity
Nine-Months Ended September 30, 2021
(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance, January 1, 2021	\$ 30	\$ 6,797,589	\$ 487,037	\$ 7,284,656
Profit interest units compensation expense	-	22,000	-	22,000
Net income	-	-	2,873,470	2,873,470
Balance, September 30, 2021	\$ 30	\$ 6,819,589	\$ 3,360,507	\$ 10,180,126

See notes to financial statements.



DanChem Technologies, Inc.

Statement Of Cash Flows

Nine-Months Ended September 30, 2021

(Unaudited)

Cash flows from operating activities:	
Net income	\$ 2,873,470
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	1,776,853
Deferred income tax expense	90,492
Profit interest units compensation expense	22,000
Gain on forgiveness of PPP loan	(1,975,000)
Changes in assets and liabilities:	
(Increase) in:	
Trade accounts receivable	(394,623)
Inventories	(114,021)
Prepaid expenses	(119,574)
Increase (decrease) in:	
Accounts payable	199,343
Accrued expenses	(505,717)
Income taxes payable	111,722
Net cash provided by operating activities	<u>1,964,945</u>
Cash flows used in investing activities:	
Purchase of property and equipment	<u>(945,058)</u>
Cash flows from financing activities:	
Decrease in checks issued in excess of bank balance	(344,678)
Net proceeds from revolver line of credit	143,104
Principal payments of long-term debt	(817,067)
Net cash used in financing activities	<u>(1,018,641)</u>
Net increase in cash and cash equivalents	1,246
Cash and cash equivalents:	
Beginning	<u>1,504</u>
Ending	<u>\$ 2,750</u>
Supplemental disclosure of cash flow information:	
Cash payments for:	
Interest	<u>\$ 154,569</u>
Income taxes	<u>\$ 83,132</u>

See notes to financial statements.

DanChem Technologies, Inc.

Notes to Financial Statements (Unaudited)

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: DanChem Technologies, Inc. (the Company) provides contract manufacturing services to the fine and specialty chemical industries. The Company's horizontal reactor base enables the Company to run chemistries with very specific characteristics.

A summary of the Company's significant accounting policies follows:

Accounts receivable: The Company records trade accounts receivable at cost, which approximates fair value at the balance sheet date. The Company estimates an allowance for doubtful accounts based on a combination of historical and current information as it relates to the individual accounts. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Inventories: Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. Cost of finished goods and raw materials are determined by standard cost methods, which approximate actual cost.

Property and equipment: Property and equipment are stated at cost. Depreciation is computed by the straight-line method, based on estimated useful lives. The Company's policy is to assign 20 year lives to the buildings and 7-12 year lives to the machinery and equipment.

Income taxes: Deferred income taxes are provided on the difference between the financial reporting and the income tax basis of assets and liabilities and for loss carryforwards. Deferred income taxes are adjusted for the effects of changes in tax laws and rates on the date of enactment. Valuation allowances are established when necessary to reserve deferred income tax assets to the amount expected to be realized in future years.

Management evaluated the Company's tax positions and concluded that the Company has taken no uncertain tax positions that require adjustment to the financial statements.

Revenue recognition: The Company recognizes revenue in accordance with Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers, which provides a five-step model for recognizing revenue from contracts with customers as follows: 1) identify the contract with the customer; 2) identify the performance obligations; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract; and 5) recognize revenue when or as the performance obligations are satisfied.

The Company's revenue is derived from the sale of products and manufacturing services to customers located primarily in the United States. Sales from products and services are subject to economic conditions and may fluctuate based on changes in the industrial or financial markets.

The Company's only performance obligations required by the customer contracts are delivery of product or performance of manufacturing services. No multiple performance obligations exist. The Company considers its obligations to be met upon shipment to the customer or completion of manufacturing services and revenue is recognized at this point. Shipping terms are primarily FOB shipping point.

Rights of return exist only to the extent of a quality issue with the product delivered to the customer. Technical specifications are provided by the customer and are analyzed by the Company prior to shipment of the product.



DanChem Technologies, Inc.

**Notes to Financial Statements
(Unaudited)**

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The transaction price for each product or service is agreed upon with the customer on a case by case basis. Once the price is agreed for the product or service, a purchase order is required to be provided by the customer which reflects the agreed upon price.

No financing component considerations are necessary as the period between transfer of the product to a customer or completion of a service and payment by the customer is less than a year in all cases. Typical payment terms are 30 to 45 days.

The Company typically does not charge sales tax or any other government assessed taxes due to the nature of the product and services being provided.

Profit interest units compensation expense: Profit interest units compensation expense represents awards granted to employees and Board of Director members. The fair value of the units is calculated using the Black-Scholes pricing model as of the award date and is recognized over the service period.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events: All the effects of subsequent events that provide additional evidence about conditions that existed at the financial statement date, including the estimates inherent in the process of preparing the financial statements, are recognized in the financial statements. The Company does not recognize subsequent events that provide evidence about conditions that did not exist at the financial statement date but arose after, but before the financial statements are available to be issued. In some cases, nonrecognized subsequent events are disclosed to keep the financial statements from being misleading.

The Company has evaluated its subsequent events (occurring after September 30, 2021), through December __, 2021, which represents the date the financial statements were available to be issued.

Recent accounting pronouncements – not yet adopted: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842) Codification Improvements*, which exempts entities from having to provide the interim disclosures required by ASC 250- 10-50-3 in the fiscal year in which a company adopts the new leases standard. A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative- effect adjustment. The new standard is effective for fiscal years beginning after December 15, 2021. The Company is currently evaluating the effect that the standard will have on its financial statements.

statements.

DanChem Technologies, Inc.

Notes to Financial Statements (Unaudited)

Note 1. Nature of Business and Significant Accounting Policies (Continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including trade receivables) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of operations as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact of adopting this new guidance on its financial statements and does not expect the impact to be significant.

Note 2. Ownership of DanChem Technologies, Inc.

DanChem Technologies, Inc. is a wholly owned subsidiary of DanChem Holdings, LLC. DanChem Holdings, LLC is a holding company and has no operations. DanChem Holdings, LLC has Class A and Class B Members. Class B units have been issued as profit interest units to certain employees and a board member of DanChem Technologies, Inc. (see Note 9).

Note 3. Inventories

Inventories consist of the following at September 30, 2021:

Finished goods	270,097
Raw materials	568,573
Parts and supplies	662,497
	<u>1,501,167</u>
Less reserves	(216,175)
	<u><u>1,284,992</u></u>

Note 4. Property and Equipment

Property and equipment consists of the following at September 30, 2021:

Land	\$ 333,889
Land improvements	41,481
Buildings	5,679,533
Furniture and fixtures	956,090
Machinery and equipment	13,694,572
Construction in progress	642,705
	<u>21,348,270</u>
Less accumulated depreciation	(11,027,589)
	<u><u>\$ 10,320,681</u></u>



DanChem Technologies, Inc.

**Notes to Financial Statements
(Unaudited)**

Note 5. Related Party Transactions

The Company is required to pay management fees to the major member of their parent company, DanChem Holdings, LLC. The Company recorded management fees of \$112,500 for the nine-months ended September 30, 2021.

Note 6. Long-Term Debt

Long-term debt consists of the following at September 30, 2021:

Revolver loan	\$ 221,228
Term loan	4,750,000
	<u>4,971,228</u>
Less current portion	(500,000)
	<u><u>\$ 4,471,228</u></u>

The Company had a credit facility dated December 2, 2016, which included a revolving credit loan, a term loan and a capex loan. The credit facility is secured by substantially all assets of the Company. The credit facility was amended on May 13, 2021, to extend the maturity date to May 13, 2024, as well as to increase the revolving credit loan capacity, reduce the term loan capacity and eliminate the capex facility.

A capex facility with a commitment up to \$1,100,000 was executed on May 17, 2019, and expired on December 31, 2020. The Company borrowed \$606,011 in total against this facility and owed \$575,709 at December 31, 2020. The capex facility required quarterly interest payments beginning June 30, 2019, and quarterly principal payments equal to 1/20th of the balance beginning December 31, 2020, with a final balloon payment due on December 2, 2021. The borrowing rates were based off of a computation of senior leverage ratio and were prime plus 1.00%. On May 13, 2021, the Company repaid the capex facility balance in full.

The Company has up to a \$5,000,000 revolving credit loan, which expires May 13, 2024. Borrowing rates are determined based off a computation of senior leverage ratio and were prime plus 1.00% at September 30, 2021 (4.25% at September 30, 2021). Borrowings permitted under the revolving credit loan are subject to limitations based upon accounts receivable and inventory levels. At September 30, 2021, the Company had availability under the revolving credit loan of approximately \$4,800,000. The revolving credit loan requires quarterly interest payments.

The Company has a \$5,000,000 term loan. The loan requires quarterly payments of \$125,000 principal plus interest with a final balloon payment on May 13, 2024. The borrowing rates are based off of a computation of senior leverage ratio and were prime plus 1.00% at September 30, 2021 (4.25% at September 30, 2021). The term loan has an excess cash flow payment requirement if the Company meets certain criteria as defined in the agreement.

The credit facility has certain financial covenants which include maximum senior leverage ratio, minimum fixed charge coverage ratio and limitations on capital expenditures.

Effective April 24, 2020, the Company executed a promissory note of \$1,975,000 bearing interest at 1% per annum as part of the Paycheck Protection Program to help keep its employees employed during the COVID-19 pandemic. The loan was in deferment until May 2021. The Company accounted for the loan as a liability under FASB ASC 470 until forgiveness was granted. The loan was forgiven in full on

June 10, 2021, and a \$1,975,000 gain was recognized on the statement of income.

DanChem Technologies, Inc.

**Notes to Financial Statements
(Unaudited)**

Note 6. Long-Term Debt (Continued)

Future principal payments of all debt agreements are due as follows:

2021	\$ 125,000
2022	500,000
2023	500,000
2024	3,846,228
	<u>\$ 4,971,228</u>

Note 7. Income Taxes

The income tax expense for the nine months ended September 30, 2021, is made up of the following:

Current income tax expense	\$ 194,854
Deferred income tax expense	90,492
	<u>\$ 285,346</u>

The net deferred tax liability consists of the following components at September 30, 2021:

Deferred tax assets:	
Net operating loss carryforwards	\$ 956,635
Other	261,052
	<u>1,217,687</u>
Deferred tax liabilities:	
Property and equipment	(1,427,104)
Other	(86,867)
	<u>(1,513,971)</u>
Net deferred tax liability	<u>\$ (296,284)</u>

The Company has federal net operating loss carryforwards of approximately \$3,900,000, of which approximately \$2,100,000 expires in 2038 and approximately \$1,800,000 has no expiration date.

The Company's income tax expense does not bear the normal relationship to income before income taxes primarily due to the gain on forgiveness of PPP loan which is not taxable for income tax purposes.

Note 8. Retirement Plan

The Company maintains a defined contribution retirement plan that meets the requirements of Internal Revenue Code Section 401(k). Substantially all employees are eligible to participate in the plan. The Company matches 100% of employee contributions up to the first 3% of the employee's compensation and 50% for employee contributions from 3% to 6% of the employee's compensation. The Company is also required to make additional quarterly contributions for hourly employees who had a hire date prior to

June 1, 2013. The Company recorded expenses of \$280,426 for the nine-months ended September 30, 2021, in connection with the plan.

DanChem Technologies, Inc.

Notes to Financial Statements (Unaudited)

Note 9. Profit Interests Units

The parent company of DanChem Technologies, Inc. (DanChem Holdings, LLC), has the following classes of membership interests:

Class A Units: The parent company has 1,000 Class A Units authorized, issued and outstanding.

Class B Units: The parent company has 175.12 Class B Units authorized for management and Board of Directors of DanChem Technologies, Inc. The parent company awarded 76.74 Class B Units to a member of management and a board member in 2017. The parent company awarded 22.69 Class B Units to a member of management in 2018. These units were forfeited in 2019. The parent company awarded 32.91 Class B Units to a member of management in 2019. The parent company awarded 21.00 Class B Units to a member of management in 2020. These Class B Units vest over three years.

Distribution rights: Class A Units receive their aggregate member contributions and an additional return as described in the Amended and Restricted Operating Agreement before Class A Units and Class B Units share pro rata in distributions.

Class B Units awards: The parent company awarded 21.00 Class B Units in 2020. The fair value of these units were estimated on the date of award using the Black-Scholes pricing model, which requires estimates of the expected life of the awards, the expected volatility of the parent company's membership interests, dividend yield and the risk-free interest rate. The assumptions used for the 2020 awards were as follows: 2.00 year expected life; 1.40% risk-free interest rate; 30% volatility and zero dividend yield. The weighted-average award date fair value of these awards was approximately \$1,059 per unit. The Company recognized \$8,161 of award-based compensation during the first nine months of 2021. The unrecognized compensation expense of \$7,401 will be recognized over a weighted-average period of one year.

The parent company awarded 32.91 Class B Units in 2019. The fair value of these units was estimated on the date of award using the Black-Scholes pricing model, which requires estimates of the expected life of the awards, the expected volatility of the parent company's membership interests, dividend yield and the risk-free interest rate. The assumptions used for the 2019 awards were as follows: 3.00 year expected life; 2.85% risk-free interest rate; 30% volatility and zero dividend yield. The weighted-average award date fair value of these awards was approximately \$1,527 per unit. The Company recognized \$13,839 of award-based compensation during the first nine months of 2021. The unrecognized compensation expense of \$1,241 will be recognized during the last three months of 2021.

The parent company awarded 22.69 Class B Units in 2018. The fair value of these units was estimated on the date of award using the Black-Scholes pricing model, which requires estimates of the expected life of the awards, the expected volatility of the parent company's membership interests, dividend yield and the risk-free interest rate. The assumptions used for the 2018 awards were as follows: 4.00 year expected life; 2.85% risk-free interest rate; 30% volatility and zero dividend yield. The weighted-average award date fair value of these awards was approximately \$1,840 per unit. These units were forfeited in 2019. The Company recognized \$6,960 of award-based compensation during 2018. The Company reversed the \$6,960 as a reduction of award-based compensation in 2019.

The parent company awarded 76.74 Class B Units in 2017. The fair value of these units was estimated on the date of award using the Black-Scholes pricing model, which requires estimates of the expected life of the awards, the expected volatility of the parent company's membership interests, dividend yield and the risk-free interest rate. The assumptions used for the 2017 awards were as follows: 5.00 year expected life; 1.22% risk-free interest rate; 30% volatility and zero dividend yield. The weighted-average award date fair value of these awards was approximately \$1,758 per unit. The Company recognized \$22,485 and \$44,971 of award-based compensation during 2020 and 2019, respectively.

DanChem Technologies, Inc.

**Notes to Financial Statements
(Unaudited)**

Note 10. Major Customers

Net sales for the nine-months ended September 30, 2021, included sales to the following major customers, together with the receivable due from these customers at September 30, 2021:

	Amount of Sales	Receivables Balance
Customer A	\$ 4,188,953	\$ 1,415,592
Customer B	3,264,116	379,397
Customer C	3,178,504	63,810
Customer D	2,541,354	1,015,269
Customer E	2,282,735	589,517

Note 11. Litigation

The Company, at times, has claims and legal proceedings that generally involve product liability. These proceedings are, in the opinion of management, ordinary routine matters incidental to the normal business conducted by the Company. In the opinion of management, such proceedings are substantially covered by insurance, and the ultimate disposition of such proceedings are not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

Note 12. Subsequent Event

On October 22, 2021, Synalloy Corporation (Synalloy) entered into a definitive agreement (the Stock Purchase Agreement) with DanChem Holdings, LLC, pursuant to which Synalloy purchased all of the issued and outstanding shares of common stock of DanChem Technologies, Inc. for \$32,950,000, subject to certain customary adjustments for working capital, transaction expenses, cash and debt, on the terms and subject to the conditions set forth in the Stock Purchase Agreement (the Transaction). The Transaction closed simultaneously with the execution of the Stock Purchase Agreement.

SYNALLOY CORPORATION

Unaudited Pro Forma Combined Financial Information

Introduction

The following tables present unaudited pro forma combined financial information about the condensed consolidated balance sheet and statements of operations and comprehensive income (loss) of Synalloy Corporation ("Synalloy" or the "Company"), after giving effect to the acquisition (the "Acquisition") of DanChem Technologies, Inc. ("DanChem"), pursuant to the Stock Purchase Agreement dated October 22, 2021 (the "Agreement"), by and between the Company and DanChem Holdings, LLC.

The unaudited pro forma combined financial statements give effect to the Acquisition as well as the related debt financings, including the pro forma adjustments intended to illustrate the estimated effects of the Acquisition (collectively, "Adjustments" or "Pro Forma Adjustments").

The unaudited pro forma combined statements of operations and comprehensive income (loss) combine the historical results of Synalloy and DanChem for the nine months ended September 30, 2021 and the year ended December 31, 2020, and give effect to the Acquisition as if it occurred on January 1, 2020.

The unaudited pro forma combined statements of balance sheet as of September 30, 2021 combine the historical results of Synalloy and DanChem on a pro forma basis as if the Acquisition had occurred on September 30, 2021.

The unaudited pro forma combined financial information is based on various adjustments and assumptions and is not necessarily indicative of what Synalloy's condensed consolidated statement of operations and comprehensive income (loss) or condensed consolidated balance sheet actually would have been had the Acquisition been completed as of the dates indicated or will be for any future periods. The unaudited pro forma financial statements do not purport to project the future financial position or operating results of Synalloy following the completion of the Acquisition. The unaudited pro forma financial information does not include adjustments to reflect any potential synergies or cost savings that may be achievable in connection with the Acquisition.

The unaudited pro forma combined financial statements should be read in conjunction with:

- The accompanying notes to the unaudited pro forma combined financial statements,
- Synalloy's audited historical consolidated financial statements as of and for the year ended December 31, 2020 and the related notes, and unaudited historical condensed consolidated financial statements as of and for the nine months ended September 30, 2021; and
- DanChem's historical audited financial statements for the year ended December 31, 2020 and the related notes, and unaudited historical financial statements as of and for the nine months ended September 30, 2021.

Description of Acquisition

On October 22, 2021, the Company completed the acquisition of DanChem, a contract manufacturer of chemical products located in Danville, Virginia. The Company accounted for the transaction as a business combination using the acquisition method of accounting in accordance with Accounting Standards Codification ("ASC") Topic 805 - "Business Combinations". The purchase price was paid in cash and funded through a drawdown of \$34,520 on the Company's existing revolving credit facility. 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%. The current interest rate on drawn amounts is 1.75%. Had the acquisition taken effect as of the date presented on the unaudited pro forma combined statement of balance sheet, the purchase price would have been \$32,183 including \$3 in cash acquired through the acquisition.

SYNALLOY CORPORATION

Unaudited Pro Forma Combined Condensed Balance Sheet

As of September 30, 2021

	Historical		Transaction Accounting Adjustments	Note	Pro Forma Combined As of September 30, 2021
	Synalloy	Adjusted DanChem (Note 2)			
	As of September 30, 2021	As of September 30, 2021			
<i>(in thousands)</i>					
Assets					
<i>Current assets</i>					
Cash and cash equivalents	\$ 1,174	\$ 3	\$ (27,212)	4a	\$ 3,514
			29,549	5a	
Accounts receivable, net of allowance for credit losses	44,096	6,125	—		50,221
Inventories, net	98,334	1,285	—		99,619
Prepaid expenses and other current assets	8,820	466	—		9,286
Total current assets	152,424	7,879	2,337		162,640
Property, plant and equipment, net	29,691	10,321	6,753	4b	48,388
			1,623	4d	
Right of use asset, operating leases, net	30,975	—	208	4d	31,183
Goodwill	1,355	—	8,732	4e	10,087
Intangible assets, net	9,385	138	4,262	4c	13,785
Deferred charges, net	327	—	—		327
Total assets	\$ 224,157	\$ 18,338	\$ 23,915		\$ 266,410
Liabilities and Shareholders' Equity					
<i>Current liabilities</i>					
Accounts payable	34,850	1,836	-		36,686
Accounts payable – related Party	2	-	-		2
Accrued expense and other current liabilities	10,144	1,054	805	4h	11,349
			(654)	4i	
Current portion of long-term debt	1,750	500	(500)	5b	1,750
Current portion of earn-out liability	2,249	-	-		2,249
Current portion of operating lease liabilities	1,019	-	47	4d	1,066
Current portion of finance lease liabilities	40	-	198	4d	238
Total current liabilities	50,054	3,390	(104)		53,340
Long-term debt	47,213	4,471	30,049	5b	81,733
Long-term portion of earn-out liability	-	-	-		-
Long-term portion of operating lease liabilities	32,191	-	161	4d	32,352
Long-term portion of finance lease liabilities	46	-	1,425	4d	1,471
Deferred income taxes	1,342	296	2,716	4g	4,224
			(130)	4i	
Other long-term liabilities	84	-	-		84
Total non-current liabilities	80,876	4,767	34,221		119,864
<i>Shareholders' equity:</i>					
Common stock	10,300	-	-		10,300
Capital in-excess of par value	37,037	6,820	(6,820)	4f	37,037
Retained Earnings	55,014	3,361	(3,382)	4f	54,993
	102,351	10,181	(10,202)		102,330
Less: cost of common stock in treasury	(9,124)	-	-		(9,124)
Total shareholders' equity	93,227	10,181	(10,202)		93,206
Total liabilities and equity	\$ 224,157	\$ 18,338	\$ 23,915		\$ 266,410

See accompanying "Notes to Unaudited Pro Forma Combined Financial Information"

SYNALLOY CORPORATION

Unaudited Pro Forma Combined Consolidated Statement of Operations and Comprehensive Loss
For the Year Ended December 31, 2020

	Historical			Transaction Accounting Adjustments	Note	Pro Forma Combined for Year Ended December 31, 2020
	Synalloy Year Ended December 31, 2020	Adjusted DanChem (Note 2) Year Ended December 31, 2020				
<i>(in thousands, except per share data)</i>						
Net sales	\$ 256,000	\$ 26,365	\$ —			\$ 282,365
Cost of sales	(233,348)	(21,266)	(1,395)	6c		(255,982)
			27	6f		
Gross Profit	22,652	5,099	(1,368)			26,383
Expenses						
Selling, general and administrative	(28,718)	(4,334)	(45)	6c		(33,390)
			(293)	6a		
Acquisition costs and other	(845)	—	(805)	6e		(1,650)
Proxy contest costs and recoveries	(3,105)	—	—			(3,105)
Earn-out adjustments	1,195	—	—			1,195
Asset impairments	(6,214)	—	—			(6,214)
Goodwill impairment	(16,203)	—	—			(16,203)
Gain on lease modification	171	—	—			171
Operating (loss) income	(31,067)	765	(2,511)			(32,813)
Other (expense) income						
Interest expense	(2,110)	(321)	(349)	6d		(2,821)
			(41)	6f		
Change in fair value of interest rate swaps	(51)	—	—			(51)
Other, net	1,255	—	—			1,255
Income (loss) before income taxes	(31,973)	444	(2,901)			(34,430)
Income tax benefit (provision)	4,706	(130)	1,344	6b		5,920
Net (loss) and comprehensive (loss)	\$ (27,267)	\$ 314	\$ (1,557)			\$ (28,510)
Net income (loss) per common share:						
Basic	\$ (3.00)					\$ (3.13)
Diluted	\$ (3.00)					\$ (3.13)
Weighted average shares outstanding:						
Basic	9,099					9,099
Dilutive effect from stock options and grants	—					—
Diluted	9,099					9,099

See accompanying "Notes to Unaudited Pro Forma Combined Financial Information"

SYNALLOY CORPORATION

Unaudited Pro Forma Combined Condensed Consolidated Statement of Operations

For the Nine Months Ended September 30, 2021

	Historical		Transaction Accounting Adjustments	Note	Pro Forma Combined for Nine Months Ended September 30, 2021
	Synalloy	Adjusted DanChem (Note 2)			
	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2021			
<i>(in thousands, except per share data)</i>					
Net sales	\$ 239,047	\$ 22,273	\$ —		\$ 261,320
Cost of sales	(198,219)	(17,855)	(1,059)	6c	(217,112)
Gross Profit	40,828	4,418	(1,038)	21 6f	44,208
Expenses					
Selling, general and administrative	(21,941)	(3,080)	(23)	6c	(25,265)
Acquisition costs and other	(201)	-	-	6a	(201)
Proxy contest costs and recoveries	(168)	-	-		(168)
Earn-out adjustments	(1,430)	-	-		(1,430)
Asset impairments	(233)	-	-		(233)
Goodwill impairment	-	-	-		-
Gain on lease modification	-	-	-		-
Operating (loss) income	16,855	1,338	(1,282)		16,911
Other (expense) income					
Interest expense	(1,068)	(155)	(318)	6d 6f	(1,569)
Gain (loss) on extinguishment of debt	(223)	1,975	—		1,752
Change in fair value of interest rate swaps	2	—	—		2
Other, net	(152)	—	—		(152)
Income (loss) before income taxes	15,414	3,158	(1,628)		16,944
Income tax benefit (provision)	(3,235)	(285)	180	6b	(3,340)
Net income (loss)	\$ 12,179	\$ 2,873	\$ (1,448)		\$ 13,604
Net income (loss) per common share:					
Basic	\$ 1.32				\$ 1.47
Diluted	\$ 1.30				\$ 1.46
Weighted average shares outstanding:					
Basic	9,237				9,237
Dilutive effect from stock options and grants	111				111
Diluted	9,348				9,348

See accompanying "Notes to Unaudited Pro Forma Combined Financial Information"

SYNALLOY CORPORATION

Notes to Unaudited Pro Forma Combined Financial Information

1. Basis of Presentation

The accompanying pro forma financial statements were prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release No. 33-10786 "Amendments to Financial Disclosures about Acquired and Disposed Businesses." Release No. 33-10786 replaces the existing pro forma adjustment criteria with simplified requirements to depict the accounting for the transaction ("Transaction Accounting Adjustments") and the option to present the reasonably estimable synergies and other transaction effects that have occurred or are reasonably expected to occur ("Management's Adjustments"). The Company has elected not to present Management's Adjustments and has only presented Transaction Accounting Adjustments in the following unaudited pro forma condensed combined financial information. The unaudited pro forma statements of operations and pro forma statement of financial position of the Company are based on the historical financial statements of Synalloy and DanChem, after giving effect to the Acquisition as described above. The adjustments presented in the unaudited pro forma combined financial information is based on currently available information and certain information that management of Synalloy and DanChem believe are reasonable under the circumstances. The unaudited pro forma adjustments may be revised as additional information becomes available.

The Acquisition is accounted for as a business combination using the acquisition method of accounting under the provisions of ASC 805, Business Combinations, with Synalloy considered the accounting and legal acquirer of DanChem. The unaudited pro forma financial statements reflect the preliminary assessment of fair values and useful lives assigned to the assets acquired and liabilities assumed. Fair value estimates were determined based on preliminary valuation analysis. Since this pro forma financial information has been prepared based on preliminary estimates of consideration and fair values attributable to the DanChem acquisition, the actual amounts eventually recorded for the purchase accounting, including the identifiable intangible assets and goodwill, may differ materially from the information presented.

Synalloy and DanChem did not have any historical relationship prior to the Acquisition. Accordingly, no pro forma adjustments were required to eliminate activities between the companies.

2. Presentation of Acquiree Company– reclassification adjustments

Certain reclassifications have been made to the historical presentation of the statement of operations and comprehensive income (loss) and balance sheet of DanChem to conform to the financial statement presentation of Synalloy. The following summarizes the reclassification adjustments in DanChem's unaudited pro forma combined statement of operations for the nine months ended September 30, 2021 and the year ended December 31, 2020 and unaudited pro forma combined statement of financial position as of September 30, 2021.

Unaudited pro forma combined condensed consolidated statement of operations for the nine months ended September 30, 2021:

Amounts <i>(in thousands)</i>	Presentation in DanChem's Financial Statements	Presentation in Unaudited Pro Forma Combined Financial Information
\$3,080	General and administrative expenses	Selling, general and administrative
\$1,975	Gain on forgiveness of PPP Loan	Gain (loss) on extinguishment of debt
\$285	Income tax expense	Income tax provision (benefit)

Unaudited pro forma combined consolidated statement of operations for the year ended December 31, 2020:

Amounts <i>(in thousands)</i>	Presentation in DanChem's Financial Statements	Presentation in Unaudited Pro Forma Combined Financial Information
\$4,334	General and administrative expenses	Selling, general and administrative
\$21,266	Cost of goods sold	Cost of sales
\$130	Deferred income tax expense	Income tax provision (benefit)

SYNALLOY CORPORATION

Notes to Unaudited Pro Forma Combined Financial Information

Unaudited pro forma combined condensed balance sheet as of September 30, 2021:

Amounts (in thousands)	Presentation in DanChem's Financial Statements	Presentation in Unaudited Pro Forma Combined Financial Information
\$466	Prepaid expenses	Prepaid expenses and other current assets
\$138	Other assets	Intangible assets, net
\$145	Checks issued in excess of bank balance	Accrued expenses and other current liabilities
\$797	Accrued expenses	Accrued expenses and other current liabilities
\$112	Income taxes payable	Accrued expenses and other current liabilities
\$6,820	Additional paid-in capital	Capital in-excess of par value

3. Accounting Policy conformity changes

The accounting policies used in the preparation of the unaudited pro forma combined financial information are those set out in Synalloy's consolidated financial statements. Based on the procedures performed to date, the accounting policies of DanChem are similar in all material respects to Synalloy's accounting policies, with the exception of the accounting for leases under ASC 842, *Leases*. The impact of conforming these policies is described in Note 4(d). As noted in Note 2, certain balances presented in the historical financial statements of DanChem have been reclassified to conform their presentation to that of Synalloy. Synalloy is not aware of any other material differences between the accounting policies or classification of amounts of the two companies that would continue to exist subsequent to the application of acquisition accounting. Following the consummation of the Acquisition, Synalloy has begun to conduct, but has not yet completed, a more detailed review of DanChem's accounting policies in an effort to determine if differences in accounting policies require further reclassifications of DanChem's results of operations or reclassification of assets or liabilities to conform to Synalloy's accounting policies and classifications. As a result, Synalloy may identify additional differences between the accounting policies of the two companies that, when conformed, could have a material impact on this unaudited pro forma combined financial information.

4. Preliminary Fair Value Estimate of Assets Acquired and Liabilities Assumed

The unaudited pro forma combined balance sheet as of September 30, 2021 has been adjusted to reflect the preliminary allocation of purchase price to identifiable assets acquired and liabilities assumed related to DanChem, with the excess recorded as goodwill. The unaudited combined pro forma statement of operations for the nine months ended September 30, 2021 and the year ended December 31, 2020 gives effect to the Acquisition as if it occurred on January 1, 2020.

Estimated purchase price and purchase price allocation of DanChem

Set forth below are the preliminary values of assets acquired and liabilities assumed calculated for the purpose of these unaudited combined pro forma financial statements. The allocation of the purchase price to the fair values of the assets acquired and liabilities assumed includes pro forma adjustments to the fair values of DanChem assets and liabilities. At the time of this filing, the Company has not finalized the detailed valuation analysis related to the fair values of identifiable assets acquired and liabilities assumed. The final amounts recorded for the acquisition may differ materially from the information presented below. The preliminary purchase price for DanChem is estimated to be \$32,183 cash consideration.

SYNALLOY CORPORATION

Notes to Unaudited Pro Forma Combined Financial Information

The preliminary estimated purchase price allocation of DanChem is calculated as follows:

	September 30, 2021 DanChem Historical Information	DanChem Fair Value and Accounting Policy Adjustments	Note	Purchase Price Allocation
<i>(in thousands)</i>				
Assets				
Cash and cash equivalents	\$ 3	\$ —		\$ 3
Accounts receivable, net of allowance for credit losses	6,125	—		6,125
Inventories, net	1,285	—		1,285
Prepaid expenses and other current assets	466	—		466
Property, plant and equipment, net	10,321	6,753	4b	18,697
		1,623	4d	
Right of use asset, operating leases, net	—	208	4d	208
Goodwill	—	8,732	4e	8,732
Intangible assets, net	138	4,262	4c	4,400
Deferred charges, net	—	—		—
Total assets acquired	\$ 18,338	\$ 21,578		\$ 39,916
Liabilities				
Accounts payable	1,836	—		1,836
Accrued expense and other current liabilities	1,054	—		1,054
Current portion of long-term debt	500	(500)	5b	—
Current portion of operating lease liabilities	—	47	4d	47
Current portion of finance lease liabilities	—	198	4d	198
Long-term debt	4,471	(4,471)	5b	—
Deferred income taxes	296	2,716	4g	3,012
Long-term portion of operating lease liabilities	—	161	4d	161
Long-term portion of finance lease liabilities	—	1,425	4d	1,425
Total liabilities assumed	\$ 8,157	\$ (424)		\$ 7,733
<i>Historical equity value of DanChem:</i>				
Common stock	—	—		—
Capital in-excess of par value	6,820	(6,820)	4f	—
Retained Earnings	3,361	(3,361)	4f	—
Total shareholders' equity	\$ 10,181	\$ (10,181)		\$ —
Estimated purchase consideration				\$ 32,183

a) Represents adjustments related to the payment of the cash purchase price of DanChem and the estimated Acquisition-related costs, as follows:

Pro forma adjustment to cash	Ref	Amount
<i>(in thousands)</i>		
Cash paid to seller		\$ (25,172)
Acquisition-related costs paid on behalf of seller		(2,040)
Pro forma adjustment to cash	4a	(27,212)
Cash paid towards paydown of debt on behalf of seller	5a	(4,971)
Estimated transaction consideration		\$ (32,183)

b) Represents adjustments to record the preliminary fair value of DanChem's property, plant and equipment with a fair value determined to be \$17,074 resulting in an increase of \$6,753. The fair values of property, plant and equipment were determined using the cost and market approaches, which are commonly accepted valuation approaches. The Company is in the process of performing a more detailed valuation analysis the result of which may differ materially from this preliminary analysis. Refer to Note 6c for the related adjustment to the combined pro forma statements of operations.

SYNALLOY CORPORATION

Notes to Unaudited Pro Forma Combined Financial Information

- c) Represents adjustments to record the preliminary fair value of DanChem's acquired identifiable intangible assets related to customer relationships, product development know-how, and tradename with a fair value determined to be \$4,400 resulting in an increase of \$4,262. The fair value of the customer relationship was determined using the multi-period excess earnings method, and the fair values of the product development know-how and tradename were determined using the relief from royalty method. Both methods are commonly accepted valuation approaches. The Company is in the process of performing a more detailed valuation analysis the result of which may differ materially from this preliminary analysis. Refer to note 6a for the related adjustment to the combined pro forma statements of operations.
- d) Represents adjustments to align the accounting policies of DanChem to reflect the adoption of ASC 842, *Leases*, including adjustments to the following:

(in thousands)

Property, plant and equipment, net	\$	1,623
Right of use asset, operating leases, net		208
Current portion of operating lease liabilities		47
Current portion of finance lease liabilities		198
Long-term portion of operating lease liabilities		161
Long-term portion of finance lease liabilities		1,425

Note that Company classifies finance lease assets as property, plant and equipment. The Company is in the process of performing a more detailed lease analysis and the result of which may differ materially from this preliminary analysis.

- e) Represents the excess of the purchase price over the preliminary fair values of the underlying net intangible and identifiable tangible assets, net of liabilities, which is an estimated increase of \$8,732. The estimated goodwill to be recognized is attributable to the assembled workforce and operational synergies in the expected Synalloy models.
- f) Represents the elimination of DanChem's historical Capital in-excess of par value balance of \$6,820 in connection with the acquisition. Additional adjustment to retained earnings related to transaction expenses as detailed below:

<u>Pro forma adjustment to retained earnings</u>	<u>Ref</u>	<u>Retained earnings</u>
(in thousands)		
Elimination of DanChem's historical retained earnings balance	\$	(3,361)
Impact of DanChem transaction expenses	4h	(805)
Income tax adjustment	4i	784
Pro forma adjustment to retained earnings	\$	(3,382)

- g) Represents the recognition of deferred tax liabilities relating to the acquired intangible assets and net property, plant and equipment discussed in Note 4b and 4c. Deferred tax liabilities were calculated by applying the estimated blended U.S. statutory federal and state tax rate.
- h) Represents \$805 of additional transaction expenses that were incurred and not recognized in the historical financial statements of the Company.
- i) Represents the impact of the acquisition on Synalloy's historical tax balances.

SYNALLOY CORPORATION

Notes to Unaudited Pro Forma Combined Financial Information

5. Calculation of Acquisition Financing

The Company drew \$34,520 on an existing credit facility to fund the Acquisition. The pro forma adjustments, as illustrated below, reflect the incurrence of the debt.

- a) A summary of the total pro forma adjustments to cash related to the Acquisition financing include the following:

Pro forma adjustment to cash

<i>(in thousands)</i>	<u>Synalloy line of credit draw</u>	<u>Prepayment of DanChem's term loan and revolver</u>	<u>Total</u>
Increase from line of credit draw	34,520		34,520
Repayment of DanChem's term loan and revolver		(4,971)	(4,971)
Pro forma adjustment to cash		\$	29,549

- b) The total pro forma adjustment to debt includes the following:

<i>(in thousands)</i>	<u>Synalloy line of credit draw</u>	<u>Prepayment of DanChem's term loan and revolver</u>	<u>Total</u>
Pro forma adjustment to current portion of debt		(500)	(500)
Pro forma adjustment to long-term debt	34,520	(4,471)	30,049
Pro forma adjustment to debt		\$	29,549

6. Unaudited Pro Forma Combined Statements of Operations Adjustments

The pro forma adjustments in the unaudited pro forma combined statements of operations are as follows:

- a) Adjustment to intangibles assets expected to be recognized in connection with the acquisition, consists of the following:

<i>(in thousands)</i>	<u>Fair Value</u>	<u>Estimated Useful Life (years)</u>	<u>Amortization Method</u>	<u>Amortization expense For the year ended 31 December, 2020</u>	<u>Amortization expense For the nine months ended 30 September, 2021</u>
Customer relationships	\$ 3,750	15	Straight-line	\$ 250	\$ 188
Product development know-how	500	15	Straight-line	33	25
Trade name	150	15	Straight-line	10	8
Total acquired identifiable intangible assets adjustment	\$ 4,400			\$ 293	\$ 220

The above adjustment to selling, general and administrative, of \$293 and \$220 for the year ended December 31, 2020 and the nine months ended September 30, 2021, respectively related to additional amortization expense for the estimated fair value adjustments to acquired intangible assets, which are being amortized using the straight line method.

- b) Represents the adjustment to income tax expense. The income tax expense is calculated based on the pre-tax adjustment of DanChem's transaction accounting adjustments at the estimated U.S. federal and state blended tax rate for the year ended December 31, 2020 and nine months ended September 30, 2021, net of the anticipated effect over the combined valuation allowance. The actual effective tax rate of the Company may differ materially from the pro forma tax rate due to, among other factors, changes in tax laws, the impact of permanent tax differences, income tax reserves determined in connection with the acquisition and tax planning.

SYNALLOY CORPORATION

Notes to Unaudited Pro Forma Combined Financial Information

c) Adjustment to tangible assets expected to be recognized in connection with the acquisition, consists of the following:

<i>(in thousands)</i>	Fair Value	Estimated Useful life (in years)	Depreciation Method	Depreciation expense for the year ended 31 December, 2020	Depreciation expense for the nine months ended 30 September, 2021
Land	\$ 720	N/A	N/A	\$ —	\$ —
Land improvements	160	16	Straight-line	10	8
Buildings	1,455	20	Straight-line	75	57
Furniture and fixtures	471	3 - 5	Straight-line	117	88
Machinery and equipment	13,635	3 - 7	Straight-line	3,608	2,706
Construction in equipment	633	N/A	N/A	—	—
Total acquired property, plant and equipment	\$ 17,074			\$ 3,810	\$ 2,859

<i>(in thousands)</i>	Depreciation expense for the year ended December 31, 2020	Depreciation expense for the nine months ended September 30, 2021
Elimination of historical depreciation from cost of sales	\$ 2,298	\$ 1,712
Depreciation expense to cost of sales	(3,693)	(2,771)
Adjustment to cost of sales	\$ (1,395)	\$ (1,059)
Elimination of historical depreciation from selling, general and administrative	\$ 72	\$ 65
Depreciation expense to selling, general and administrative	(117)	(88)
Adjustment to selling, general and administrative	\$ (45)	\$ (23)

d) A summary of the total pro forma adjustments related to financing to interest expense, net includes the following:

<i>(in thousands)</i>	Ref	For the year ended December 31, 2020	For the nine months ended September 30, 2021
Estimated interest expense on new financing (1)		604	453
Elimination of historical interest expense (2)		(255)	(135)
Total pro forma adjustment to interest expense	6c	\$ 349	\$ 318

1) Represents the additional interest expense in connection with the new drawdown on existing credit facility. 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%. The current interest rate on drawn amounts is 1.75%.

2) Represents the elimination of DanChem's historical interest expense as a result of the extinguishment of its historical term loan and revolver loan pursuant to the Purchase Agreement.

A 1/8 percent change in the interest assumed on the new financing would result in an aggregate increase or decrease to interest expense of \$43 for the year ended December 31, 2020 and \$32 for the nine months ended September 30, 2021.

SYNALLOY CORPORATION

Notes to Unaudited Pro Forma Combined Financial Information

- e) Represents the \$805 adjustment to acquisitions costs for the year ended December 31, 2020, in connection with the additional transaction-related expenses that were incurred and not recognized in the historical financial statements of the Company as described in 4(h) above. These one-time, nonrecurring costs related to the acquisition will not affect the Company's income statement beyond 12 months after the acquisition date.
- f) Represents the adjustments made to DanChem's expenses related to the finance lease recorded in connection with the adoption of ASC 842 *Leases*, consisting of the following:

<i>(in thousands)</i>	For the year ended December 31, 2020	For the nine months ended September 30, 2021
Elimination of historic payments related to agreement	\$ 232	\$ 175
Reduction in carrying amount of finance lease right-of-use asset	(205)	(154)
Net adjustment to cost of sales	\$ 27	\$ 21
Interest on finance lease	\$ (41)	\$ (28)