

FORM 10-Q

Securities and Exchange Commission
Washington, D. C. 20549

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

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarter ended July 4, 1998

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 CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

57-0426694
(I.R.S. Employer
Identification Number)

Post Office Box 5627
Croft Industrial Park
Spartanburg, South Carolina
(Address of principal executive offices)

29304
(Zip Code)

Registrant's Telephone Number, Including Area Code (864) 585-3605

Not Applicable
(Former name, former address and former fiscal year, if changed since last
year.)

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

Yes X No _____

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

| Title of Class | Number of Shares Outstanding As of July 4, 1998 |
|--------------------------------|--|
| Common Stock, \$1.00 Par Value | 6,785,929 |

- 1 -

Synalloy Corporation

Index

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

Condensed consolidated balance sheets - July 4, 1998 and
January 3, 1998

Condensed consolidated statements of income - Three and
six months ended July 4, 1998 and June 28, 1997

Condensed consolidated statements of cash flows - six months
ended July 4, 1998 and June 28, 1997

Notes to condensed consolidated financial statements -
July 4, 1998

Management's Discussion and Analysis of Financial Condition
and Results of Operations

PART II. OTHER INFORMATION

- Item 1. Legal Proceedings
- Item 2. Changes in Securities
- Item 3. Defaults upon Senior Securities
- Item 4. Submission of Matters to a Vote of Security Holders
- Item 5. Other Information
- Item 6. Exhibits and Reports on Form 8-K

- 2 -

PART 1. FINANCIAL STATEMENTS

Synalloy Corporation

<TABLE>
Condensed Consolidated Balance Sheets

| | Jul 4, 1998 (Unaudited) <C> | Jan 3, 1998 (Note) <C> |
|--|-----------------------------------|------------------------------|
| <S> | | |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 4,662,666 | \$ 1,602,543 |
| Accounts receivable, less allowance for doubtful accounts | 13,126,309 | 15,201,783 |
| Inventories | | |
| Raw materials | 8,594,012 | 7,368,212 |
| Work-in-process | 4,149,745 | 4,791,379 |
| Finished goods | 13,143,611 | 15,287,431 |
| | ----- | ----- |
| Total inventories | 25,887,368 | 27,447,022 |
| Deferred income taxes | 177,000 | 177,000 |
| Prepaid expenses and other current assets | 586,932 | 633,709 |
| | ----- | ----- |
| Total current assets | 44,440,275 | 45,062,057 |
| Cash value of life insurance Investment | 1,882,164 329,117 | 1,842,384 329,117 |
| Property, plant & equipment, net of accumulated depreciation of \$29,398,000 and \$27,788,000 | 22,520,050 | 23,112,324 |
| Deferred charges and other assets | 3,006,193 | 3,037,470 |
| | ----- | ----- |
| Total assets | \$72,177,799 ===== | \$73,383,352 ===== |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 7,267,745 | \$ 5,544,789 |

| | | |
|---|--------------|--------------|
| Income taxes | 91,341 | 310,992 |
| Accrued expenses | 2,609,613 | 3,018,850 |
| Current portion of environmental reserves | 487,899 | 487,980 |
| Current portion of long-term debt | 200,000 | 200,000 |
| | ----- | ----- |
| Total current liabilities | 10,656,598 | 9,562,611 |
| Long-term debt, less current portion | 10,200,000 | 10,200,000 |
| Environmental reserves | 615,621 | 782,700 |
| Deferred compensation | 1,336,056 | 1,323,388 |
| Deferred income taxes | 1,473,000 | 1,473,000 |
| Contingencies | | |
| Shareholders' equity | | |
| Common stock, par value \$1 per share - authorized and issued 8,000,000 shares | 8,000,000 | 8,000,000 |
| Capital in excess of par value | 9,491 | 33,475 |
| Retained earnings | 51,682,892 | 52,339,857 |
| Less cost of Common Stock in treasury | (11,795,859) | (10,331,679) |
| | ----- | ----- |
| Total shareholders' equity | 47,896,524 | 50,041,653 |
| | ----- | ----- |
| Total liabilities and shareholders' equity | \$72,177,799 | \$73,383,352 |
| | ===== | ===== |

Note: The balance sheet at January 3, 1998 has been derived from the audited financial statements at that date. See accompanying notes to condensed consolidated financial statements.

</TABLE>

- 3 -

<TABLE>
Synalloy Corporation
Condensed Consolidated Statements of Income

| (Unaudited) | Three Months Ended | | Six Months Ended | |
|--|--------------------|--------------|------------------|--------------|
| | Jul 4, 1998 | Jun 28, 1997 | Jul 4, 1998 | Jun 28, 1997 |
| <S> | <C> | <C> | <C> | <C> |
| Net sales | \$25,812,612 | \$31,204,944 | \$56,418,538 | \$62,108,300 |
| Cost of sales | 22,885,753 | 26,372,631 | 50,016,849 | 53,029,893 |
| | ----- | ----- | ----- | ----- |
| Gross profit | 2,926,859 | 4,832,313 | 6,401,689 | 9,078,407 |
| Selling, general and administrative expense | 2,657,870 | 2,487,610 | 5,065,849 | 4,949,487 |
| | ----- | ----- | ----- | ----- |
| Operating income | 268,989 | 2,344,703 | 1,335,840 | 4,128,920 |
| Other (income) and expense | | | | |
| Interest expense | 163,170 | 199,900 | 329,685 | 413,027 |
| Other, net | (62,811) | 3,074 | (86,866) | 9,812 |
| | ----- | ----- | ----- | ----- |
| Income before taxes | 168,630 | 2,141,729 | 1,093,021 | 3,706,081 |
| Provision for income tax | 59,000 | 756,000 | 386,000 | 1,309,000 |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 109,630 | \$ 1,385,729 | \$ 707,021 | \$ 2,397,081 |
| | ===== | ===== | ===== | ===== |
| Net income per common share | | | | |
| Basic | \$.02 | \$.20 | \$.10 | \$.34 |
| | ===== | ===== | ===== | ===== |
| Diluted | \$.02 | \$.20 | \$.10 | \$.34 |
| | ===== | ===== | ===== | ===== |
| Dividends paid per common share | \$.10 | \$.09 | \$.19 | \$.18 |
| | ===== | ===== | ===== | ===== |
| Average shares outstanding | | | | |
| Basic | 6,785,929 | 6,977,642 | 6,811,202 | 6,978,992 |
| Diluted | 6,809,722 | 7,023,362 | 6,839,491 | 7,025,952 |

See accompanying notes to condensed consolidated financial statements.

</TABLE>

<TABLE>
Synalloy Corporation
Condensed Consolidated Statements of Cash Flows

| (Unaudited) | Six Months Ended | |
|---|---------------------------|---------------------|
| | Jul 4, 1998 <S> <C> | Jun 28, 1997 <C> |
| Operating activities | | |
| Net income | \$ 707,021 | \$ 2,397,081 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation expense | 1,678,438 | 1,593,832 |
| Amortization of deferred charges | 129,785 | 125,855 |
| Deferred compensation | 12,668 | 7,777 |
| Deferred income taxes | - | - |
| Provision for losses on accounts receivables | 99,044 | 33,443 |
| (Gain) loss on sale of property, plant and equipment | (233) | 95,015 |
| Cash value of life insurance | (39,780) | (39,000) |
| Environmental reserves | (167,160) | (213,097) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 1,976,430 | (1,020,529) |
| Inventories | 1,559,654 | 2,983,233 |
| Other assets | (51,731) | (585,522) |
| Accounts payable and accrued expenses | 1,313,719 | 999,528 |
| Income taxes payable | (219,651) | (152,557) |
| Net cash provided by operating activities | 6,998,204 | 6,225,059 |
| Investing activities | | |
| Purchases of property, plant and equipment | (1,086,164) | (1,379,577) |
| Proceeds from sale of property, plant and equipment | 233 | 9,450 |
| Proceeds from notes receivable | - | 3,665 |
| Net cash used in investing activities | (1,085,931) | (1,366,462) |
| Financing activities | | |
| Proceeds from revolving lines of credit | 152,000 | 13,160,000 |
| Payments on revolving lines of credit | (152,000) | (13,310,000) |
| Principal payments on long-term debt | - | (2,000,000) |
| Payment of notes payable to employee | - | (1,154,805) |
| Proceeds from exercised stock options | 4,837 | 42,458 |
| Purchases of treasury stock | (1,493,000) | (342,875) |
| Dividends paid | (1,363,987) | (1,255,395) |
| Net cash used in financing activities | (2,852,150) | (4,860,617) |
| (Decrease) increase in cash and cash equivalents | 3,060,123 | (2,020) |
| Cash and cash equivalents at beginning of year | 1,602,543 | 115,828 |
| Cash and cash equivalents at end of period | \$ 4,662,666 | \$ 113,808 |

See accompanying notes to condensed consolidated financial statements.
</TABLE>

Synalloy Corporation
Notes To Condensed Consolidated Financial Statements
(Unaudited)

July 4, 1998

NOTE 1--BASIS OF PRESENTATION
The accompanying unaudited condensed consolidated financial statements have

been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six-month periods ended July 4, 1998, are not necessarily indicative of the results that may be expected for the year ending January 2, 1999. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the period ended January 3, 1998.

NOTE 2--INVENTORIES

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

NOTE 3--LEGAL MATTERS

The Company is from time to time subject to various claims, other possible legal actions for product liability and other damages, and other matters arising out of the normal conduct of the Company's business. Management believes that based on present information, it is unlikely that liability, if any, exists that would have a materially adverse effect on the consolidated operating results or financial position of the Company.

NOTE 4--NET INCOME PER COMMON SHARE

Income per share is computed using the weighted average shares of common stock and dilutive Common Stock equivalents (options) outstanding during the respective periods. In 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings Per Share. Statement 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options. Diluted earnings per share is very similar to the previously reported primary earnings per share. Earnings per share amounts for 1997 have been restated to conform to the Statement 128 requirements.

NOTE 5-- OTHER MATTERS

On June 24, 1998, the Company entered into a letter of intent to acquire Organic-Pigments Corporation located in Greensboro, N. C. They manufacture aqueous pigment dispersions sold to the textile industry and used in printing inks for use on paper. The Company's available cash and existing lines of credit will fund the acquisition that is expected to close in the third quarter.

- 6 -

Synalloy Corporation

Management's Discussion and Analysis of Financial Condition
And Results of Operations

The following is management's discussion of certain significant factors that affected the Company during the quarter ended July 4, 1998. (Dollar amounts are in thousands except for per share data.)

<TABLE>

| <S> | Three Months Ended | | Six Months Ended | |
|----------------------------|--------------------|--------------|------------------|--------------|
| | Jul 4, 1998 | Jun 28, 1997 | Jul 4, 1998 | Jun 28, 1997 |
| <C> | <C> | <C> | <C> | <C> |
| Net sales | | | | |
| Metals Segment | \$13,673 | \$17,049 | \$31,099 | \$33,597 |
| Chemicals Segment | 12,140 | 14,156 | 25,320 | 28,511 |
| | ----- | ----- | ----- | ----- |
| | 25,813 | 31,205 | 56,419 | 62,108 |
| Operating income | | | | |
| Metals Segment | 290 | 1,593 | 1,040 | 2,182 |
| Chemicals Segment | 201 | 1,066 | 752 | 2,543 |
| | --- | ----- | ----- | ----- |
| | 491 | 2,659 | 1,792 | 4,725 |
| Unallocated expenses | | | | |
| Corporate | 221 | 315 | 456 | 597 |
| Interest and debt expense, | | | | |

| | | | | |
|----------------------------|--------|----------|----------|----------|
| net of interest income | 101 | 202 | 243 | 422 |
| | ----- | ----- | ----- | ----- |
| Income before income taxes | \$ 169 | \$ 2,142 | \$ 1,093 | \$ 3,706 |
| | ===== | ===== | ===== | ===== |

</TABLE>

Consolidated sales for the quarter and year to date decreased 17 and nine percent, respectively, compared to the same periods one year ago. Consolidated net income declined 92 and 71 percent to \$110 and \$707 for the quarter and year to date, or \$.02 and \$.10 per share, respectively, compared to the same periods one year ago. Weaknesses in both of the Company's business segments led to lower sales and profits.

Chemicals Segment sales declined 14 and 11 percent in the quarter and year to date, respectively. After four quarters of higher textile dye and pigment sales on a year over year basis, the trend reversed in the second quarter when sales of these products were down 19 percent. This decline resulted from a marked slowdown in the domestic textile industry during the quarter. Non-dye specialties performed better with sales down 4 percent. The decline in operating income resulted primarily from the lower sales and an extremely competitive market for textile dyes. Also contributing to the decline was a \$175 pre-tax expense for engineering and architectural fees related to design of a building, construction of which the Company has postponed indefinitely. The planned acquisition of Organic Pigments Corporation as well as other factors led to the change in plans. In spite of the poor second quarter results, management is optimistic about the long-term prospects. The Company recently entered a processing contract for the production of an agricultural chemical that has the potential of being the Company's biggest toll product. If the acquisition of Organic Pigments Corporation is completed as planned, it should strengthen the Company's pigment position and eliminate the negative volume variances for this product.

Metals Segment sales declined 20 and seven percent in the quarter and year to date, respectively. The sales decrease for the quarter resulted from an even larger percentage decline in unit volume of stainless pipe, partially offset by a shift in product mix to a larger proportion of higher-priced items. After four years of strong unit volume demand for stainless pipe, inquiries during the second quarter unexpectedly weakened dramatically. This appears to be an industry-wide phenomenon, the duration of which management cannot predict. Second quarter sales prices of four-inch and smaller pipe, the sizes most impacted by imports, were 14 percent below a year earlier. Prices of

-7-

Synalloy Corporation

Management's Discussion and Analysis of Financial Condition
And Results of Operations - Continued

larger sizes were down more modestly. In spite of these extremely adverse conditions, the Company achieved operating profit margins of about six percent on stainless pipe sales. Piping systems and process equipment produced higher unit volumes in the second quarter although they were well below desirable levels. These combined operations suffered losses that offset much of the profit from stainless pipe. The backlog for these products at the end of the second quarter was far below normal. However, specific orders that the Company expects to receive shortly would reinstate the backlog to a more than adequate level.

Certain domestic producers of stainless steel have filed trade cases against eight companies in foreign countries. Preliminary findings on hot rolled strip, the principal raw material for stainless pipe, are due shortly. If duties are imposed as expected, domestic prices of these products should start to recover from their present 25-year lows. This would be a positive development for the Company's pipe business.

Selling and administrative expense for the quarter and year to date increased to 10 and nine percent of consolidated sales, respectively, compared to last year's eight percent. The increase is due to the \$175 engineering expense referred to above along with the lower sales experienced in 1998. Removing the engineering expense, selling and administrative expense would be approximately equal to last year's totals for the second quarter and year to date.

Cash flows from operations totaled \$6,998 during the first six months of 1998 compared to \$6,225 generated during the same period one year ago. The increase in cash flows came from the favorable changes in accounts receivable, inventories and accounts payable totaling \$4,850 in 1998, compared to the \$2,962 favorable change in 1997. The increase was offset by the \$1,690 decline in net income for the first six months compared to 1997. The Company used part of the cash flows generated in 1998 to purchase in the first quarter 103,000 shares of the Company's common stock for \$1,493. The Company expects that available cash and existing lines of credit will be sufficient to meet normal operating requirements, including capital expenditures and payment of

dividends over the near term.

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

The statements contained in this management discussion and analysis that are not historical facts may be forward looking statements. The forward looking statements are subject to certain risks and uncertainties, including without limitation those identified below, which could cause actual results to differ materially from historical results or those anticipated. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of their dates. The following factors could cause actual results to differ materially from historical results or those anticipated: adverse economic conditions, the impact of competitive products and pricing, product demand and acceptance risks, raw material and other increased costs, customer delays or difficulties in the production of products, and other risks detailed from time to time in Synalloy's Securities and Exchange Commission filings. Synalloy Corporation assumes no obligation to update the information included herein.

- 8 -

PART II: OTHER INFORMATION

Synalloy Corporation

Item 1. Legal Proceedings
None

Item 2. Change In Securities
None

Item 3. Defaults Upon Senior Securities
None

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

A. The Annual Meeting of Shareholders was held April 30, 1998 at the offices of the Company.

B. The following individuals were elected as directors at the Annual Meeting:

| | Votes For | Votes Withheld |
|--------------------|-----------|----------------|
| James G. Lane, Jr. | 5,574,890 | 55,788 |
| Sibyl N. Fishburn | 5,506,732 | 123,946 |
| Richard E. Ingram | 5,518,196 | 112,482 |
| Glenn R. Oxner | 5,516,451 | 114,227 |
| Carroll D. Vinson | 5,517,358 | 113,320 |

C. Ernst & Young LLP, independent certified accountants, were selected as independent auditors for the fiscal year ending January 2 1999 by a vote of 5,582,726 for, 25,535 against and 22,417 abstentions.

D. The proposal to adopt the 1998 Long-Term Incentive Stock Plan was approved by a vote of 3,813,787 for, 326,311 against and 377,296 abstentions.

E. Shareholders voted to amend the 1994 Non-Employees Directors Stock Option Plan by a vote of 3,841,771 for, 343,110 against and 380,270 abstentions.

Item 5. Other Information
None

Item 6. Exhibits And Reports On Form 8-K

The following exhibits are included herein:
None

The Company did not file any reports on Form 8-K during the three months ended July 4, 1998

Synalloy Corporation

SIGNATURES

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

SYNALLOY CORPORATION
(Registrant)

Date: August 7, 1998 /s/ James G. Lane, Jr.
James G. Lane, Jr., Chairman and
Chief Executive Officer

Date: August 7, 1998 /s/ Gregory M. Bowie
Gregory M. Bowie
Vice President, Finance

<TABLE> <S> <C>

<ARTICLE> 5

| <S> | <C> |
|------------------------------|------------|
| <PERIOD-TYPE> | 6-MOS |
| <FISCAL-YEAR-END> | JAN-2-1999 |
| <PERIOD-END> | JUL-4-1998 |
| <CASH> | 4663 |
| <SECURITIES> | 0 |
| <RECEIVABLES> | 13126 |
| <ALLOWANCES> | 0 |
| <INVENTORY> | 25887 |
| <CURRENT-ASSETS> | 44440 |
| <PP&E> | 51918 |
| <DEPRECIATION> | 29398 |
| <TOTAL-ASSETS> | 72178 |
| <CURRENT-LIABILITIES> | 10657 |
| <BONDS> | 0 |
| <PREFERRED-MANDATORY> | 0 |
| <PREFERRED> | 0 |
| <COMMON> | 8000 |
| <OTHER-SE> | 39897 |
| <TOTAL-LIABILITY-AND-EQUITY> | 72178 |
| <SALES> | 56419 |
| <TOTAL-REVENUES> | 56419 |
| <CGS> | 50017 |
| <TOTAL-COSTS> | 50017 |
| <OTHER-EXPENSES> | 5066 |
| <LOSS-PROVISION> | 0 |
| <INTEREST-EXPENSE> | 330 |
| <INCOME-PRETAX> | 1093 |
| <INCOME-TAX> | 386 |
| <INCOME-CONTINUING> | 707 |
| <DISCONTINUED> | 0 |
| <EXTRAORDINARY> | 0 |
| <CHANGES> | 0 |
| <NET-INCOME> | 707 |
| <EPS-PRIMARY> | .10 |
| <EPS-DILUTED> | .10 |

</TABLE>