

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2019

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 No.)

4510 Cox Road, Suite 201, Richmond, Virginia

(Address of principal executive offices)

23060

(Zip Code)

(804) 822-3260

(Registrant's telephone number, including area code)

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

Title of each class

Trading Symbol

Name of exchange on which registered

Common Stock, par value \$1.00 per share

SYNL

NASDAQ Global Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

The number of shares outstanding of the registrant's common stock as of November 08, 2019 was 9,033,854

Synalloy Corporation
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Part I - Financial Information
Item 1. Financial Statements

Synalloy Corporation
Condensed Consolidated Balance Sheets

	September 30, 2019 Unaudited	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 253,596	\$ 2,220,272
Accounts receivable, less allowance for doubtful accounts of \$149,000 and \$169,107, respectively	41,912,336	41,065,251
Inventories, net	106,204,183	114,201,386
Prepaid expenses and other current assets	12,400,987	9,983,416
Total current assets	<u>160,771,102</u>	<u>167,470,325</u>
Property, plant and equipment, net	40,729,347	40,924,455
Right-of-use assets, operating leases, net	36,102,240	—
Goodwill	17,557,620	9,799,992
Intangible assets, net of accumulated amortization of \$15,540,065 and \$12,925,888, respectively	16,585,935	9,696,112
Deferred charges, net	388,075	507,962
Total assets	<u>\$ 272,134,319</u>	<u>\$ 228,398,846</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$ 25,564,479	\$ 25,073,698
Accrued expenses and other current liabilities	12,696,490	12,163,686
Current portion of long-term debt	4,000,000	—
Current portion of operating lease liabilities	3,543,866	—
Current portion of finance lease liabilities	252,896	—
Total current liabilities	<u>46,057,731</u>	<u>37,237,384</u>
Long-term debt	79,108,499	76,405,458
Deferred income taxes	991,657	252,988
Long-term deferred gain, sale-leaseback	—	5,599,077
Long-term portion of earn-out liability	4,452,908	4,702,562
Long-term portion of operating lease liabilities	33,942,080	—
Long-term portion of finance lease liabilities	397,815	—
Other long-term liabilities	155,259	1,717,291
Total non-current liabilities	<u>119,048,218</u>	<u>88,677,376</u>
Commitments and contingencies – See Note 11		
Shareholders' equity		
Common stock, par value \$1 per share; authorized 24,000,000 shares; issued 10,300,000 shares	10,300,000	10,300,000
Capital in excess of par value	37,472,995	36,520,840
Retained earnings	71,445,238	68,965,410
	<u>119,218,233</u>	<u>115,786,250</u>
Less cost of common stock in treasury: 1,305,149 and 1,424,279 shares, respectively	12,189,863	13,302,164
Total shareholders' equity	<u>107,028,370</u>	<u>102,484,086</u>
Total liabilities and shareholders' equity	<u>\$ 272,134,319</u>	<u>\$ 228,398,846</u>

Note: The condensed consolidated balance sheet at December 31, 2018 has been derived from the audited consolidated financial statements at that date. See accompanying notes to condensed consolidated financial statements.

Synalloy Corporation
Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net sales	\$ 73,639,911	\$ 77,792,878	\$ 237,221,719	\$ 208,167,243
Cost of sales	66,351,871	63,764,512	213,412,253	167,189,136
Gross profit	7,288,040	14,028,366	23,809,466	40,978,107
Selling, general and administrative expense	8,361,500	6,584,407	24,919,946	20,179,278
Acquisition related costs	89,590	180,671	437,610	870,888
Earn-out adjustments	(1,241,697)	(269,083)	(1,642,982)	2,192,574
Operating income	78,647	7,532,371	94,892	17,735,367
Other expense (income)				
Interest expense	943,886	585,888	2,977,624	1,303,724
Change in fair value of interest rate swaps	20,791	(7,490)	144,885	(99,948)
Other, net	179,980	493,413	(224,461)	522,598
(Loss) income before income taxes	(1,066,010)	6,460,560	(2,803,156)	16,008,993
Income tax (benefit) provision	(112,598)	1,425,002	(660,484)	3,461,000
Net (loss) income	\$ (953,412)	\$ 5,035,558	\$ (2,142,672)	\$ 12,547,993
Net (loss) income per common share:				
Basic	\$ (0.11)	\$ 0.57	\$ (0.24)	\$ 1.43
Diluted	\$ (0.11)	\$ 0.56	\$ (0.24)	\$ 1.42
Weighted average shares outstanding:				
Basic	8,994,851	8,828,523	8,968,782	8,783,876
Dilutive effect from stock options and grants	—	105,131	—	73,928
Diluted	8,994,851	8,933,654	8,968,782	8,857,804

See accompanying notes to condensed consolidated financial statements

Synalloy Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine months ended September 30,	
	2019	2018
Operating activities		
Net (loss) income	\$ (2,142,672)	\$ 12,547,993
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation expense	5,806,386	4,584,005
Amortization expense	2,614,177	1,763,438
Amortization of debt issuance costs	119,887	73,932
Deferred income taxes	(560,920)	713,835
Earn-out adjustments	(1,642,982)	2,192,574
Payments of earn-out liability in excess of acquisition date fair value	(447,550)	(194,462)
Reduction of accounts receivable	(92,232)	(29,000)
Provision for losses on inventories	1,392,188	995,033
Gain on disposal of property, plant and equipment	(50,014)	(17,762)
Amortization of deferred gain on sale-leaseback	—	(250,705)
Straight line lease cost	432,404	276,516
Change in fair value of interest rate swaps	144,885	(99,948)
Unrealized loss on equity securities	281,125	522,703
Realized gain on sale of equity securities	(474,227)	—
Issuance of treasury stock for director fees	304,000	276,000
Employee stock compensation	1,760,456	621,699
Changes in operating assets and liabilities:		
Accounts receivable	2,779,069	(18,655,048)
Inventories	12,169,015	(42,153,503)
Accounts payable	(909,228)	21,388,017
Accrued expenses	(1,258,391)	2,247,339
Accrued income taxes	(1,262,504)	1,396,820
Other assets and liabilities, net	(1,035,414)	(2,483,326)
Net cash provided by (used in) operating activities	17,927,458	(14,283,850)
Investing activities		
Purchases of property, plant and equipment	(2,840,931)	(4,482,427)
Proceeds from sale of property, plant and equipment	189,057	—
Purchases of equity securities	(543,552)	(4,970,470)
Proceeds from sale of equity securities	1,091,644	—
Acquisition of the assets and operations of American Stainless Tubing, Inc. (see Note 9)	(21,895,409)	—
Acquisition of the galvanized pipe and tube assets of MUSA (see Note 9)	—	(10,378,281)
Net cash used in investing activities	(23,999,191)	(19,831,178)
Financing activities		
Net (payments) borrowings (on) from line of credit	(10,630,292)	36,869,006
Borrowing from term loan	20,000,000	—
Payments on term loan	(2,666,667)	—
Principal payments on finance lease obligations	(101,413)	(78,369)
Payments of debt issuance costs	—	(53,146)
Payments on earn-out liabilities	(2,496,571)	(1,618,767)
Proceeds from exercised stock options	—	141,852
Net proceeds from at-the-market offering	—	1,002,712
Tax withholdings related to net share settlements of exercised stock options	—	(290,606)
Net cash provided by financing activities	4,105,057	35,972,682
(Decrease) increase in cash and cash equivalents	(1,966,676)	1,857,654
Cash and cash equivalents at beginning of period	2,220,272	14,706
Cash and cash equivalents at end of period	\$ 253,596	\$ 1,872,360

Supplemental disclosure

Cash paid for:

Interest	\$ 2,779,756	\$ 1,189,018
Income taxes	\$ 1,174,201	\$ 1,292,000

See accompanying notes to condensed consolidated financial statements

Synalloy Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Cost of Common Stock in Treasury	Total
For the Three Months Ended September 30, 2019						
Balance at June 30, 2019	\$ 10,300,000	\$ 36,565,297	\$ 72,398,650	\$ —	\$ (12,189,863)	\$ 107,074,084
Net loss	—	—	(953,412)	—	—	(953,412)
Employee stock compensation	—	907,698	—	—	—	907,698
Balance at September 30, 2019	<u>\$ 10,300,000</u>	<u>\$ 37,472,995</u>	<u>\$ 71,445,238</u>	<u>\$ —</u>	<u>\$ (12,189,863)</u>	<u>\$ 107,028,370</u>
For the Nine Months Ended September 30, 2019						
Balance at December 31, 2018	\$ 10,300,000	\$ 36,520,840	\$ 68,965,410	\$ —	\$ (13,302,164)	\$ 102,484,086
Net loss	—	—	(2,142,672)	—	—	(2,142,672)
Cumulative adjustment due to adoption of ASC 842 (see Note 12)	—	—	4,622,500	—	—	4,622,500
Issuance of 119,130 shares of common stock from treasury	—	(808,301)	—	—	1,112,301	304,000
Employee stock compensation	—	1,760,456	—	—	—	1,760,456
Balance at September 30, 2019	<u>\$ 10,300,000</u>	<u>\$ 37,472,995</u>	<u>\$ 71,445,238</u>	<u>\$ —</u>	<u>\$ (12,189,863)</u>	<u>\$ 107,028,370</u>

See accompanying notes to condensed consolidated financial statements.

Synalloy Corporation
Condensed Consolidated Statement of Shareholders' Equity (Unaudited)
Continued

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Cost of Common Stock in Treasury	Total
For the Three Months Ended September 30, 2018						
Balance at June 30, 2018	\$ 10,300,000	\$ 35,496,901	\$ 65,630,954	\$ —	\$ (13,604,090)	\$ 97,823,765
Net income	—	—	5,035,558	—	—	5,035,558
Dividends declared, \$0.25 per share	—	—	(2,216,193)	—	—	(2,216,193)
Stock options exercised for 18,187 shares, net	—	140,849	—	—	(208,325)	(67,476)
Issuance of 44,378 shares in connection with at-the-market-offering	—	570,638	—	411,883	—	982,521
Employee stock compensation	—	205,520	—	—	—	205,520
Balance at September 30, 2018	\$ 10,300,000	\$ 36,413,908	\$ 68,450,319	\$ —	\$ (13,400,532)	\$ 101,763,695
For the Nine Months Ended September 30, 2018						
Balance at December 31, 2017	\$ 10,300,000	\$ 35,193,152	\$ 58,129,383	\$ (10,864)	\$ (13,911,245)	\$ 89,700,426
Net income	—	—	12,547,993	\$ —	—	12,547,993
Cumulative adjustment due to adoption of ASU 2016-01	—	—	(10,864)	10,864	—	—
Dividends declared, \$0.25 per share	—	—	(2,216,193)	—	—	(2,216,193)
Stock options exercised for 31,488 shares, net	—	246,757	—	—	(395,508)	(148,751)
Issuance of 55,675 shares of common stock from treasury	—	(218,338)	—	—	494,338	276,000
Issuance of 44,378 shares in connection with at-the-market-offering	—	570,638	—	411,883	—	982,521
Employee stock compensation	—	621,699	—	—	—	621,699
Balance at September 30, 2018	\$ 10,300,000	\$ 36,413,908	\$ 68,450,319	\$ —	\$ (13,400,532)	\$ 101,763,695

See accompanying notes to condensed consolidated financial statements.

Synalloy Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)

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

1. Basis of Financial Statement Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included as required by Regulation S-X, Rule 10-01. Operating results for the nine-month period ended September 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Certain prior period amounts have been reclassified to conform to the current period presentation, including changes in the fair value of the Company's earn-out liabilities from "Other Expense (Income)" to "Operating Income (Loss)" on the accompanying Condensed Consolidated Statements of Operations.

2. Recently Issued Accounting Standards

Recently Issued Accounting Standards - Adopted

In February 2016, the FASB issued ASU No. 2016-02 "*Leases (Topic 842)*", as amended, which generally requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet and to provide enhanced disclosures surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements. The Company adopted the new standard as of January 1, 2019 on a modified retrospective basis, which does not require comparative periods to be restated. On adoption, we recognized additional operating lease liabilities of \$33,115,763 based on the present value of the remaining minimum rental payments as of January 1, 2019. We additionally recognized corresponding right-of-use assets for operating leases totaling \$32,171,829. On January 1, 2019, the Company also recorded cumulative-effect increases to equity and deferred tax assets totaling \$4,622,500 and \$1,310,850, respectively, related to a deferred gain for a sale leaseback transaction that occurred in 2016 and was being amortized into earnings under the prior accounting. The adoption of this standard did not have a material impact on the consolidated statement of operations or cash flows for the nine months ended September 30, 2019. See Note 12.

Recently Issued Accounting Standards - Not Yet Adopted

In August 2018, the FASB issued ASU No. 2018-13 "*Fair Value Measurement (Topic 820)*". The updated guidance improves the disclosure requirements on fair value measurements. The updated guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for any removed or modified disclosures. The Company is currently assessing the impact that adopting this new standard will have on its condensed consolidated financial statements and footnote disclosures.

Synalloy Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)

3. Revenues

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

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

	Three Months Ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Storage tank and vessel	\$ 5,552,192	\$ 9,016,796	\$ 25,628,225	\$ 23,864,217
Seamless carbon steel pipe and tube	7,962,459	7,887,027	23,251,744	24,722,928
Stainless steel pipe	40,980,757	37,656,273	128,286,087	107,839,677
Galvanized pipe	5,625,737	6,464,277	18,561,542	6,464,277
Specialty chemicals	13,518,766	16,768,505	41,494,121	45,276,144
Total revenues	<u>\$ 73,639,911</u>	<u>\$ 77,792,878</u>	<u>\$ 237,221,719</u>	<u>\$ 208,167,243</u>

Arrangements with Multiple Performance Obligations

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

Deferred Revenues

Deferred revenues are recorded when cash payments are received in advance of satisfying the performance obligation, including amounts which are refundable. The deferred revenue balance decreased \$23,725 during the first nine months of 2019 to \$153,793 as of September 30, 2019 due to receiving \$1,861,612 in advance of satisfying our performance obligations during the period, offset by \$1,885,337 of revenue that was recognized during the period after satisfying the performance obligations that were included in the beginning deferred revenue balance or entered into during the current period. Deferred revenues are included in "Accrued expenses and other current liabilities" on the accompanying Condensed Consolidated Balance Sheets.

Our payment terms vary by the financial strength or location of our customer and the products offered. The length of time between invoicing and when payment is due is not significant. For certain customers, payment is required before the products or services are delivered to the customer.

4. Inventories

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

	September 30, 2019	December 31, 2018
Raw materials	\$ 52,468,342	\$ 59,778,767
Work-in-process	16,535,978	21,033,532
Finished goods	37,199,863	33,389,087
	<u>\$ 106,204,183</u>	<u>\$ 114,201,386</u>

Synalloy Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)

5. Property Plant and Equipment

Property, plant and equipment consist of the following:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Land	62,916	62,916
Leasehold improvements	1,432,641	1,162,942
Buildings	213,667	412,301
Machinery, fixtures and equipment	97,563,905	92,930,734
Right of use assets finance lease	1,208,038	—
Construction in progress	3,166,992	3,643,795
	103,648,159	98,212,688
Less accumulated depreciation	62,918,812	57,288,233
Property plant and equipment, net	40,729,347	40,924,455

6. Stock options and restricted stock

During the first nine months of 2019, no stock options were exercised by officers or employees of the Company. During the first nine months of 2018, stock options for 85,440 shares of common stock were exercised by officers or employees for an aggregate exercise price of \$1,033,108, including \$891,255 relating to cashless exercises during the period.

Stock compensation expense for the three and nine-month periods ended September 30, 2019 was \$907,698 and \$1,760,456, respectively. Stock compensation expense for the three and nine-month periods ended September 30, 2018 was \$205,520 and \$621,699, respectively.

In 2016, the Compensation & Long-Term Incentive Committee (the "Committee") of the Company's Board of Directors granted performance restricted stock awards ("2016 Performance Stock Award") to officers and certain key management-level employees. The 2016 Performance Stock Award vested three years from the grant date based on continuous service, with the number of shares earned (0 percent to 150 percent of the target award) depending on the extent to which the Company achieves certain financial performance targets measured over the period from January 1, 2016 to December 31, 2018. On February 8, 2019, the Committee approved the vesting of the 2016 Performance Stock Award for a total of 46,477 restricted shares at a grant date market price of \$8.05.

On February 8, 2019, the Committee approved grants under the Company's 2015 Stock Awards Plan to certain management employees of the Company where 44,949 shares with a market price of \$15.72 per share were granted under the Plan. These stock awards vest in either 20 percent or 33 percent increments annually, beginning one year after the date of grant. In order for the awards to vest, the employee must be in the continuous employment of the Company since the date of the award. Any portion of an award that has not vested is forfeited upon termination of employment. The Company may terminate any portion of the award that has not vested upon an employee's failure to comply with all conditions of the award or the 2015 Stock Awards Plan. An employee is not entitled to any voting rights with respect to any shares not yet vested, and the shares are not transferable.

The diluted earnings per share calculations exclude the effect of potentially dilutive shares when the inclusion of those shares in the calculation would have an anti-dilutive effect. For the nine-month period ended September 30, 2019 there is no difference in the number of shares used to calculate basic and diluted shares outstanding because their effect would have been anti-dilutive due to the Company reporting a net loss. For the nine-month period ended September 30, 2018, the Company had weighted average shares of common stock, in the form of stock grants and options of which 600 were not included in the diluted earnings per share calculation as their effect was anti-dilutive.

7. Income Taxes

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company is no longer subject to U.S. federal examinations for years before 2014 or state income tax examinations for years before 2013. During the first nine months of 2019, the Company did not identify nor reserve for any unrecognized tax benefits.

Synalloy Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)

The effective tax rate was 10.56 percent and 22.00 percent for the three months ended September 30, 2019 and 2018, respectively. The September 30, 2019 effective tax rate was lower than the statutory rate of 21.00 percent due to state taxes, net of the federal benefit, and discrete tax benefits on our stock compensation plan. The September 30, 2018 effective tax rate was approximately equal to the U.S. statutory rate of 21.00 percent.

The effective tax rate was 23.56 percent and 22.00 percent for the nine months ended September 30, 2019 and 2018, respectively. The September 30, 2019 and 2018 effective tax rate was approximately equal to the U.S. statutory tax rate of 21.00 percent.

8. Segment Information

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

	Three Months Ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net sales				
Metals Segment	\$ 60,121,145	\$ 61,024,373	\$ 195,727,598	\$ 162,891,099
Specialty Chemicals Segment	13,518,766	16,768,505	41,494,121	45,276,144
	\$ 73,639,911	\$ 77,792,878	\$ 237,221,719	\$ 208,167,243
Operating income (loss)				
Metals Segment	\$ 449,553	\$ 7,984,117	\$ 3,078,839	\$ 23,091,164
Specialty Chemicals Segment	846,328	1,354,617	2,386,574	3,324,778
Unallocated corporate expenses	2,369,341	1,894,775	6,621,985	5,617,113
Acquisition related costs	89,590	180,671	391,518	870,888
Earn-out adjustments	(1,241,697)	(269,083)	(1,642,982)	2,192,574
Operating income	78,647	7,532,371	94,892	17,735,367
Interest expense	943,886	585,888	2,977,624	1,303,724
Change in fair value of interest rate swaps	20,791	(7,490)	144,885	(99,948)
Other expense (income), net	179,980	493,413	(224,461)	522,598
(Loss) income before income taxes	\$ (1,066,010)	\$ 6,460,560	\$ (2,803,156)	\$ 16,008,993
As of				
	September 30, 2019	December 31, 2018		
Identifiable assets				
Metals Segment	\$ 200,824,657	\$ 192,195,733		
Specialty Chemicals Segment	27,283,356	28,174,675		
Corporate ⁽¹⁾	44,026,306	8,028,438		
	\$ 272,134,319	\$ 228,398,846		
Goodwill				
Metals Segment	\$ 16,202,890	\$ 8,445,262		
Specialty Chemicals Segment	1,354,730	1,354,730		
	\$ 17,557,620	\$ 9,799,992		

(1) As of September 30, 2019, this amount included \$36,102,240 in right-of-use assets that were recorded with the adoption of ASC 842 ("Leases"). Refer to Note 12 for additional information.

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9. Fair Value of Financial Instruments

The Company makes estimates of fair value in accounting for certain transactions, in testing and measuring impairment and in providing disclosures of fair value in its condensed consolidated financial statements. The Company determines the fair values of its financial instruments for disclosure purposes by maximizing the use of observable inputs and minimizing the use of unobservable inputs. Fair value disclosures for assets and liabilities are grouped into three levels. The levels prioritize the inputs used to measure the fair value of the assets or liabilities. These levels are:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices that are observable for assets and liabilities, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are less active.

Level 3 - Unobservable inputs that are supported by little or no market activity for assets or liabilities and includes certain pricing models, discounted cash flow methodologies and similar techniques.

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

Level 1 Financial Instruments

For short-term instruments, other than those required to be reported at fair value on a recurring basis and for which additional disclosures are included below, management concluded the historical carrying value is a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization. Therefore, as of September 30, 2019 and December 31, 2018, the carrying amounts for cash and cash equivalents, accounts receivable, accounts payable, the Company's revolving line of credit, which is based on a variable interest rate, and term loan approximate their fair value.

During the first nine months of 2019, the Company sold shares of its equity securities investments. Proceeds from the sale totaled \$1,091,644 which resulted in a realized gain for the nine months of September 30, 2019 of \$474,227, that is included in "Other expense (income)" on the accompanying Condensed Consolidated Statements of Operations.

For the three and nine months ended September 30, 2019, the Company also recorded a net unrealized loss of \$180,000 and \$281,125, respectively, on the investments in equity securities held, which is included in "Other expense (income)" on the accompanying Condensed Consolidated Statements of Operations.

The fair value of equity securities held by the Company as of September 30, 2019 and December 31, 2018 was \$2,580,000 and \$2,935,000, respectively, and is included in "Prepaid expenses and other current assets" on the accompanying Consolidated Balance Sheets.

Level 2 Financial Instruments

The Company has one interest rate swap contract, which is classified as a Level 2 financial instrument as it is not actively traded and is valued using pricing models that use observable market inputs. The fair value of the contract was an asset of \$2,580 and \$147,465 at September 30, 2019 and December 31, 2018, respectively. The interest rate swap was priced using discounted cash flow techniques. Changes in its fair value were recorded to other income (expense) with corresponding offsetting entries to current assets or liabilities, as appropriate. Significant inputs to the discounted cash flow model include projected future cash flows based on projected one-month LIBOR and the average margin for companies with similar credit ratings and similar maturities.

To manage the impact on earnings of fluctuating nickel prices, the Company occasionally enters into six-month forward option contracts, which are classified as Level 2. At September 30, 2019 and December 31, 2018, the Company did not have any such contracts in place.

Level 3 Financial Instruments

The fair value of contingent consideration ("earn-out") liabilities resulting from the 2017 MUSA-Stainless acquisition, 2018 MUSA-Galvanized acquisition, and 2019 American Stainless acquisition (see Note 9) are classified as Level 3. The fair value of the MUSA-Stainless earn-out was estimated by applying the Monte Carlo Simulation approach using management's projection of pounds to be shipped and future price per unit. The fair value of the MUSA-Galvanized earn-out and American Stainless earn-out

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were estimated by applying the probability-weighted expected return method, using management's projection of pounds to be shipped and future price per unit. Each quarter-end, the Company re-evaluates its assumptions for all earn-out liabilities and adjusts to reflect the updated fair values. Changes in the estimated fair value of the earn-out liabilities are reflected in the results of operations in the periods in which they are identified. Changes in the fair value of the earn-out liabilities may materially impact and cause volatility in the Company's operating results.

The following table presents a summary of changes in fair value of the Company's earn-out liabilities during the period:

	MUSA-Stainless	MUSA-Galvanized	American Stainless	Total
Balance at December 31, 2018	\$ 4,251,584	\$ 3,357,800	\$ —	\$ 7,609,384
Fair value of the earn-out liability associated with the American Stainless acquisition	—	—	6,366,324	6,366,324
Earn-out payments during the period	(1,186,666)	(582,889)	(1,174,566)	(2,944,121)
Changes in fair value during the period	(1,035,212)	(894,288)	286,518	(1,642,982)
Balance at September 30, 2019	<u>\$ 2,029,706</u>	<u>\$ 1,880,623</u>	<u>\$ 5,478,276</u>	<u>\$ 9,388,605</u>

For the nine month period ended September 30, 2018 the Company recorded a \$219,548 charge related to changes in the fair value of the MUSA-Stainless earn-out liability.

There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 in the three and nine-month periods ended September 30, 2019 or year ended December 31, 2018. During the first nine months of 2019, there have been no changes in the fair value methodologies used by the Company.

10. Acquisitions

Acquisition of the Assets and Operations of American Stainless Tubing, Inc.

On January 1, 2019, the Company's wholly-owned subsidiary, ASTI Acquisition, LLC (now American Stainless Tubing, LLC), a North Carolina limited liability company ("ASTI"), completed the purchase of substantially all of the assets and operations of American Stainless Tubing, Inc., a North Carolina corporation ("American Stainless"), in Statesville and Troutman, North Carolina. The purchase price for the all-cash acquisition was \$21,895,409, subject to a post-closing working capital adjustment. The Company funded the acquisition with a new five-year \$20,000,000 term note and a draw against asset-based line of credit (see Note 10).

The transaction is accounted for using the acquisition method of accounting for business combinations. Under this method, the total consideration transferred to consummate the acquisition is allocated to the identifiable tangible and intangible assets acquired and liabilities assumed based on their respective fair values as of the closing date of the acquisition. The acquisition method of accounting requires extensive use of estimates and judgments to allocate the consideration transferred to the identifiable tangible and intangible assets acquired and liabilities assumed. Accordingly, the allocation of the consideration transferred in the unaudited condensed consolidated financial statements is preliminary and will be adjusted upon completion of the final valuation of the assets acquired and liabilities assumed. During the third quarter of 2019, the Company finalized the purchase price allocation for the American Stainless acquisition.

The excess of the consideration transferred over the fair value of the net tangible and identifiable intangible assets is reflected as goodwill. Goodwill consists of manufacturing cost synergies expected from combining American Stainless' production capabilities with the Metals Segment current operations. All of the goodwill recognized was assigned to the Company's Metals Segment and is expected to be deductible for income tax purposes.

American Stainless will receive quarterly earn-out payments for a period of three years following closing. Pursuant to the asset purchase agreement between ASTI and American Stainless, earn-out payments will equate to six and one-half percent (6.5 percent) of ASTI's revenue over the three-year earn-out period. In determining the appropriate discount rate to apply to the contingent payments, the risk associated with the functional form of the earn-out, and the credit risk associated with the payment of the earn-out were all considered. The fair value of the contingent consideration was estimated by applying the probability weighted expected return method using management's estimates of pounds to be shipped and future price per unit.

During the second quarter of 2019, management revised the initial estimate of the fair value of the contingent consideration, resulting in an increase to the earn-out liability of \$218,094. Because this adjustment was determined within the measurement

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period, goodwill was increased by \$218,094. At September 30, 2019 the fair value of the contingent consideration totaled \$5,478,275 with \$2,774,576 of this liability classified as a current liability, since the payments will be made quarterly.

The fair value assigned to the customer list intangible will be amortized on an accelerated basis over 5 years. During the second quarter of 2019, management revised the initial estimate of the fair value of the customer list intangible asset, resulting in a decrease to the customer list intangible asset of \$496,000. Because this adjustment was determined within the measurement period, goodwill was increased by \$496,000.

The following table shows the initial estimate of value and revisions made during 2019:

	Initial estimate	Revisions	Final
Inventories	\$ 5,564,000	—	\$ 5,564,000
Accounts receivable	3,533,921	—	3,533,921
Other current assets - production and maintenance supplies	605,613	—	605,613
Property, plant and equipment	2,793,173	—	2,793,173
Customer list intangible	10,000,000	(496,000)	9,504,000
Goodwill	7,043,534	714,094	7,757,628
Contingent consideration (earn-out liability)	(6,148,230)	(218,094)	(6,366,324)
Accounts payable	(1,400,009)	—	(1,400,009)
Other liabilities	(96,593)	—	(96,593)
	<hr/> <u>\$ 21,895,409</u>	<hr/> <u>—</u>	<hr/> <u>\$ 21,895,409</u>

ASTI's results of operations since acquisition are reflected in the Company's consolidated statements of operations as follows:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Net sales	\$ 8,468,838	\$ 26,539,086
Income before income taxes	901,562	2,000,725

For the nine month period ended September 30, 2019, cost of sales included \$1,147,000 representing the fair value above predecessor cost associated with acquired inventory that was sold during the nine month period.

The following unaudited pro-forma information is provided to present a summary of the combined results of the Company's operations with ASTI as if the acquisition had occurred on January 1, 2018. The unaudited pro-forma financial information is for information purposes only and is not necessarily indicative of what the results would have been had the acquisition been completed on the date indicated above.

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Pro-forma net sales	\$ 87,303,802	\$ 235,394,161
Pro-forma net income	\$ 5,506,194	\$ 12,490,937
Earnings per share:		
Basic	\$ 0.62	\$ 1.42
Diluted	\$ 0.62	\$ 1.41

Pro-forma net income was reduced for the following:

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- Amortization of American Stainless' customer list intangible of \$297,000 and \$891,000 for the three and nine months ended September 30, 2018, respectively;
- Additional rent expense related to the Company's lease of American Stainless' real estate from Store Capital of \$121,449 and \$364,348 for the three and nine months ended September 30, 2018, respectively;
- An estimated amount of interest expense associated with the additional borrowings to fund the American Stainless acquisition of \$191,319 and \$603,481 for the three and nine months ended September 30, 2018, respectively;
- Depreciation of \$56,202 and \$168,604 for the three and nine months ended September 30, 2018, respectively, related to the incremental fair value above historical cost for acquired property, plant and equipment; and
- A increase in the provision for income taxes of \$127,276 for the three months ended September 30, 2018 and a decrease in the provision for income taxes of \$15,737 for the nine months ended September 30, 2018 related to the impact of the other pro-forma adjustments and American Stainless' previous status as a pass-through entity for income tax purposes prior to the acquisition.

Acquisition of the Galvanized Pipe and Tube Assets of Marcegaglia USA, Inc.

On July 1, 2018, Bristol Metals, LLC ("BRISMET"), a subsidiary of the Company's Metals Segment, acquired Marcegaglia USA, Inc.'s ("MUSA") galvanized tube assets and operations ("MUSA-Galvanized") located in Munhall, PA. The purchase price for the transaction totaled \$10,378,281. The assets purchased and liabilities assumed from MUSA include accounts receivable, inventory, equipment, and accounts payable.

11. Long-term Debt

On December 20, 2018, the Company amended its Credit Agreement with its bank to refinance and increase its Line of Credit (the "Line") from \$80,000,000 to \$100,000,000 and to create a new 5-year term loan in the principal amount of \$20,000,000 (the "Term Loan"). The Term Loan was used to finance the purchase of substantially all of the assets of American Stainless (see Note 9). The Term Loan's maturity date is February 1, 2024 and shall be repaid in 60 consecutive monthly installments. Interest on the Term Loan is calculated using the One Month LIBOR Rate (as defined in the Credit Agreement), plus 1.90 percent. The Line will be used for working capital needs and as a source for funding future acquisitions. The maturity date of the Line has been extended to December 20, 2021. Interest on the Line remains unchanged and is calculated using the One Month LIBOR Rate, plus 1.65 percent. Borrowings under the Line are limited to an amount equal to a Borrowing Base calculation that includes eligible accounts receivable and inventory. As of September 30, 2019, the Company had \$16.9 million of remaining available capacity under its line of credit.

Pursuant to the Credit Agreement, the Company is subject to certain covenants including maintaining a minimum fixed charge coverage ratio, maintaining a minimum tangible net worth, and a limitation on the Company's maximum amount of capital expenditures per year, which is in line with currently projected needs. At September 30, 2019, the Company was in compliance with all debt covenants.

12. Contingencies

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

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

13. Leases

Adoption of ASC Topic 842, "Leases"

On January 1, 2019, the Company adopted Topic 842 using the modified retrospective method applied to leases that were in place as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 840. The Company's portfolio of leases contains both finance and operating leases that relate primarily to real estate agreements and manufacturing equipment agreements. Substantially all of the value of the Company's lease portfolio relates to a real estate master lease agreement with Store Master Funding XII, LLC, an affiliate of Store Capital Corporation ("Store Capital") that was entered

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into in 2016 and amended with the 2018 MUSA-Galvanized and 2019 American Stainless acquisitions. As of September 30, 2019, operating lease liabilities related to the master lease agreement with Store Capital totaled \$36,911,421, or 97 percent of the total lease liabilities on the accompanying condensed consolidated balance sheet.

Practical Expedients and Elections

The Company elected the package of practical expedients permitted under the transition guidance, which allowed us to carryforward our historical lease classification, our assessment on whether a contract is or contains a lease, and our initial direct costs for any leases that exist prior to adoption of the new standard. We did not elect the hindsight practical expedient to determine the reasonably certain lease term for existing leases. We also elected to combine lease and non-lease components and elected the short-term lease recognition exemption for all leases that qualify.

Deferred Gain on Sale Leaseback

On January 1, 2019, the Company recorded cumulative-effect adjustments to increase equity and deferred tax assets totaling \$4,622,500 and \$1,310,850, respectively, related to the derecognition of the deferred gain on its sale leaseback, consistent with transition guidance set forth in ASC 842-10-65-1.

Discount Rate

To determine the present value of minimum future lease payments for operating leases at January 1, 2019, the Company was required to estimate a rate of interest that we would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment (the "incremental borrowing rate" or "IBR"). The Company determined the appropriate IBR by identifying a reference rate and making adjustments that take into consideration financing options and certain lease-specific circumstances. For the reference rate, treasury rates for five years, 10 years, and 30 years were used as they cover the periods of the leases. The Company additionally used the Damodaran Credit Rating Model, which assesses a credit rating based on the interest coverage ratio and relates this to credit ratings of other large public manufacturers. Inputs required include EBIT, interest expense, future minimum lease payments, outstanding debt, and a reference rate. Based on this assessment of the aforementioned qualitative and quantitative factors, the Company determined that 7.32 percent was an appropriate incremental borrowing rate to apply to its portfolio of real-estate operating leases. The Company elected to utilize a single discount rate for its portfolio of operating leases because of similar lease characteristics; the resulting calculation does not differ materially from applying the standard to the individual leases.

Weighted average discount rates for operating and finance leases are as follows:

Operating Leases	7.32 %
Finance Leases	11.90 %

Balance Sheet Presentation

Operating and finance lease amounts included in the Consolidated Balance Sheet are as follows:

Classification	Financial Statement Line Item	September 30, 2019
Assets	Right-of-use assets, operating leases	\$ 36,102,240
Assets	Property, plant and equipment	444,634
Current liabilities	Current portion of lease liabilities, operating leases	3,543,866
Current liabilities	Current portion of lease liabilities, finance leases	252,896
Non-current liabilities	Non-current portion of lease liabilities, operating leases	33,942,080
Non-current liabilities	Non-current portion of lease liabilities, finance leases	397,815

Total Lease Cost

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

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	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost	\$ 1,027,998	\$ 3,083,993
Finance lease cost:		
Amortization of right-of-use assets	43,714	131,143
Interest on finance lease liabilities	20,526	66,270
Total lease cost	\$ 1,092,238	\$ 3,281,406

Amortization of assets held under finance leases is included in depreciation expense. Minimum rental payments under operating leases are recognized on a straight-line method over the term of the lease including any periods of free rent.

Maturity of Leases

The amounts of undiscounted future minimum lease payments under leases as of September 30, 2019 are as follows:

	Operating	Finance
Remainder of 2019	\$ 885,966	\$ 59,472
2020	3,562,092	275,101
2021	3,635,376	315,529
2022	3,672,731	11,998
2023	3,563,383	—
Thereafter	52,188,270	—
Total undiscounted minimum future lease payments	67,507,818	662,100
Imputed Interest	30,021,872	11,389
Total lease liabilities recorded as of September 30, 2019	\$ 37,485,946	\$ 650,711

Additional Information

Weighted average remaining lease terms for operating and finance leases as of September 30, 2019 are as follows:

Operating Leases	16.79 years
Finance Leases	2.27 years

During the nine-month period ended September 30, 2019, right-of-use assets recognized in exchange for new operating lease liabilities totaled \$4,900,243.

On January 1, 2019, the Company and Store Capital entered into an Amended and Restated Master Lease Agreement (the "Master Lease"), pursuant to which the Company leases the Statesville and Troutman, NC facilities, purchased by Store Capital from American Stainless on January 1, 2019, for the remainder of the initial term of 20 years set forth in the Master Lease, with two renewal options of ten years each. Because the Company is reasonably certain to not exercise these renewal options, the options are not considered in determining the lease term and associated potential option payments are excluded from lease payments. The Master Lease includes a rent escalator equal to the lesser of 1.25 times the percentage increase in the Consumer Price Index since the previous increase or 2 percent.

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Undiscounted future minimum lease payments under non-cancellable operating and capital leases as of December 31, 2018 accounted for under ASC 840 "Leases" were as follows:

	Operating	Capital
2019	\$ 3,207,053	\$ 354,299
2020	3,243,694	329,534
2021	3,238,745	335,462
2022	3,224,810	11,998
2023	3,102,815	—
Thereafter	45,337,403	—
Total undiscounted minimum future operating lease payments		1,031,293
Imputed Interest		164,826
Total lease liabilities recorded as of December 31, 2018		<u>\$ 866,467</u>

14. Goodwill and Intangible Assets

As a result of the 2019 American Stainless acquisition, the Company recognized \$7,757,628 in Goodwill for the excess of consideration transferred over the fair value of the acquired net tangible and identifiable intangible assets.

The Company also recorded a \$9,504,000 intangible asset for the fair value of the customer relationships that were acquired, to be amortized on an accelerated basis over 5 years.

The balance of intangible assets subject to amortization at September 30, 2019 and December 31, 2018 is as follows:

	September 30, 2019	December 31, 2018
Intangible assets, gross	\$ 32,126,000	\$ 22,622,000
Accumulated amortization of intangible assets	(15,540,065)	(12,925,888)
Intangible assets, net	<u>\$ 16,585,935</u>	<u>\$ 9,696,112</u>

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

Remainder of 2019	\$ 871,392
2020	3,238,328
2021	3,051,086
2022	2,740,761
2023	1,199,616
2024	1,042,641
Thereafter	<u>4,442,111</u>

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15. Stock Repurchase Program

On February 21, 2019, the Board of Directors authorized a stock repurchase program for up to 850,000 shares of its outstanding common stock over twenty-four months. The shares will be purchased from time to time at prevailing market prices, through open market or privately negotiated transactions, depending on market conditions. Under the program, the purchases will be funded from available working capital, and the repurchased shares will be returned to the status of authorized, but unissued shares of common stock or held in treasury. There is no guarantee as to the exact number of shares that will be repurchased by the Company, and the Company may discontinue purchases at any time that management determines additional purchases are not warranted.

During the nine-month period ended September 30, 2019 the Company did not purchase any shares under the stock repurchase program.

16. Subsequent Events

Kyle Pennington, President of Synalloy Metals, notified Synalloy Corporation (the “Company”) of his decision to retire from the Company effective October 31, 2019. Mr. Pennington’s Employment Agreement with the Company dated March 1, 2019 (the “Employment Agreement”) was terminated as of October 31, 2019. The Employment Agreement, filed with the Securities and Exchange Commission as an exhibit to the Company’s 2018 Annual Report on Form 10-K, provides Mr. Pennington with salary and incentive cash and restricted stock compensation continuation through March 1, 2020 as well as immediate vesting of his awarded restricted stock and stock options.

Item 2. 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 three-month and nine-month periods ended September 30, 2019.

Consolidated net sales for the third quarter of 2019 were \$73.6 million. This represents a decrease of \$4.2 million or 5.3 percent when compared to net sales for the third quarter of 2018. Excluding net sales of ASTI, net sales for the third quarter of 2019 decreased \$12.6 million, or 16.2 percent compared to net sales for the third quarter of 2018.

Consolidated net sales for the first nine months of 2019 were \$237.2 million, an increase of \$29.1 million or 14.0 percent from the first nine months of 2018. Excluding net sales of ASTI (for the nine months ended September 30, 2019) and Munhall-Galvanized (for the first six months of 2019), net sales for the first nine months of 2019 decreased \$10.4 million, or 5.0 percent compared to net sales for the first nine months of 2018.

For the third quarter of 2019, the Company recorded a net loss of \$1.0 million, or \$0.11 loss per diluted share, compared to net income of \$5.0 million, or \$0.56 per diluted share for the third quarter of 2018. Excluding the financial results of ASTI, net income for the third quarter of 2019 decreased \$6.8 million, or 134.9 percent compared to net income for the third quarter of 2018. The third quarter of 2019 was negatively impacted by inventory price change losses which, on a pre-tax basis, totaled \$0.6 million, compared to a \$1.6 million gain in the third quarter of 2018, as well as non-recurring items, described in more detail below, which totaled \$1.6 million.

For the first nine months of 2019, net loss was \$2.1 million, or \$0.24 loss per diluted earnings per share. This compares to net income of \$12.5 million, or \$1.42 per diluted earnings per share for the first nine months of 2018. Excluding the financial results of ASTI (for the first six months of 2019) and Munhall-Galvanized (for the first six months of 2019), net income for the first nine months of 2019 decreased \$16.4 million, or 130.4 percent compared to net income for the first nine months of 2018. The first nine months of 2019 were negatively impacted by inventory price change losses which, on a pre-tax basis, totaled \$5.7 million, compared to a \$5.1 million gain for the first nine months of 2018, as well as non-recurring items, described in more detail below, which totaled \$1.9 million.

The Company's results are periodically impacted by factors that are not included as adjustments to our non-GAAP measures, but which represent items that help explain differences in period to period results. As mentioned above, for the third quarter of 2019, the most significant of those was inventory price change losses which, on a pre-tax basis, totaled \$0.6 million, compared to a \$1.6 million gain in the third quarter of 2018, representing a decrease of \$2.2 million in pre-tax income compared to the third quarter 2018. Additionally, during the third quarter, other significant non-recurring items occurred with an estimated pre-tax impact of \$1.6 million in the third quarter and \$1.9 million for the first nine months of 2019, and included the following:

- Three year Long-Term Incentive Plan performance shares non-cash awards for 2017-2019 were accrued in the third quarter of 2019, at a cost of \$0.7 million;
- Several stop loss medical claims that resulted in charges in excess of \$0.6 million in the third quarter of 2019;
- Downtime associated with the heavy wall press outage; \$0.3 million and \$0.6 million, for the third quarter of 2019 and for the first nine months of 2019, respectively, of pre-tax earnings loss; anticipate additional pre-tax loss of \$0.4 million in the fourth quarter of 2019. We have a filed claim with the insurance carrier.

Impact of 2019 and 2018 Acquisitions on Financial Results

The first nine months of 2019 include financial results in the Company's Metals Segment related to the MUSA-Galvanized acquisition (which closed on July 1, 2018) (for the first six months of 2019) as follows:

- a. For the first six months of 2019, net sales for Munhall-Galvanized totaled \$12.9 million, with pre-tax income of \$0.2 million.

The third quarter and the first nine months of 2019 include financial results in the Company's Metals Segment related to the American Stainless acquisition (which closed on January 1, 2019) as follows:

- a. For the third quarter of 2019, net sales for ASTI totaled \$8.5 million, with pre-tax income of \$0.9 million.
- b. For the first nine months of 2019, net sales for ASTI totaled \$26.5 million, with pre-tax income of \$2.0 million.

For ASTI, the first nine months of 2019 include amortization of acquisition fair value markup of inventory totaling \$1.3 million and other acquisition related one-time costs totaling \$46,100.

Metals Segment

The Metals Segment's net sales for the third quarter of 2019 totaled \$60.1 million, a decrease of \$0.9 million or 1.5 percent from the third quarter of 2018. Excluding the net sales of ASTI, Metals Segment net sales for the third quarter of 2019 decreased \$9.4 million, or 15.4 percent, compared to net sales for the third quarter of 2018.

Net sales for the first nine months of 2019 were \$195.7 million, an increase of \$32.8 million or 20.2 percent from the first nine months of 2018. Excluding the net sales of ASTI and Munhall-Galvanized (for the first six months of 2019), Metals Segment net sales for the first nine months of 2019 decreased \$6.6 million, or 4.1 percent, compared to net sales for the first nine months of 2018.

Sales for the third quarter and first nine months of 2019 compared to the prior year are summarized as follows:

	Sales increase (decrease) from prior year period			
	\$	%	Average selling price ⁽¹⁾	Units shipped
Third quarter				
Storage tank and vessel	\$ (3,464,604)	(38.4)%	(3.5)%	(42.0)%
Seamless carbon steel pipe and tube	75,432	1.0%	(11.1)%	12.1%
Stainless steel pipe - Excluding ASTI	(5,144,354)	(13.7)%	(16.2)%	2.5%
Stainless steel pipe - ASTI	8,468,838	n/a	n/a	n/a
Galvanized pipe	(838,540)	(13.0)%	(17.6)%	4.6%
Total third quarter change	<u><u>\$ (903,228)</u></u>			
First nine months				
Storage tank and vessel	\$ 1,764,008	7.4%	21.7%	(14.3)%
Seamless carbon steel pipe and tube	(1,471,183)	(6.0)%	0.2%	(6.2)%
Stainless steel pipe - Excluding ASTI	(6,092,676)	(5.6)%	(7.8)%	(2.2)%
Stainless steel pipe - ASTI	26,539,086	n/a	n/a	n/a
Galvanized pipe	12,097,265	187.1%	(14.9)%	231.9%
Total first nine months change	<u><u>\$ 32,836,500</u></u>			

⁽¹⁾Average price decreases for the third quarter of 2019 as compared to the third quarter of 2018 primarily relate to the following:

- Storage tank and vessels - product mix change to larger, more complex tanks;
- Seamless carbon steel pipe and tube - decline in pricing based on market conditions; and,
- Stainless steel pipe (excluding ASTI) - pass through of input and cost changes related to:
 - a. Alloy surcharges decrease of three percent; and,
 - b. Base raw material input mill pricing, product mix and other competitive pricing, decrease of 12.7 percent.

For the overall Metals Segment, with the addition of the galvanized product line pricing (from the 2018 MUSA-Galvanized acquisition), pricing averages were impacted by the lower average selling prices of galvanized products as compared to other product lines in the Metals Segment. The inclusion of galvanized products lowered average pricing for the third quarter ended September 30, 2019 by 23.0 percent.

Average price decreases for the first nine months of 2019 as compared to the first nine months of 2018 primarily relate to the following:

- Storage tank and vessels - product mix change to larger, more complex tanks;
- Seamless carbon steel pipe and tube - decline in pricing based on market conditions related to second quarter, offset by price increases related to pass through of tariffs implemented in the second quarter of 2018; and,

- Stainless steel pipe (excluding ASTI) - pass through of input and cost changes related to:
 - a. Alloy surcharges decrease of five percent; and,
 - b. Base raw material input mill pricing, product mix and other competitive pricing, decrease of 2.7 percent.

For the overall Metals Segment, with the addition of the galvanized product line pricing (from the 2018 MUSA-Galvanized acquisition), pricing averages were impacted by the lower average selling prices of galvanized products as compared to other product lines in the Metals Segment. The inclusion of galvanized products lowered average pricing for the nine months ended September 30, 2019 by 32 percent.

The Metals Segment's operating income decreased \$7.6 million to \$0.5 million for the third quarter of 2019 compared to \$8.0 million for the third quarter of 2018. For the first nine months of 2019, operating income decreased for the Metals Segment by \$20.0 million to an operating income of \$3.1 million compared to operating income of \$23.1 million for the same period of 2018.

Current quarter operating results were affected by the following factors:

- Nickel prices and resulting surcharges for 304 and 316 alloys ended the third quarter at the high point of 2019, with a late third quarter increase in surcharges between 15.0 percent to 18.0 percent, but still lower than prior year third quarter levels by between 6.0 percent and 11.0 percent. With much of the pricing in the third quarter based on prior lower surcharge levels, the third quarter generated a net unfavorable operating impact of \$0.6 million related to metal pricing. Compared to a period of rising nickel prices in the third quarter of 2018, which generated metal pricing gains of \$1.6 million, the third quarter of 2019 was unfavorable by \$2.2 million compared to the third quarter of 2018;
- Operating profits for welded stainless pipe and galvanized tube operations (excluding ASTI commented on in note c below) declined approximately \$5.3 million in the third quarter of 2019 compared to the prior year period. The decline is primarily related to the average pricing declines of approximately 16.0 percent that took place in the second quarter of 2019 and sustained at lower levels in the third quarter of 2019. While pounds increased an encouraging 3.0%, overall revenue declined \$6.0 million, with a majority of that decline passing through to lower operating profit, offset only by a slightly lower average cost of goods sold of \$.10 per pound. For the remainder of the year, we expect to see order book pricing increase as a reflection of recent October and November surcharge increases; however, due to timing of backlog shipments, we believe most of that benefit will come in the first quarter of 2020;
- The American Stainless acquisition increased third quarter of 2019 operating income by \$0.9 million, with no comparable results in the prior year period; and
- Seamless carbon pipe and tube showed an increase of 12.1 percent pounds shipped, with energy related project business up 19.0 percent and general industrial up 9.0 percent. However, pricing pressures in the third quarter lowered the overall average selling price by 11.1 percent, lowering operating profit by approximately \$1.2 million. We do expect energy market-based sales to remain low for the remainder of the year, and anticipate slightly lower general industrial sales in the fourth quarter based on normal year-end seasonal declines.

Specialty Chemicals Segment

Net sales for the Specialty Chemicals Segment in the third quarter of 2019 totaled \$13.5 million, representing a \$3.2 million or 19.4 percent decrease from the third quarter of 2018. Sales for the first nine months of 2019 were \$41.5 million, a decrease of \$3.8 million or 8.4 percent from 2018 results.

The decline of net sales during the third quarter is primarily attributable to opportunistic volume acquired in 2018 for seasonal asphalt additive products totaling \$2.4 million that did not repeat in 2019. Lower raw material input costs negatively affected third quarter sales revenue by \$0.8 million when compared to third quarter 2018 for customers that receive quarterly pricing. Through the first nine months of 2019, those same factors, non-repeating asphalt volume and lower raw material input costs, negatively affected sales revenue by \$4.5 million and \$1.2 million, respectively.

Operating income for the Specialty Chemicals Segment for the third quarter of 2019 was \$0.8 million, a decrease of \$0.5 million from the same quarter of 2018. The decline in operating income is directly related to the lower sales revenue and more tolled product being shipped in 2019 compared to 2018. Based on our 2018 and 2019 YTD analysis at the end of third quarter, revenue per pound is flat and material margin per pound is down by \$0.01. For the first nine months of 2019, operating income for the Specialty Chemicals Segment was \$2.4 million compared to operating income of \$3.3 million for the same period of 2018. The prior year's first nine months included a one-time claim settlement gain of \$0.3 million.

Other Items

Unallocated corporate expenses for the third quarter of 2019 increased \$0.5 million or 25.0 percent to \$2.4 million (3.2 percent of sales) compared to \$1.9 million (2.4 percent of sales) for the same period in the prior year comparative period. The third quarter increase resulted primarily from higher stock compensation expense and professional fees. For the first nine months of 2019, unallocated corporate expenses increased \$1.0 million or 17.9 percent to \$6.6 million (2.8 percent of sales) from \$5.6 million (2.7 percent of sales) in the prior year comparative period. For the first nine months of 2019, the increase to unallocated corporate expenses resulted primarily from higher professional fees and stock compensation expense.

Acquisition costs were \$0.1 million for the third quarter of 2019 (all in unallocated SG&A), resulting from costs associated with the January 1, 2019 American Stainless acquisition. This compares to \$0.4 million in acquisition cost (\$0.2 million in unallocated SG&A and \$0.2 million in Metals Segment SG&A) during the third quarter of 2018 resulting from costs associated with the 2018 MUSA-Galvanized acquisition. For the first nine months of 2019 acquisition costs were \$1.8 million (\$1.4 million recorded in Metals Segment Cost of Sales and \$0.4 million in unallocated SG&A) compared to \$1.1 million for the first nine months of 2018 (\$0.3 million recorded in Metals Segment Cost of Sales and \$0.8 million in unallocated SG&A) resulting from costs associated with the 2018 MUSA-Galvanized acquisition.

Interest expense was \$0.9 million and \$0.6 million for the third quarters of 2019 and 2018, respectively. Interest expense was \$3.0 million and \$1.3 million for the first nine months of 2019 and 2018, respectively. The increase was related to higher average debt outstanding in the third quarter and the first nine months of 2019, as additional borrowings were primarily related to acquisitions and to support increased working capital requirements.

The effective tax rate was 10.6 percent and 23.6 percent for the three and nine-month periods ended September 30, 2019. The effective tax rate for the three month period ended September 30, 2019 was lower than the statutory rate of 21.0 percent due to state taxes, net of the federal benefit, and discrete tax benefits on our stock compensation plan. The Company's effective tax rate was approximately equal to the U.S. statutory rate of 21.0 percent for the nine months ended September 30, 2019

The effective tax rate was 22.0 percent for the three and nine-month periods ended September 30, 2018, respectively. The Company's effective tax rate was approximately equal to the U.S. statutory rate of 21.0 percent.

The Company's cash balance decreased \$1.9 million to \$0.3 million as of September 30, 2019 compared to \$2.2 million at December 31, 2018. Fluctuations affecting cash flows during the nine months ended September 30, 2019 were comprised of the following:

- a) Net inventories decreased \$8.0 million at September 30, 2019 when compared to December 31, 2018, mainly due to efforts to balance inventory with projected business levels. Excluding the impact of acquired inventory as a result of the American Stainless acquisition, the Company generated \$14.0 million of operating cash flows from the relief of inventory during the nine months ended September 30, 2019. Inventory turns decreased slightly from 1.81 turns at December 31, 2018, calculated on a three-month average basis, to 1.78 turns at September 30, 2019;
- b) Accounts payable increased \$0.5 million as of September 30, 2019 as compared to December 31, 2018. Accounts payable days outstanding were approximately 32 days at September 30, 2019 compared to 37 days at December 31, 2018;
- c) Net accounts receivable increased \$0.8 million at September 30, 2019 as compared to December 31, 2018, which primarily resulted from the addition of ASTI's sales and receivables following the January 1, 2019 acquisition, offset partially by a reduction in days outstanding of four days due to better collection experience at the end of the third quarter. Days sales outstanding, calculated using a nine-month average basis, was 48 days outstanding at September 30, 2019 and for the year ended December 2018, respectively;
- d) On January 1, 2019, the Company paid \$21.9 million to complete the American Stainless acquisition;
- e) The Company purchased and sold equity securities during the nine-month period ended September 30, 2019, which resulted in net cash proceeds of \$0.5 million;
- f) Capital expenditures for the first nine months of 2019 were \$2.8 million; and
- g) The Company paid \$2.9 million during the first nine months of 2019 related to the earn-out liabilities from the 2019 American Stainless, 2018 MUSA-Galvanized and 2017 MUSA-Stainless acquisitions.

The Company had \$83.1 million of total borrowings outstanding with its lender as of September 30, 2019. Since January 1, 2019 when the Company borrowed \$22.7 million to fund the American Stainless acquisition (\$20.0 million term loan and \$2.7 million against the Company's line of credit), the Company has reduced borrowings by \$16.0 million (\$2.7 million term loan and \$13.3 million line of credit). Covenants under the Credit Agreement include maintaining a minimum fixed charge coverage ratio, maintaining a minimum tangible net worth, and a limitation on the Company's maximum amount of capital expenditures per year, which is in line with currently projected needs. As of September 30, 2019, the Company had \$16.9 million of remaining available capacity under its line of credit. The Company was in compliance with all covenants as of September 30, 2019.

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

This quarterly report includes and incorporates by reference "forward-looking statements" within the meaning of the federal securities laws. All statements that are not historical facts are "forward-looking statements." The words "estimate," "project," "intend," "expect," "believe," "should," "anticipate," "hope," "optimistic," "plan," "outlook," "should," "could," "may" and similar expressions identify forward-looking statements. The forward-looking statements are subject to certain risks and uncertainties, including without limitation those identified below, which could cause actual results to differ materially from historical results or those anticipated. Readers are cautioned not to place undue reliance on these forward-looking statements. The following factors could cause actual results to differ materially from historical results or those anticipated: adverse economic conditions; the impact of competitive products and pricing; product demand and acceptance risks; raw material and other increased costs; raw materials availability; employee relations; ability to maintain workforce by hiring trained employees; labor efficiencies; customer delays or difficulties in the production of products; new fracking regulations; a prolonged decrease in oil and nickel prices; unforeseen delays in completing the integrations of acquisitions; risks associated with mergers, acquisitions, dispositions and other expansion activities; financial stability of our customers; environmental issues; unavailability of debt financing on acceptable terms and exposure to increased market interest rate risk; inability to comply with covenants and ratios required by our debt financing arrangements; ability to weather an economic downturn; loss of consumer or investor confidence and other risks detailed from time-to-time in the Company's SEC filings. The Company assumes no obligation to update the information included in this report.

Item 3. Quantitative and Qualitative Disclosures about Market Risks

Information about the Company's exposure to market risk was disclosed in its Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the SEC on March 18, 2019. There have been no material quantitative or qualitative changes in market risk exposure since the date of that filing.

Item 4. Controls and Procedures

Based on the evaluation required by 17 C.F.R. Section 240.13a-15(b) or 240.15d-15(b) of the Company's disclosure controls and procedures (as defined in 17 C.F.R. Sections 240.13a-15(e) and 240.15d-15(e)), the Company's Chief Executive Officer and Chief Financial Officer concluded that that such controls and procedures, as of the end of the period covered by this quarterly report, were effective.

Changes in Internal Control over Financial Reporting

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

PART II

Item 1. Legal Proceedings

It is not unusual for us and our subsidiaries to be involved in various unresolved legal actions, administrative proceedings and claims in the ordinary course of business involving, among other things, product liability, commercial, employment, workers' compensation, and environmental matters. We establish reserves in a manner that is consistent with accounting principles generally accepted in the U.S. for costs associated with such matters when a liability is probable and those costs are capable of being reasonably estimated. We cannot predict with any certainty the outcome of these unresolved legal actions or the range of possible loss or recovery. Based on current information, however, we believe that the eventual outcome of these unresolved legal actions, either individually or in the aggregate, will not have a material adverse effect on our financial position, results of operations or cash flows. There were no material changes in our Legal Proceedings, as discussed in Part I, Item 3 in the Company's Annual Report on Form 10-K for the period ending December 31, 2018.

Item 1A. Risk Factors

There were no material changes in our assessment of risk factors as discussed in Part I, Item 1A in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certifications of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer
32	Certifications Pursuant to 18 U.S.C. Section 1350
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase

* In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed "furnished" and not "filed."

SIGNATURES

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

SYNALLOY CORPORATION

(Registrant)

Date: November 12, 2019 By: /s/ Craig C. Bram

Craig C. Bram
President and Chief Executive Officer
(principal executive officer)

Date: November 12, 2019 By: /s/ Dennis M. Loughran

Dennis M. Loughran
Senior Vice President and Chief Financial Officer
(principal accounting officer)

CERTIFICATIONS

I, Craig C. Bram, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Synalloy Corporation;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
 5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019 /s/ Craig C. Bram
Craig C. Bram
Chief Executive Officer

CERTIFICATIONS

I, Dennis M. Loughran, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Synalloy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019 /s/ Dennis M. Loughran
 Dennis M. Loughran
 Chief Financial Officer

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

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

Date: November 12, 2019 /s/ Craig C. Bram
Craig C. Bram
Chief Executive Officer

Date: November 12, 2019 /s/ Dennis M. Loughran
Dennis M. Loughran
Chief Financial Officer