

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2021

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO  
COMMISSION FILE NUMBER 0-19687

**Synalloy**

**SYNALLOY CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

**4510 Cox Road, Suite 201,  
Richmond, Virginia**

(Address of principal executive offices)

57-0426694

(I.R.S. Employer Identification No.)

23060

(Zip Code)

(804) 822-3260

(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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, a smaller reporting company, or an 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

Based on the closing price as of June 30, 2021, which was the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the common stock held by non-affiliates of the registrant was \$66.3 million.

The number of shares outstanding of the registrant's common stock as of March 28, 2022 was 10,223,498.

Documents Incorporated By Reference

Portions of the Proxy Statement for the 2022 annual shareholders' meeting are incorporated by reference into Part III of this Form 10-K.

**Synalloy Corporation**  
**Form 10-K**  
**For Period Ended December 31, 2021**  
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## Forward-Looking Statements

This Annual Report on Form 10-K includes and incorporates by reference "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and other applicable federal securities laws. All statements that are not historical facts are forward-looking statements. Forward looking statements can be identified through the use of words such as "estimate," "project," "intend," "expect," "believe," "should," "anticipate," "hope," "optimistic," "plan," "outlook," "should," "could," "may" and similar expressions. The forward-looking statements are subject to certain risks and uncertainties, including without limitation those identified below, which could cause actual results to differ materially from historical results or those anticipated. Readers are cautioned not to place undue reliance on these forward-looking statements. The following factors could cause actual results to differ materially from historical results or those anticipated: adverse economic conditions, including risks relating to the impact and spread of and the government's response to COVID-19; inability to weather an economic downturn; the impact of competitive products and pricing; product demand and acceptance risks; raw material and other increased costs; raw material availability; financial stability of the Company's customers; customer delays or difficulties in the production of products; loss of consumer or investor confidence; employee relations; ability to maintain workforce by hiring trained employees; labor efficiencies; risks associated with acquisitions; environmental issues; negative or unexpected results from tax law changes; inability to comply with covenants and ratios required by the Company's debt financing arrangements; and other risks detailed in [Item 1A](#), Risk Factors, in this Annual Report on Form 10-K and from time-to-time in Synalloy Corporation's Securities and Exchange Commission filings. Synalloy Corporation assumes no obligation to update any forward-looking information included in this Annual Report on Form 10-K.

## PART I

### Item 1. Business

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

The Company's business is divided into two reportable operating segments, the Metals Segment and the Specialty Chemicals Segment. The Metals Segment operates as three reporting units that include Bristol Metals, LLC ("BRISMET") and American Stainless Tubing, LLC ("ASTI") (collectively "Welded Pipe & Tube"), Palmer of Texas Tanks, Inc. ("Palmer"), and Specialty Pipe & Tube, Inc. ("Specialty"). The Metals Segment serves markets through pipe and tube and customers in the appliance, architectural, automotive and commercial transportation, brewery, chemical, petrochemical, pulp and paper, mining, power generation (including nuclear), water and waste-water treatment, liquid natural gas ("LNG"), food processing, pharmaceutical, oil and gas and other industries.

The Specialty Chemicals Segment operates as one reporting unit which includes Manufacturers Chemicals, LLC ("MC"), a wholly-owned subsidiary of Manufacturers Soap and Chemical Company ("MS&C"), CRI Tolling, LLC ("CRI") and DanChem Technologies, Inc ("DanChem"). The Specialty Chemicals Segment produces specialty products for the pulp and paper, coatings, adhesives, sealants and elastomers (CASE), textile, automotive, household, industrial and institutional ("HII"), agricultural, water and waste-water treatment, construction, oil and gas and other industries.

### General

**Metals Segment** – The segment is comprised of four wholly-owned subsidiaries: Synalloy Metals, Inc., which owns 100% of the membership interests of BRISMET, located in Bristol, Tennessee and Munhall, Pennsylvania; ASTI, located in Troutman and Statesville, North Carolina; Palmer, located in Andrews, Texas; and Specialty, located in Mineral Ridge, Ohio and Houston, Texas.

BRISMET manufactures welded pipe and tube, primarily from stainless steel, duplex, and nickel alloys. Pipe is produced in sizes from 3/8 inch outside diameter to 144 inches outside diameter and wall thickness from 1/4 inch up to 1 and 3/8 inches. Pipe smaller than 18 inches in outside diameter is made on equipment that forms and welds the pipe in a continuous process. Pipe larger than 18 inches in outside diameter is formed on presses or rolls and welded using a batch welding technique. Pipe is normally produced in standard 20-foot lengths, although BRISMET also has capabilities in the production of pipe without circumferential welds in lengths up to 60 feet. BRISMET is one of the few domestic producers capable of making pipe in 48-

foot lengths up to 36 inches in diameter. Additionally, BRISMET's Munhall facility manufactures ornamental stainless tube and galvanized carbon tube, as well as similar stainless pipe products as produced at the Bristol facility.

ASTI is a leading manufacturer of high-end ornamental stainless steel tube, supplying the automotive, commercial transportation, marine, food services, construction, furniture, healthcare, and other industries. ASTI's facilities are located in Troutman and Statesville, North Carolina. ASTI incorporates proprietary finishing capabilities and the highest levels of customer service and technical support to provide the customer with the highest quality ornamental products available in the market. ASTI's product range includes a variety of shapes, including rounds, squares, rectangles and ellipticals up to 5 inches outside diameter.

Palmer is a manufacturer of fiberglass and steel storage tanks for the oil and gas, waste water treatment and municipal water industries. As discussed in [Note 4](#), on February 17, 2021 the Board of Directors authorized the permanent cessation of operations at Palmer and the subleasing of the Palmer facility. As of December 31, 2021, the Company permanently ceased operations and is in the process of divesting all remaining assets at the facility.

Specialty is a leading master distributor of hot finish, seamless, carbon steel pipe and tube, with an emphasis on large outside diameters and exceptionally heavy wall thickness. Specialty's products are primarily used for mechanical and high-pressure applications in the oil and gas, heavy industrial, construction equipment, and chemical and other industries. Operating from facilities located in Mineral Ridge, Ohio and Houston, Texas, Specialty is well-positioned to serve the major industrial and energy regions in the United States. Specialty performs value-added processing on a majority of products shipped and typically processes and ships orders in 24 hours or less. Specialty plays a critical role in the domestic supply chain, by maintaining a diverse inventory of hard to find sizes of pipe and tube that support critical infrastructure applications across the United States.

At any given time, the Metals Segment relies on approximately 5 suppliers that furnish approximately 77% of total dollar purchases of raw materials and one supplier that furnishes 32% of total material purchases. The Company does not anticipate that the loss of this supplier would have a materially adverse effect on the Company as raw materials are readily available from a number of different sources, and the Company anticipates no difficulties in fulfilling its requirements.

**Specialty Chemicals Segment** – The segment consists of the Company's three production facilities located in Cleveland, Tennessee, Fountain Inn, South Carolina and Danville, Virginia. MC, CRI and DanChem are aggregated as one reporting unit and comprise the Specialty Chemicals Segment.

MC and CRI produce specialty formulations and intermediates for use in a wide variety of applications and industries. MC's primary product lines focus on the production of defoamers, surfactants, and lubricating agents. MC and CRI's end users include companies that supply agrochemical paper, metal working, coatings, water treatment, paint, mining, oil and gas, and janitorial and other applications. MC's and CRI's sulfation products represent a renewable resource and are alternatives to non-renewable petroleum derivatives.

DanChem provides dedicated contract manufacturing services, as well as operating a multi-purpose plant with the ability to process a variety of difficult to handle materials including flammable solvents, viscous liquids and granular solids. DanChem has long-term relationships with a number of leading chemical companies that outsource their manufacturing production to DanChem allowing those customers to reach their target markets quicker.

The Specialty Chemicals Segment maintains three laboratories for applied research and quality control which are staffed by 18 employees, including multiple chemists.

The majority of raw materials used by the segment are available from numerous independent suppliers and approximately 29% of total purchases are from its top 5 suppliers. While some raw material needs are met by an individual supplier or only a few suppliers, the Company anticipates no difficulties in fulfilling its raw material requirements.

See [Note 13](#) to the consolidated financial statements, which are included in [Item 8](#) of this Form 10-K, for financial information about the Company's segments.

## **Sales**

**Metals Segment** – The Metals Segment utilizes a sales force comprised of inside sales employees, outside sales employees and independent manufacturers' representatives. The segment's products are sold to various distributors, OEM and end use customers.

There were no customers representing more than 10% of the Metals Segment's revenues for 2021 or 2020, respectively.

**Specialty Chemicals Segment** – Specialty chemicals are sold directly to various industries nationwide by sales representatives comprised of outside sales employees and independent manufacturers' representatives. The Specialty Chemicals Segment has one customer that accounted for approximately 15% of the segment's revenues for 2021 and 16% of the segment's revenues for 2020.

#### **Mergers, Acquisitions and Dispositions**

The Company is committed to a long-term strategy of reinvesting capital in our current business segments to foster organic growth and completing acquisitions that expand our manufacturing capabilities, product offerings and geographic footprint.

On October 22, 2021, the Company completed the acquisition of all of the issued and outstanding shares of common stock of DanChem Technologies, Inc. ("DanChem"). The purpose of the transaction was to accelerate product development capabilities and provide entrance into new end-markets and applications within the Chemicals segment. The purchase price was \$32.95 million before adjustments for working capital, transaction expenses, cash and debt. The tangible assets purchased and liabilities assumed from DanChem included accounts receivable, inventory, equipment, real property and accounts payable.

#### **Environmental**

Environmental expenditures that relate to an existing condition caused by past operations and do not contribute to future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or cleanups are probable and the costs of these assessments and/or cleanups can be reasonably estimated. Changes to laws and environmental issues, including climate change, are made or proposed with some frequency and some of the proposals, if adopted, might directly or indirectly result in a material reduction in the operating results of one or more of our operating units. We are presently unable to quantify this risk.

#### **Seasonality**

The Company's businesses and products are generally not subject to seasonal impacts that result in significant variations in revenues from one quarter to another.

#### **Backlogs**

The Metals Segment's Welded Pipe & Tube Operations and the Specialty Chemicals Segment incur a significant dollar value of committed orders in advance of production. The backlog of open orders for the Welded Pipe & Tube Operations were \$91.5 million and \$40.8 million at the end of 2021 and 2020, respectively. The backlog of open orders for the Specialty Chemicals Segment were \$12.9 million and \$3.9 million at the end of 2021 and 2020, respectively. Our backlog may not be indicative of actual sales and, therefore, should not be used as a direct measure of future revenue.

#### **Human Capital**

##### *Safety and Wellness*

The health and safety of our workforce is fundamental to the success of our business. We provide our employees upfront and ongoing safety training to ensure that safety policies and procedures are effectively communicated and implemented. Personal protective equipment is provided to employees to safely perform their job responsibilities.

Because our business involves the manufacturing of physical products, many of our employees are unable to work from home. In an effort to keep our employees safe and maintain operations during the COVID-19 pandemic, we have implemented new health-related measures, including social distancing, restrictions on visitors to our facilities, limiting in-person meetings and other gatherings, limiting company travel, increasing cleanings of our facilities and providing personal protective equipment and disinfecting agents to employees.

### *Talent Management*

Our approach to human capital management is one that seeks to foster an inclusive and respectful work environment where employees are empowered at all levels to implement new ideas, to better serve our customers and continuously improve our processes and operations. Our business results depend on our ability to manage our human capital resources, including attracting, identifying, and retaining key talent. Factors that may affect our ability to attract and retain qualified employees include competition from other employers, availability of qualified individuals and opportunities for employee growth.

As of December 31, 2021, the Company had 707 employees, of which 638 were full-time employees. The Company considers relations with employees to be strong. The number of employees of the Company represented by unions, located at the Munhall, Pennsylvania, Mineral Ridge, Ohio, Bristol, Tennessee and Danville, Virginia facilities, is 342, or 48% of the Company's employees. They are represented by three locals affiliated with the United Steelworkers (the "USW") and one local affiliated with the United Food and Commercial Workers (the "UFCW"). Collective bargaining contracts for the USW locals expire at various dates between 2023 and 2024. Collective bargaining contracts for the UFCW local expires in 2024.

Our voluntary turnover rate in 2021 was approximately 23%. We monitor employee turnover rates by plant and the Company as a whole. The average employee tenure is approximately 8 years and we believe is driven by our competitive total rewards package offered to employees and development opportunities which promotes longer employee tenure.

### *Total Rewards*

We invest in our workforce by offering a competitive total rewards package that includes a combination of salaries and wages, health and wellness benefits, retirement benefits and educational benefits. We strive to offer competitive total rewards packages and benefits for eligible employees.

### *Diversity and Inclusion*

We are an Equal Opportunity Employer and all qualified applicants for positions with the Company receive consideration for employment without regard to race, color, religion, sex, sexual orientation, gender, identity, national origin, disability, or veteran status. We strive to provide an equitable and inclusive environment for all our employees with representation across all levels of our workforce that reflects the diversity of the communities in which we live and work.

### **Available information**

The Company electronically files with the Securities and Exchange Commission ("SEC") its annual reports on Form 10-K, its quarterly reports on Form 10-Q, its periodic reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 (the "1934 Act"), and proxy materials pursuant to Section 14 of the 1934 Act. The SEC maintains a site on the internet, [www.sec.gov](http://www.sec.gov), which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The Company also makes its filings available, free of charge, through its Web site, [www.synalloy.com](http://www.synalloy.com), as soon as reasonably practical after the electronic filing of such material with the SEC. The information on the Company's Web site is not incorporated into this Annual Report on Form 10-K or any other filing the Company makes with the SEC.

### **Item 1A. Risk Factors**

There are inherent risks and uncertainties associated with our business that could adversely affect our operating performance and financial condition. Set forth below are descriptions of those risks and uncertainties that we believe to be material, but the risks and uncertainties described are not the only risks and uncertainties that could affect our business. Reference should be made to "Forward-Looking Statements" above, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in [Item 7](#) and our consolidated financial statements and related notes in [Item 8](#) below.

#### **Industry and Segment Risks**

##### ***The demand for our products may be cyclical, creating uncertainty regarding future profitability.***

Various changes in general economic conditions affect (or disproportionately affect) the industries in which our customers operate. These changes include decreases in the rate of consumption or use of our customers' products due to economic downturns. Other factors causing fluctuation in our customers' positions are changes in market demand, capital spending, tariff induced price changes, lower overall pricing due to domestic and international overcapacity, lower priced imports, currency fluctuations, and increases in use or decreases in prices of substitute materials. As a result of these factors, our profitability has been and may in the future be subject to significant fluctuation.

***Domestic competition and excess manufacturing capacity could force lower product pricing and may have an adverse effect on our revenues and profitability.***

From time-to-time, intense competition and excess manufacturing capacity in the commodity stainless and galvanized steel industry have resulted in reduced selling prices, excluding raw material surcharges, for many of our stainless steel products sold by the Metals Segment. In such situations, in order to maintain market share, we would have to lower our prices to match the competition. These factors have had and may in the future have a material adverse impact on our revenues, operating results and financial condition.

***Overcapacity and overproduction by foreign producers in our industry could result in lower domestic prices, which would adversely affect our sales, margins and profitability.***

Our business is susceptible to the import of products from other countries, particularly in our Metals Segment. Import levels of various products are affected by, among other things, overall world-wide demand, lower cost of production in other countries, the trade practices of foreign governments, government subsidies to foreign producers, the strengthening of the U.S. dollar, and government-imposed trade restrictions in the United States, such as imposed in 2018 under Section 232 of the Trade Expansion Act of 1962 (section 232 tariffs). Although imports from certain countries have been curtailed by anti-dumping duties, imported products from other countries could significantly reduce prices. Increased imports of certain products, whether illegal dumping or legal imports, could reduce demand for our products or cause us to lower our prices to maintain demand for our products, which could adversely affect our business, financial position, or results of operations.

***A substantial portion of our sales in the Specialty Chemicals Segment is dependent upon a limited number of customers.*** The top 15 customers in the Specialty Chemicals Segment accounted for approximately 60% and 63% of revenues for the years ended December 31, 2021 and 2020, respectively, with the top customer accounting for approximately 15% of revenues for 2021 and 16% of revenues for 2020. An adverse change in, or termination of, the relationship with one or more of our top customers could materially and adversely affect our results of operations.

**Operations and Supply Chain Risks**

***Any interruption in our ability to procure raw materials, or significant volatility in the price of raw materials, could adversely affect our business and results of operations.***

While the Company believes that raw materials for both segments are (in general) readily available from numerous sources, some of our raw material needs are met by a sole supplier or only a few suppliers and many such relationships are terminable by either party. If any key supplier that we rely on for raw materials ceases or limits production, we may incur significant additional costs, including capital costs, in order to find alternate, reliable raw material suppliers. We may also experience significant production delays while locating new supply sources, which could result in our failure to timely deliver products to our customers.

In addition, purchase prices and availability of these critical raw materials are subject to volatility which may negatively impact financial performance due to decreased sales volume and /or decreased profitability. At any given time, we may be unable to obtain an adequate supply of these critical raw materials on a timely basis, at acceptable prices and other terms, or at all. If suppliers increase the price of critical raw materials, we may not have alternative sources of supply. As well, though we attempt to pass changes in the prices of raw materials along to our customers, we cannot always do so due to market competition, among other reasons, or price increases to customers may occur on a delayed basis. In addition, although raw materials may remain available, volatility in raw material pricing may negatively impact customer ordering patterns.

The loss of or reduced supply from one or more key suppliers in either segment, or any other material change in our current supply channels, could materially affect the Company's ability to meet the demand for its products and adversely affect the Company's business and results of operations. In addition, any limitations (or delay) on our ability to pass through any price increases in raw materials could have an adverse effect on our profitability.

***Loss of a key supplier or lack of product availability from suppliers could adversely affect our sales and earnings***

Our Specialty Chemicals Segment depends on maintaining an immediately available supply of various products to meet customer demand. Many of our relationships with key product suppliers are longstanding but are terminable by either party. The loss of key supplier authorizations, or a substantial decrease in the availability of their products, could put us at a competitive disadvantage and have a material adverse effect on our business or results of operations. Supply interruptions could arise from raw material shortages, inadequate manufacturing capacity or utilization to meet demand, financial difficulties, tariffs and other regulations affecting trade between the U.S. and other countries, labor disputes, weather conditions affecting suppliers' production, transportation disruptions or other reasons beyond our control.

***Our operating results are sensitive to the availability and cost of energy and freight, which are important in the manufacture and transport of our products.***

Our operating costs increase when energy or freight costs rise. During periods of increasing energy and freight costs, we might not be able to fully recover our operating cost increases through price increases without reducing demand for our products. In addition, we are dependent on third party freight carriers to transport many of our products, all of which are dependent on fuel to transport our products. The prices for and availability of electricity, natural gas, oil, diesel fuel and other energy resources are subject to volatile market conditions. These market conditions often are affected by political and economic factors beyond our control. Disruptions in the supply of energy resources could temporarily impair our ability to manufacture products for customers and may result in the decline of freight carrier capacity in our geographic markets, or make freight carriers unavailable or more expensive. Further, increases in energy or freight costs that cannot be passed on to customers, or adverse changes in our costs relative to energy and freight costs paid by competitors, has adversely affected, and may continue to adversely affect, our profitability.

***We are dependent upon the continued operation of our production facilities, which are subject to a number of hazards.***

Our manufacturing processes are dependent upon critical pieces of equipment. This equipment may, on occasion, be out of service as a result of unanticipated failures. We have experienced, and may in the future experience, material plant shutdowns or periods of reduced production as a result of such equipment failures. In addition, our production facilities are subject to hazards associated with the manufacture, handling, storage and transportation of materials and products, including leaks and ruptures, explosions, fires, inclement weather and natural disasters, unscheduled downtime and environmental hazards. As well, some of our production capabilities are highly specialized, which limits our ability to shift production to another facility. The occurrence of incidents in the future may result in production delays, failure to timely fulfill customer orders or otherwise have a material adverse effect on our business, financial condition or results of operations.

***Our operations present significant risk of injury and other liabilities.***

The industrial activities conducted at our facilities present significant risk of serious injury or even death to our employees or other visitors to our operations, notwithstanding our safety precautions, including our material compliance with federal, state and local employee health and safety regulations, and we may be unable to avoid material liabilities for any such incidents. We maintain various forms of insurance, including insurance covering claims related to our properties and risks associated with our operations, but there can be no assurance that the insurance coverage will be applicable and adequate, or will continue to be available on terms acceptable to us, or at all, which could result in material liability to us for any injuries or deaths.

***We may not be able to make the operational and product changes necessary to continue to be an effective competitor.***

We must continue to enhance our existing products, develop and manufacture new products with improved capabilities, and accurately predict future customer needs and preferences in order to continue to be an effective competitor in our business markets. In addition, we must anticipate and respond to changes in industry standards, including government regulations, that affect our products and the needs of our customers. The success of any new or enhanced products will depend on a number of factors, such as technological innovations, increased manufacturing and material costs, customer acceptance, and the performance and quality of the new or enhanced products. We cannot predict the level of market acceptance or the amount of market share these new or enhanced products may achieve, and we may experience delays or problems in the introduction of new or enhanced products. Any failure in our ability to effectively and efficiently launch new or enhanced products could materially and adversely affect our business, financial condition or results of operation.

**Government Regulation Risks**

***Our operations expose us to the risk of environmental, health and safety liabilities and obligations, which could have a material adverse effect on our financial condition or results of operations.***

We are subject to numerous federal, state and local environmental protection and health and safety laws governing, among other things:

- the generation, use, storage, treatment, transportation, disposal and management of hazardous substances and wastes;
- emissions or discharges of pollutants or other substances into the environment;
- investigation and remediation of, and damages resulting from, releases of hazardous substances; and
- the health and safety of our employees.

Under certain environmental laws, we can be held strictly liable for hazardous substance contamination of any real property we have ever owned, operated or used as a disposal site. We are also required to maintain various environmental permits and licenses, many of which require periodic modification and renewal. Our operations entail the risk of violations of those laws



and regulations, and we may not have been in the past or will be at all times in the future, in compliance with all of these requirements. In addition, these requirements and their enforcement may become more stringent in the future.

We have incurred, and expect to continue to incur, additional capital expenditures (in addition to ordinary or other costs and capital expenditures) to comply with applicable environmental laws. Our failure to comply with applicable environmental laws and permit requirements could result in civil and/or criminal fines or penalties, enforcement actions, and regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, such as the installation of pollution control equipment, which could have a material adverse effect on our financial condition, results of operations or cash flows.

We are currently, and may in the future be, required to investigate, remediate or otherwise address contamination at our current or former facilities. Many of our current and former facilities have a history of industrial usage for which additional investigation, remediation or other obligations could arise in the future and that could materially adversely affect our business, financial condition, results of operations or cash flows. In addition, we are currently, and could in the future be, responsible for costs to address contamination identified at any real property we used as a disposal site.

Although we cannot predict the ultimate cost of compliance with any of the requirements described above, the costs could be material. Non-compliance could subject us to material liabilities, such as government fines, third-party lawsuits or the suspension of non-compliant operations. We also may be required to make significant site or operational modifications at substantial cost. Future developments also could restrict or eliminate the use of or require us to make modifications to our products, which could have a significant negative impact on our results of operations. At any given time, we are (or may be) involved in claims, litigation, administrative proceedings and investigations of various types involving potential environmental liabilities, including cleanup costs associated with hazardous waste disposal sites at our facilities. We cannot assure you that the resolution of these environmental matters will not have a material adverse effect on our results of operations. The occurrence and ultimate costs and timing of environmental liabilities are difficult to predict. Liability under environmental laws relating to contaminated sites can be imposed retroactively and on a joint and several basis. We could incur significant costs, including cleanup costs, civil or criminal fines and sanctions and third-party claims, as a result of past or future violations of, or liabilities under, environmental laws.

We could be subject to third party claims for property damage, personal injury, nuisance or otherwise as a result of violations of, or liabilities under, environmental, health or safety laws in connection with releases of hazardous or other materials at any current or former facility. We could also be subject to environmental indemnification claims in connection with assets and businesses that we have acquired or divested.

There can be no assurance that any future capital and operating expenditures to maintain compliance with environmental laws, as well as costs incurred to address contamination or environmental claims, will not exceed any current estimates or adversely affect our financial condition and results of operations. In addition, any unanticipated liabilities or obligations arising, for example, out of discovery of previously unknown conditions or changes in laws or regulations, could have an adverse effect on our business, financial condition or results of operations.

***Federal, state and local legislative and regulatory initiatives relating to hydraulic fracturing, as well as governmental reviews of such activities could result in delays or eliminate new wells from being started, thus reducing the demand for our pressure vessels and heavy walled pipe and tube.***

Hydraulic fracturing (“fracking”) is currently an essential and common practice to extract oil from dense subsurface rock formations, and this lower cost extraction method is a significant driving force behind the surge of oil exploration and drilling in several locations in the United States. However, the Environmental Protection Agency, U.S. Congress and state legislatures have considered adopting legislation to provide additional regulations and disclosures surrounding this process. In the event that new legal restrictions surrounding the fracking process are adopted in the areas in which our customers operate, we may experience a decrease in revenue, which could have an adverse impact on our results of operations, including profitability.

***Regulations related to “conflict minerals” may force us to incur additional expenses, may make our supply chain more complex and may result in damage to our reputation with customers.***

On August 22, 2012, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), the SEC adopted new requirements for companies that use certain minerals and metals, known as conflict minerals, in their products, whether or not these products are manufactured by third parties. These regulations require companies to conduct annual due diligence and disclose whether or not such minerals originate from the Democratic Republic of Congo and adjoining countries. Tungsten and tantalum are designated as conflict minerals under the Dodd-Frank Act. These metals are used to varying degrees in our welding materials and are also present in specialty alloy products. These new requirements

could adversely affect the sourcing, availability and pricing of minerals used in our products. In addition, we could incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products. Since our supply chain is complex, we may not be able to sufficiently verify the origins for these minerals and metals used in our products through the due diligence procedures that we implement, which may harm our reputation. In such event, we may also face difficulties in satisfying customers who could require that all of the components of our products are conflict mineral-free.

#### **Human Capital Risks**

***Certain of our employees in the Metals Segment are covered by collective bargaining agreements, and the failure to renew these agreements could result in labor disruptions and increased labor costs.***

As of December 31, 2021, we had 342 employees represented by unions at our Bristol, Tennessee, Mineral Ridge, Ohio, Munhall, Pennsylvania and Danville, Virginia facilities, which is approximately 48% of the aggregate number of Company employees. These employees are represented by three local unions affiliated with the USW and one local affiliated with the UFCW. Collective bargaining contracts for the USW locals expire at various dates between 2023 and 2024. Collective bargaining contracts for the UFCW local expires in 2024. Although we believe that our present labor relations are strong, our failure to renew these agreements on reasonable terms as the current agreements expire could result in labor disruptions and increased labor costs, which could adversely affect our financial performance.

***Failure to attract and retain key personnel may adversely impact our strategy and execution and financial results.***

Our ability to successfully operate, grow our business and implement our business strategies is largely dependent on the efforts, abilities and services of our employees. The loss of employees or our inability to attract, train and retain additional personnel could reduce the competitiveness of our business or otherwise impair our operations. Our future success will also depend, in part, on our ability to attract and retain qualified personnel who have experience in the application of our products and are knowledgeable about our business, markets and products.

We also face risks associated with the actions taken in response to COVID-19, including those associated with workforce reductions, and may experience difficulties with hiring additional employees or replacing employees following the pandemic, which may be exacerbated by the tight labor market. In addition, COVID-19 has, and may again result in quarantines of our personnel or an inability to access facilities, which could adversely affect our operations.

#### **Financial and Strategic Risks**

***There are risks associated with our outstanding and future indebtedness.***

As of December 31, 2021, we had \$67.9 million of total outstanding indebtedness, and we may incur additional indebtedness in the future. We have customary restrictive covenants in our current debt agreements, which may limit our flexibility to operate our business. Failure to comply with this covenant could result in an event of default that, if not cured or waived, could have a material adverse effect on our business, results of operations and financial condition. Additionally, our ability to pay interest and repay the principal for our indebtedness is dependent upon our ability to manage our business operations, generate sufficient cash flows to service such debt and the other factors discussed in this section. There can be no assurance that we will be able to manage any of these risks successfully.

Our Credit Agreement with BMO Harris Bank N.A. (as amended, the "Credit Agreement") bears interest at variable interest rates, primarily based on the London Interbank Offered Rate ("LIBOR"). LIBOR is currently in the process of being phased out. The Credit Agreement includes provisions intended to provide for the replacement of LIBOR with the Secured Overnight Financing Rate ("SOFR") upon the cessation of LIBOR or the occurrence of other triggering events, with corresponding adjustments to the applicable interest rate margins. However, uncertainty as to the timing and nature of such modifications could cause the interest rate calculated for the Credit Agreement to be materially different than expected, and there is no guarantee that a transition from LIBOR to an alternative will not result in financial market disruptions, significant increases in benchmark rates, or borrowing costs to borrowers, any of which could have an adverse effect on our business, results of operations and financial condition. Our failure to manage these risks effectively could adversely affect our financial condition and results of operations.

***We may need new or additional financing in the future to expand our business or refinance existing indebtedness, and our inability to obtain capital on satisfactory terms or at all may have an adverse impact on our operations and our financial results.***

If we are unable to access capital on satisfactory terms and conditions, we may not be able to expand our business or meet our payment requirements under the Credit Agreement. Our ability to obtain new or additional financing will depend on a variety of factors, many of which are beyond our control. We may not be able to obtain new or additional financing because we may

have substantial debt, our current receivable and inventory balances do not support additional debt availability or because we may not have sufficient cash flows to service or repay our existing or future debt. In addition, depending on market conditions and our financial performance, equity financing may not be available on satisfactory terms or at all. If we are unable to access capital on satisfactory terms and conditions, this could have an adverse impact on our operations and our financial results.

***Our strategy of using acquisitions and dispositions to position our businesses may not always be successful, which may have a material adverse impact on our financial results and profitability.***

We have historically utilized acquisitions and dispositions in an effort to strategically position our businesses and improve our ability to compete. We plan to continue to do this by seeking specialty niches, acquiring businesses complementary to existing strengths and continually evaluating the performance and strategic fit of our existing business units. We consider acquisitions, joint ventures and other business combination opportunities as well as possible business unit dispositions. From time-to-time, management holds discussions with management of other companies to explore such opportunities. As a result, the relative makeup of the businesses comprising our Company is subject to change. Acquisitions, joint ventures and other business combinations involve various inherent risks, such as: assessing accurately the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition or other transaction candidates; the potential loss of key personnel of an acquired business; significant transaction costs that were not identified during due diligence; our ability to achieve identified financial and operating synergies anticipated to result from an acquisition or other transaction; impairments of goodwill; and unanticipated changes in business and economic conditions affecting an acquisition or other transaction. The amount and type of consideration and deal charges paid could have an adverse or dilutive effect on our profitability and other financial results, despite having anticipated long-term economic benefit to the Company. If acquisition opportunities are not available, or if one or more acquisitions are not successfully integrated into our operations, this could have a material adverse impact on our financial results and profitability.

***Impairment in the carrying value of our fixed assets, intangible assets, or goodwill could adversely affect our financial condition and consolidated results of operations.***

Goodwill represents the excess of cost over the fair value of identified net assets of businesses acquired. We review goodwill for impairment annually, or whenever circumstances change in a way which could indicate that impairment may have occurred. Goodwill is tested at the reporting unit level. We identify potential goodwill impairments by comparing the fair value of the reporting unit to its carrying amount, which includes goodwill and other intangible assets. If the carrying amount of the reporting unit exceeds the fair value, an impairment exists. The amount of the impairment is the amount by which the carrying amount exceeds the fair value. A significant amount of judgment is involved in determining if an indication of impairment exists. Factors may include, among others: a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; the testing for recoverability of a significant asset group within a reporting unit; and slower growth rates. Any adverse change in these factors would have a significant impact on the recoverability of these assets and negatively affect our financial condition and consolidated results of operations. We are required to record a non-cash impairment charge if the testing performed indicates that goodwill has been impaired.

We evaluate the useful lives of our fixed assets and intangible assets to determine if they are definite or indefinite-lived. Reaching a determination on useful life requires significant judgments and assumptions regarding the lease term, future effects of obsolescence, demand, competition, other economic factors (such as the stability of the industry, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels), the level of required maintenance expenditures and the expected lives of other related groups of assets. We cannot accurately predict the amount and timing of any impairment of assets. Should the value of goodwill, fixed assets or intangible assets become impaired, there could be an adverse effect on our financial condition and consolidated results of operations.

**Intellectual Property Risks**

***Our inability to sufficiently or completely protect our intellectual property rights could adversely affect our business, prospects, financial condition and results of operations.***

Our ability to compete effectively in both of our business segments will depend on our ability to maintain the proprietary nature of the intellectual property used in our businesses. These intellectual property rights consist largely of trade-secrets and know-how. We rely on a combination of trade secrets and non-disclosure and other contractual agreements and technical measures to protect our rights in our intellectual property. We also depend upon confidentiality agreements with our officers, employees, consultants and subcontractors, as well as collaborative partners, to maintain the proprietary nature of our intellectual property. These measures may not afford us sufficient or complete protection, and others may independently

develop intellectual property similar to ours, otherwise avoid our confidentiality agreements or produce technology that would adversely affect our business, financial condition or results of operations.

### **General Risk Factors**

***Our business, financial condition and results of operations may be adversely affected by global public health epidemics and pandemics, including the COVID-19 outbreak.*** Our business and operations expose us to risks associated with global health epidemics or pandemics, such as the global outbreak of the coronavirus (COVID-19). The outbreak has resulted in governments around the world implementing varying measures to help the control of the spread of the virus, including quarantines, "shelter in place" and "stay at home" orders, travel restrictions, business curtailments, and school closures among others. The COVID-19 pandemic has had, and may in the future have, a significant impact on the global economy, including supply chains, financial markets, and labor markets.

We are a company operating in a critical infrastructure industry, as defined by the U.S. Department of Homeland Security. Consistent with federal guidelines and with state and local orders to date, we currently continue to operate across our business footprint. Notwithstanding our continued operations, COVID-19 has had and may continue to have negative impacts on our operations and customers, which may compress our margins, including as a result of preventative and precautionary measures that we, other businesses, and governments are taking. Any future economic downturn could adversely affect the demand for our products and contribute to volatile supply and demand conditions affecting prices and volumes in the markets for our products and raw materials. The continued progression of the outbreak could also negatively impact our business or results of operations through the temporary closure or suspension of manufacturing operations at our operating locations or those of our customers or suppliers.

In addition, the ability of our employees to work may be significantly impacted by individuals contracting or being exposed to COVID-19, and as a result, may impact our production throughout our supply chain and constrict sales channels. Our customers may be directly impacted by business curtailments or weak market conditions and may not be able to fulfill their contractual obligations.

***We encounter significant competition in all areas of our businesses and may be unable to compete effectively, which could result in reduced profitability and loss of market share.***

We actively compete with companies producing the same or similar products and, in some instances, with companies producing different products designed for the same uses. We encounter competition from both domestic and foreign sources in price, delivery, service, performance, product innovation, and product recognition and quality, depending on the product involved. For some of our products, our competitors are larger and have greater financial resources than we do. As a result, these competitors may be better able to withstand a change in conditions within the industries in which we operate, a change in the prices of raw materials or a change in the economy as a whole. Our competitors can be expected to continue to develop and introduce new and enhanced products and more efficient production capabilities, which could cause a decline in market acceptance of our products. Current and future consolidation among our competitors and customers also may cause a loss of market share as well as put downward pressure on pricing. Our competitors could cause a reduction in the prices for some of our products as a result of intensified price competition. Competitive pressures can also result in the loss of major customers. If we cannot compete successfully, our business, financial condition and results of operation could be adversely affected.

***We may discover weaknesses in our internal controls over financial reporting, which may adversely affect investor confidence in the accuracy and completeness of our financial reports and consequently the market price of our securities.***

We may discover weaknesses in our internal controls over financial reporting, which may adversely affect investor confidence in the accuracy and completeness of our financial reports and consequently the market price of our securities.

As a public company, we are required to design and maintain proper and effective internal controls over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act of 2002 requires that we evaluate and determine the effectiveness of our internal controls over financial reporting and provide a management report on the internal controls over financial reporting, which, when required, must be attested to by our independent registered public accounting firm. If we have a material weakness in our internal controls over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated.

The process of compiling the system and processing documentation necessary to perform the evaluation needed to comply with Section 404 is challenging and costly. In the future, we may not be able to complete our evaluation, testing, and any required remediation in a timely fashion. If we identify material weaknesses in our internal controls over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner, if we are unable to assert that our internal controls over financial reporting are effective, or if, when required, our independent registered public accounting firm

is unable to express an opinion as to the effectiveness of our internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our securities could be negatively affected, and we could become subject to investigations by the Financial Industry Regulatory Authority, the SEC, or other regulatory authorities, which could require additional financial and management resources.

**Cybersecurity risks and cyber incidents could adversely affect our business and disrupt operations.**

Cyber incidents can result from deliberate attacks or unintentional events. These incidents can include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. The result of these incidents could include, but are not limited to, disrupted operations, misstated financial data, liability for stolen assets or information, increased cyber security protection costs, litigation and reputational damage adversely affecting customer or investor confidence. We have taken steps to address these concerns and have implemented internal control and security measures to protect our systems and networks from security breaches; however, there can be no assurance that a system or network failure, or security breach, will not impact our business, results of operations and financial condition.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

The Company operates the major plants and facilities listed below, all of which are in adequate condition for their current usage and are able to accommodate our capacity needs for the immediate future. Substantially all of the value of the Company's leased plants and facilities relate to the Master Lease with Store Master Funding XII, LLC ("Store"), an affiliate of Store Capital Corporation ("Store Capital") that was entered into in 2016 and amended in 2019 and 2020; see [Note 7](#) to the consolidated financial statements included in [Item 8](#) of this Form 10-K for additional information on the Company's leases.

The following table sets forth certain information concerning our principal properties including which segment's products are supported out of each location:

Location	Principal Operations	Square Feet	Land Acres	Leased or Owned	Segment	
					Metals	Specialty Chemicals
Munhall, PA	Manufacturing stainless steel pipe	284,000	20.0	Leased	✓	
Bristol, TN	Manufacturing stainless steel pipe	275,000	73.1	Leased	✓	
Cleveland, TN	Chemical manufacturing and warehousing	143,000	18.8	Leased		✓
Fountain Inn, SC	Chemical manufacturing and warehousing	136,834	16.9	Leased		✓
Danville, VA	Chemical manufacturing and warehousing	135,811	55.3	Owned		✓
Andrews, TX	Liquid storage solutions and separation equipment	122,662	19.6	Leased	✓	
Troutman, NC	Manufacturing ornamental stainless steel tube	106,657	26.5	Leased	✓	
Statesville, NC	Manufacturing ornamental stainless steel tube	83,000	26.8	Leased	✓	
Houston, TX	Cutting facility and storage yard for heavy walled pipe	29,821	10.0	Leased	✓	
Mineral Ridge, OH	Cutting facility and storage yard for heavy walled pipe	12,000	12.0	Leased	✓	
Mineral Ridge, OH	Storage yard for heavy walled pipe	—	4.6	Leased	✓	

In addition to the facilities listed above, the Company leases from third parties the Company's executive office located in Richmond, Virginia and office space in Oak Brook, Illinois.

**Item 3. Legal Proceedings**

For a discussion of legal proceedings, see [Note 15](#) to the Consolidated Financial Statements included in [Item 8](#) of this Form 10-K.

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company had 368 common shareholders of record at March 28, 2022. The Company's common stock trades on the NASDAQ Global Market under the trading symbol SYNL. The Company's credit agreement restricts the payment of dividends indirectly through a minimum fixed charge coverage covenant. No dividends were declared or paid in 2021 or 2020.

#### Stock Performance Graph

The Company is a smaller reporting company as defined in Rule 12b-2 of the Exchange Act and is not required to provide this information.

#### Unregistered Sales of Equity Securities

Pursuant to the compensation arrangement with directors discussed under [Item 12](#) "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" in this Form 10-K, on May 20, 2021, the Company issued an aggregate of 22,026 shares of restricted stock to non-employee directors in lieu of \$214,000 of their annual cash retainer fees. These shares vest quarterly over a one year period. On May 25, 2021, the Company also issued an aggregate of 20,000 additional shares of restricted stock to the Company's new Chairman of the Board due to the increased responsibilities of the role. Issuance of these shares was not registered under the Securities Act of 1933 based on the exemption provided by Section 4(a)(2) thereof because no public offering was involved.

The Company also issued 180,658 shares of common stock in 2021 to management and key employees that vested pursuant to the 2015 Stock Awards Plans. Issuance of these shares was not registered under the Securities Act of 1933 based on the exemption provided by Section 4(a)(2) thereof because no public offering was involved.

#### Issuer Purchases of Equity Securities

Neither the Company, nor any affiliated purchaser (as defined in Rule 10b-18(a)(3) of the 1934 Act) on behalf of the Company repurchased any of the Company's securities during the fiscal quarter ended December 31, 2021.

#### Item 6. [Reserved]

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis summarizes the significant factors affecting our consolidated operating results, liquidity, and capital resources during the fiscal years ended December 31, 2021 and December 31, 2020. Unless otherwise noted, all references herein for the years 2021 and 2020 represent the fiscal years ended December 31, 2021 and 2020, respectively. We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. This discussion should be read in conjunction with our consolidated financial statements and notes to the consolidated financial statements included in this Annual Report that have been prepared in accordance with accounting principles generally accepted in the United States of America. This discussion and analysis is presented in five sections:

- Executive Overview
- Results of Operations and Non-GAAP Financial Measures
- Liquidity and Capital Resources
- Material Cash Requirements from Contractual and Other Obligations
- Critical Accounting Policies and Estimates

### Executive Overview

#### *Fiscal 2021 Highlights*

Consolidated net sales increased 30.7%, or \$78.7 million, compared to 2020 driven by increases in average selling price and pounds shipped as well as the Company's acquisition of DanChem, which is discussed in more detail below and in [Note 2](#) of the notes to the consolidated financial statements. Excluding the DanChem acquisition, net sales increased 28.5%, or \$73.0 million, over 2020.

Consolidated net income increased to \$20.2 million in 2021, compared to a net loss of \$27.3 million in 2020. Earnings per share increased to \$2.14 diluted earnings per share for the full-year 2021 compared to \$2.98 diluted loss per share in 2020. Excluding the DanChem acquisition, consolidated net income increased to \$19.6 million and earnings per share increased to \$2.08 diluted earnings per share.

For 2021, cash flows from operating activities were \$19.1 million, with \$1.5 million used for capital expenditures.

Throughout 2021, the Company experienced profitable growth across both business segments. In our Metals Segment, robust commodity pricing and improved throughput drove strong growth while in our Specialty Chemicals Segment customer demand and increased volumes helped to offset labor and raw materials constraints and drive growth in the segment.

During the fourth quarter of 2021, the Company announced it acquired DanChem, a leading full-service specialty chemicals contract manufacturing organization located on an owned 55-acre campus in Danville, Virginia. The DanChem facility boasts the largest fleet of horizontal reactors in the industry and produces a broad array of diversified products with a stable customer base. The addition of DanChem will enable the Company to bolster its chemical operations while providing significant opportunities to grow into new end-markets with a wide array of commercial offerings. DanChem positions the Company as one of the largest specialty chemical contract manufacturers in the U.S. and enhances the Company's ability to be a preferred acquirer for companies within the industry while continuing to strategically grow the specialty chemicals business through:

- *The Acceleration of Product Development Capabilities* – DanChem brings leading engineering and process development capabilities with a demonstrated track record of rapidly developing products for commercialization.
- *The Expansion of Process Offerings* – DanChem's production plants and horizontal reactors drastically accelerate the long-term investment plans of Synalloy Chemicals, providing differentiated assets, rail access and meaningful site acreage for continued expansion.
- *A Larger Presence in Target End-Markets and Applications* – DanChem brings additional customer relationships in target markets, including CASE (coatings, adhesives, sealants and elastomers), additives, industrial and agricultural chemistries.

Full-year 2021 results include \$5.7 million in net sales and \$0.6 million in operating income attributable to the DanChem operations acquired in the fourth quarter of 2021.

#### *COVID-19 Update*

The COVID-19 pandemic has had, and continues to have, a significant impact around the world, prompting governments and businesses to take unprecedented measures, such as restrictions on travel and business operations, temporary closures of businesses, and quarantine and shelter-in-place orders. The COVID-19 pandemic has at times significantly curtailed global economic activity and caused significant volatility and disruption in global financial markets. The COVID-19 pandemic and the measures taken in response have affected and could future materially impact the Company's business, results of operations and financial condition, as well as the Company's stock.

The Company has seen wide ranging impacts partially attributable to COVID-19 to date, including an adverse impact on our reported results and operations in 2020 and impacts to our supply chain in 2021. However, throughout 2021, economic conditions have improved, leading to increased demand for our products and positive operating results. The Company has also taken a number of steps to continue to improve its financial position throughout 2021 including :

- refinancing and expanding its revolving line of credit with a new lender to give the Company more favorable terms and increased liquidity;
- making the decision to permanently cease operations at the curtailed Palmer facility as of December 31, 2021 and to sublease the facility; and
- divesting the Company's ownership interest in N845BB Partners, LLC.

The extent of the continuing impact of the COVID-19 pandemic on the Company's operational and financial performance is uncertain and will depend on many factors outside the Company's control, including the timing, extent, trajectory and duration of the pandemic, the emergence of new variants, the development, availability, distribution and effectiveness of vaccines and treatments and the imposition of protective public safety measures. See Part I - [Item 1A](#), "Risk Factors," included herein for updates to our risk factors regarding risks associated with the COVID-19 pandemic.

#### **Results of Operations**

##### **Comparison of 2021 to 2020 – Consolidated**

Consolidated net sales for the full-year 2021 increased \$78.7 million, or 30.7%, over the full-year 2020 to \$334.7 million. The increase in net sales was primarily driven by a 19.5% increase in average price and a 9.1% increase in pounds shipped. Excluding DanChem, net sales increased \$73.0 million, or 28.5%, to \$329.0 million driven by a 18.5% increase in average selling price and a 8.1% increase in pounds shipped.

Full-year 2021 consolidated gross profit increased 168.3% to \$60.8 million, or 18.2% of sales, compared to \$22.7 million, or 8.8% of sales, in the full-year 2020. The increase in dollars and percentage of sales for the full-year 2021 were attributable to increased selling prices and a continued favorable surcharge market environment partially offset by increasing raw material and freight costs.

Consolidated selling, general and administrative expense (SG&A) for the full-year 2021 increased by \$1.4 million to \$30.1 million compared to \$28.7 million for the full-year 2020. SG&A as a percentage of sales was 9.0% of sales for 2021 and 11.2% of sales for 2020. The changes in SG&A expense were primarily driven by:

- Increases in incentive bonus expense of \$1.3 million primarily driven by higher attainment of performance goals in the current year over the prior year;
- Increases in personnel costs related to salaries, commissions and employee benefit costs of \$1.1 million;
- Increases in professional fees of \$0.2 million primarily driven by acquisition related costs; and,
- Increases in other expenses of \$0.4 million primarily driven by increases in taxes, licenses and insurance.

The full-year increases were partially offset by:

- Decreases in share-based payment expense of \$1.0 million primarily driven by a reduction of awards outstanding in the current year;
- Increases on gains recognized on the sale of assets of \$0.8 million primarily driven by wind down activities at the Palmer facility; and,



- Decreases in bad debt expense of \$0.2 million due to lower levels of uncollectible accounts in the current year.

Consolidated operating income for the full-year 2021 totaled \$27.4 million compared to an operating loss of \$31.1 million for the full-year 2020. The operating income increase for the full-year 2021 was primarily driven by increased demand driven sales, increases in average selling prices, a continued favorable surcharge market environment and goodwill and asset impairment expenses in 2020 that did not occur in 2021.

#### Comparison of 2021 to 2020 - Metals Segment

The following table summarizes operating results for the two years indicated. Reference should be made to [Note 13](#) to the consolidated financial statements included in [Item 8](#) of this Form 10-K.

<i>(in thousands)</i>	2021		2020	
	Amount	%	Amount	%
Net sales	\$ 267,238	100.0 %	\$ 204,459	100.0 %
Cost of goods sold	215,841	80.8 %	189,103	92.5 %
Gross profit	51,397	19.2 %	15,356	7.5 %
Selling, general and administrative expense	17,836	6.6 %	17,538	8.6 %
Asset impairment	—	— %	6,214	3.0 %
Goodwill impairment	—	— %	16,203	7.9 %
Operating income (loss)	<u>\$ 33,561</u>	<u>12.6 %</u>	<u>\$ (24,599)</u>	<u>(12.0)%</u>

Net sales for the Metals Segment totaled \$267.2 million for the full year of 2021, an increase of 30.7% compared to the full-year 2020. The increase in net sales was primarily driven by a 15.7% increase in average selling prices and a 12.5% increase in pounds shipped.

The net sales increase (decrease) for the full-year 2021 compared to the full-year 2020 is summarized as follows:

<i>(in thousands)</i>	\$	%	Average Selling Price <sup>(1)</sup>	Units Shipped
Fiberglass and steel liquid storage tanks and separation equipment	\$ (4,159)	(75.6)%	(29.7)%	(62.6)%
Heavy wall seamless carbon steel pipe and tube	16,869	71.3 %	14.7 %	49.3 %
Stainless steel pipe and tube	31,676	20.4 %	14.0 %	5.6 %
Galvanized pipe and tube	18,393	90.6 %	65.9 %	14.9 %
Total increase	<u>\$ 62,779</u>			

<sup>(1)</sup> Average price increases (decreases) for the full-year 2021 as compared to the full-year 2020 relate to the following:

- Fiberglass and steel liquid storage tanks and separation equipment - due to the curtailment of Palmer operations and decision to sublease facility;
- Heavy wall seamless carbon steel pipe and tube - increase due to demand driven price increases and raw material availability;
- Stainless steel pipe and tube - increase due to demand driven price increases and raw material availability, and;
- Galvanized pipe and tube - increase due to improvement in indexed pricing.

SG&A expense increased \$0.3 million, or 1.7%, for the full-year 2021 when compared to 2020. SG&A as a percentage of sales was 6.7% of sales for 2021 and 8.6% of sales for 2020. The changes in SG&A expense were primarily driven by:

- Increases in personnel costs related to salaries, commissions and employee benefit costs of \$1.5 million; and,
- Increases in incentive bonus of \$1.0 million primarily driven by higher attainment of performance goals in the current year over the prior year.

The full-year increases were partially offset by:

- Increases on gains recognized on the sale of assets of \$1.0 million related to wind down activities at the Palmer facility;
- Decreases in bad debt expense of \$0.6 million due to lower levels of uncollectible accounts in the current year; and,
- Decreases in share-based payment expense of \$0.2 million primarily driven by a reduction of awards outstanding in the current year.

Operating income increased to \$33.6 million for the full-year 2021 compared to an operating loss of \$24.6 million for the full-year 2020. The current year operating income increase was primarily driven by increased demand driven sales, increases in average selling prices, a continued favorable surcharge market environment and goodwill and asset impairments in the full-year 2020 that did not occur in the full-year 2021.

#### Comparison of 2021 to 2020 – Specialty Chemicals Segment

The following tables summarize operating results for the two years indicated. Reference should be made to [Note 13](#) to the consolidated financial statements included in [Item 8](#) of this Form 10-K.

<i>(in thousands)</i>	2021		2020	
	Amount	%	Amount	%
Net sales	\$ 67,477	100.0 %	\$ 51,541	100.0 %
Cost of goods sold	57,627	85.4 %	43,736	84.9 %
Gross profit	9,850	14.6 %	7,805	15.1 %
Selling, general and administrative expense	5,961	8.8 %	3,772	7.3 %
Asset impairment	233	0.3 %	—	— %
Operating income	<b>\$ 3,656</b>	<b>5.4 %</b>	<b>\$ 4,033</b>	<b>7.8 %</b>

Net sales for the Specialty Chemicals Segment increased 30.9%, or \$15.9 million, to \$67.5 million for 2021 compared to \$51.5 million in 2020. The increase in net sales was primarily driven by a 26.7% increase in average selling prices and a 3.8% increase in pounds shipped. Excluding DanChem, net sales increased \$10.2 million, or 19.9%, to \$61.8 million driven by a 18.9% increase in average selling prices and a 1.3% increase in pounds shipped.

SG&A expense increased \$2.2 million or 58.0%, to \$6.0 million in 2021 when compared to 2020. Excluding the DanChem acquisition, SG&A expense increased \$1.3 million, or 35.2% compared to 2020. SG&A as a percentage of sales increased to 8.8% in 2021 from 7.3% in 2020. The changes in SG&A expense were primarily driven by:

- Increases in personnel costs related to salaries, commissions and employee benefit costs of \$1.4 million;
- Increases in bad debt expense of \$0.3 million primarily driven by an increase in uncollectible accounts in the current year;
- Increases in travel expense of \$0.1 million; and,
- Increases in professional fees of \$0.1 million.

The full-year increases were partially offset by:

- Decreases in incentive bonus of \$0.2 million primarily driven by lower attainment of performance goals in the current year over the prior year; and,
- Decreases in share-based payment expense of \$0.1 million primarily driven by a reduction of awards outstanding in the current year.

Operating income decreased to \$3.7 million for the full-year 2021 compared to operating income of \$4.0 million for the full-year 2020. The decrease in operating income was primarily driven by the aforementioned increases in SG&A expense.

#### Comparison of 2021 to 2020 - Corporate

Corporate expenses decreased \$1.1 million to \$6.8 million, or 2.0% of sales, in 2021 down from \$7.9 million, or 3.1% of sales, in 2020. The full-year decrease resulted primarily from:

- Decreases in personnel costs related to salaries, wages and employee benefits of \$1.7 million driven by a reduction in severance expense in the current year over the prior year;
- Decreases in share-based compensation of \$0.8 million over the prior year driven by a reduction in awards outstanding; and,
- Decreases in travel expense of \$0.3 million due to continued reductions in non-essential travel in response to the on-going COVID-19 pandemic.

The full-year decreases were partially offset by increases in :

- Incentive bonus expense of \$0.6 million as a result of higher attainment of performance goals in the current year over the prior year; and,
- Other corporate overhead expenses of \$0.8 million driven primarily by increases in taxes and licenses and insurance expense.

Interest expense was \$1.5 million and \$2.1 million for the full-years of 2021 and 2020, respectively. The decrease was primarily driven by more favorable interest rates associated the Company's debt refinance in the first quarter of 2021.

#### **Non-GAAP Financial Measures**

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

#### *EBITDA and Adjusted EBITDA*

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

Consolidated EBITDA and Adjusted EBITDA are as follows:

<i>(\$ in thousands)</i>	<b>Year Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Consolidated</b>		
Net income (loss)	\$ 20,245	\$ (27,267)
Adjustments:		
Interest expense	1,486	2,110
Change in fair value of interest rate swap	(2)	51
Income taxes	5,253	(4,706)
Depreciation	7,547	7,572
Amortization	2,794	3,028
<b>EBITDA</b>	<b>37,323</b>	<b>(19,212)</b>
Acquisition costs and other	1,001	861
Proxy contest costs and recoveries	168	3,105
Loss on extinguishment of debt	223	—
Earn-out adjustments	1,872	(1,195)
Loss (gain) on investments in equity securities and other investments	363	(170)
Asset impairment	233	6,214
Goodwill impairment	—	16,203
Gain on lease modification	—	(171)
Stock-based compensation	799	1,791
Non-cash lease expense	481	510
Retention expense	500	235
Restructuring and severance costs	1,345	1,076
<b>Adjusted EBITDA</b>	<b>\$ 44,308</b>	<b>\$ 9,247</b>
% sales	<b>13.2 %</b>	<b>3.6 %</b>

Metals Segment EBITDA and Adjusted EBITDA are as follows:

<i>(\$ in thousands)</i>	<b>Year Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Metals Segment</b>		
Net income (loss)	\$ 31,893	\$ (22,388)
Adjustments:		
Interest expense	—	11
Depreciation	5,485	5,855
Amortization	2,721	3,028
<b>EBITDA</b>	<b>40,099</b>	<b>(13,494)</b>
Acquisition costs and other	—	16
Earn-out adjustments	1,872	(1,195)
Asset impairment	—	6,214
Goodwill impairment	—	16,203
Stock-based compensation	129	303
Retention expense	500	—
Restructuring and severance costs	363	—
<b>Metals Segment Adjusted EBITDA</b>	<b>\$ 42,963</b>	<b>\$ 8,047</b>
% of segment sales	16.1 %	3.9 %

Specialty Chemicals Segment EBITDA and Adjusted EBITDA are as follows:

<i>(\$ in thousands)</i>	<b>Year Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Specialty Chemicals Segment</b>		
Net income	\$ 3,589	\$ 4,046
Adjustments:		
Interest expense	11	9
Depreciation	1,932	1,552
Amortization	73	—
<b>EBITDA</b>	<b>5,605</b>	<b>5,607</b>
Acquisition costs and other	61	—
Asset impairment	233	—
Stock-based compensation	165	207
Restructuring and severance costs	484	—
<b>Specialty Chemicals Segment Adjusted EBITDA</b>	<b>\$ 6,548</b>	<b>\$ 5,814</b>
% of segment sales	9.7 %	11.3 %

## Liquidity and Capital Resources

### Summary

We closely manage our liquidity and capital resources. Our liquidity requirements depend on key variables, including level of investment required to support our business strategies, the performance of our business, capital expenditures, credit facilities and working capital management. Capital expenditures and share repurchases are a component of our cash flow and capital.

### Cash Flows

Cash flows were as follows:

<i>(in thousands)</i>	Year ended December 31,	
	2021	2020
Total cash provided by (used in):		
Operating activities	19,055	17,978
Investing activities	(32,661)	994
Financing activities	15,391	(19,362)
Net increase (decrease) in cash and cash equivalents	\$ 1,785	\$ (390)

### Operating Activities

The increase in net cash provided by operating activities for the full-year 2021 compared to the full-year 2020 was primarily driven by higher net earnings partially offset by changes in working capital. Accounts receivable decreased operating cash flow for 2021 by approximately \$21.7 million over 2020 driven by an increase in net sales partially offset by a decrease in days sales outstanding to 43 days as of December 31, 2021 from 45 days as of December 31, 2020. The decrease in days sales outstanding was driven by increased collection efforts in the current year. Inventory decreased operating cash flow for 2021 by approximately \$28.0 million over 2020 driven by higher purchases to meet increased customer demand partially offset by increases in inventory turns to 2.91 turns as of December 31, 2021 from 2.55 turns as of December 31, 2020. The increases in cash used from accounts receivable and inventory were partially offset by an increase in cash provided by accounts payable due to an increase in days payables outstanding to 35 days as of December 31, 2021 from 32 days as of December 31, 2020, as well as changes in accrued income taxes driven in part by tax benefits received as part of the CARES Act.

### Investing Activities

Net cash used in investing activities primarily consists of transactions related to capital expenditures, proceeds from the disposal of property, plant and equipment and acquisitions. The increase in cash used in investing activities for the full-year 2021 compared to cash provided by investing activities for the full-year 2020 was primarily driven by an increase in cash outflows related to the DanChem acquisition in the current year partially offset by a decrease in capital expenditures in the current year over the prior year.

### Financing Activities

Net cash used in financing activities primarily consist of transactions related to our long-term debt. The increase in net cash provided by financing activities for the full-year 2021 compared to net cash used in financing activities in the full-year 2020 was primarily due to increased borrowings against the Company's asset backed line of credit driven by the acquisition of DanChem and proceeds received from the Company's Rights Offering in the fourth quarter of 2021.

### Sources of Liquidity

Funds generated by operating activities, available cash and cash equivalents and our credit facilities are our most significant sources of liquidity. Our existing cash, cash equivalents, and credit facilities balances may fluctuate during 2022. Cash from operations could also be affected by various risks and uncertainties, including, but not limited to, continued effects of the pandemic and other risks detailed in [Item 1A](#) - Risk Factors of this report. We believe our current sources of liquidity will be sufficient to fund operations, debt obligations and anticipated capital expenditures over the next 12 months.

On January 15, 2021, the Company and its subsidiaries entered into a new Credit Agreement with BMO Harris Bank N.A. ("BMO"). The new Credit Agreement provides the Company with a new four-year revolving credit facility with up to

\$150.0 million of borrowing capacity (the "Facility"). The Facility refinances and replaces the Company's previous \$100.0 million asset based revolving line of credit with Truist (the "Truist Line"), which was scheduled to mature on December 20, 2021, and the remaining portion of the Company's five-year \$20 million term loan with Truist (the "Truist term loan"), which was scheduled to mature on February 1, 2024.

The initial borrowing capacity under the Facility totals \$110.0 million consisting of a \$105.0 million revolving line of credit and a \$5.0 million delayed draw term loan. The revolving line of credit includes a \$17.5 million machinery and equipment sub-limit which requires quarterly payments of \$0.4 million with a balloon payment due upon maturity of the Facility in January 2025. The term loan requires quarterly payments of \$0.2 million with a balloon payment due upon maturity of Facility in January 2025.

We have pledged all of our accounts receivable, inventory, and certain machinery and equipment as collateral for the Credit Agreement. Availability under the Credit Agreement is subject to the amount of eligible collateral as determined by the lenders' borrowing base calculations. Amounts outstanding under the revolving line of credit portion of the Facility currently bear interest, at the Company's option, at (a) the Base Rate (as defined in the Credit Agreement) plus 0.50%, or (b) LIBOR plus 1.50%. Amounts outstanding under the delayed draw term loan portion of the Facility bear interest at LIBOR plus 1.65%. The Facility also provides an unused commitment fee based on the daily used portion of the Facility.

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

As of December 31, 2021, the Company has \$39.4 million of remaining availability under its credit facility.

#### *Stock Repurchases and Dividends*

We may repurchase common stock and pay dividends from time to time pursuant to programs approved by our Board of Directors. The payment of cash dividends is also subject to customary legal and contractual restrictions. Our capital allocation strategy is to first fund operations and investments in growth and then return excess cash over time to shareholders through share repurchases and dividends.

On February 17, 2021, the Board of Directors re-authorized the Company's share repurchase program. The previous share repurchase program had a term of 24 months and terminated on February 21, 2021. The share repurchase program allows for repurchase of up to 790,383 shares of the Company's outstanding common stock over 24 months. The shares will be purchased from time to time at prevailing market prices, through open market or privately negotiated transactions, depending on market conditions. Under the program, the purchases will be funded from available working capital, and the repurchased shares will be returned to the status of authorized, but unissued shares of common stock or held in treasury. There is no guarantee as to the exact number of shares that will be repurchased by the Company, and the Company may discontinue purchases at any time that management determines additional purchases are not warranted. As of December 31, 2021, the Company has 790,383 shares of its share repurchase authorization remaining.

Stock repurchase activity was as follows:

	Year ended December 31,	
	2021	2020
Number of shares repurchased	—	59,617
Average price per share	\$ —	\$ 10.65
Total cost of shares repurchased	\$ —	\$ 636,940

At the end of each fiscal year, the Board reviews the financial performance and capital needed to support future growth to determine the amount of cash dividend, if any, which is appropriate. In 2021 and 2020, no dividends were declared or paid by the Company.

### Other Financial Measures

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

#### Liquidity Measure:

- Current ratio = current asset divided by current liabilities. The current ratio will be determined by the Company using generally accepted accounting principles, consistently applied.

#### Leverage Measure:

- Debt to capital = Total debt divided by total capital. The debt to capital ratio will be determined by the Company using generally accepted accounting principles, consistently applied.

#### Profitability Ratio:

- Return on average equity ("ROAE") = net income divided by the trailing 12-month average of equity. The ROAE will be determined by the Company using generally accepted accounting principles, consistently applied.

Results of these additional financial measures are as follows:

	Year ended December 31,	
	2021	2020
Current ratio	3.3	4.1
Debt to capital	39%	43%
Return on average equity	21.1%	(29.2)%

### Material Cash Requirements from Contractual and Other Obligations

As of December 31, 2021, our material cash requirements for our known contractual and other obligations were as follows:

- *Debt Obligations and Interest Payments* - Outstanding obligations on our revolving credit facility and term loan were \$65.6 million and \$4.8 million, respectively, with \$2.5 million payable within 12 months. The interest payments on our remaining borrowings will be determined based upon the average outstanding balance of our borrowings and the prevailing interest rate during that time. See [Note 6](#) for further detail of our debt and the timing of expected future payments.
- *Operating and Finance Leases* - The Company enters into various lease agreements for real estate and manufacturing equipment used in the normal course of business. Operating and finance lease obligations were \$34.8 million, with \$1.3 million payable within 12 months. See [Note 7](#) for further detail of our lease obligations and the timing of expected future payments.

The Company has no off-balance sheet arrangements that are reasonably likely to have a material current or future effect on the Company's financial position, revenues, results of operations, liquidity, or capital expenditures. We expect capital spending in fiscal 2022 to be as much as \$10.0 million.

### Critical Accounting Policies and Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments based on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our significant accounting policies are described in [Note 1](#) to the consolidated financial statements included herein. We believe the following accounting policies affect the most significant estimates and management judgments used in the preparation of the Company's consolidated financial statements.



## **Business Combinations**

### *Description*

Business combinations are accounted for using the acquisition method of accounting in accordance with GAAP. Under this method, the total consideration transferred to consummate the business combination 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 transaction.

### *Judgments and uncertainties involved in the estimate*

The acquisition method of accounting requires extensive use of estimates and judgments to allocate the consideration transferred to the identifiable tangible and intangible assets, if any, acquired and liabilities assumed. Fair value determinations involve significant assumptions about highly subjective variables, including future cash flows, discount rates, and expected business performance. There are also different valuation models and inputs for each component, the selection of which requires considerable judgment. Our estimates and assumptions may be based, in part, on the availability of listed market prices or other transparent market data. These determinations will affect the amount of amortization expense recognized in future periods as well the allocation of goodwill, if any, attributable to the transaction.

### *Effect if actual results differ from assumptions*

We base our fair value estimates on assumptions we believe are reasonable, but recognize the assumptions are inherently uncertain. Depending on the size of the purchase price of a particular acquisition, the mix of intangible assets acquired and expected business performance, the purchase price allocation could be materially impacted by applying a different set of assumptions and estimates. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

## **Earn-Out Liabilities**

### *Description*

Our acquisitions may include earn-out liabilities (contingent consideration) as part of the purchase price. In connection with the American Stainless, MUSA-Galvanized and MUSA-Stainless acquisitions, we are required to make quarterly earn-out payments based on certain performance metrics determined at the time of the acquisition. These quarterly earn-out payments end in 2022. The fair value of the earn-out liabilities is estimated as of the acquisition date based on the present value of the contingent payments to be made using the probability-weighted expected return method. Each quarter-end, the Company re-evaluates its assumptions for all earn-out liabilities and adjusts to reflect the updated fair values.

### *Judgments and uncertainties involved in the estimate*

Our earn-out liability evaluations require us to apply judgment surrounding the unobservable inputs used in the determination of the fair value of the earn-out liabilities. The calculations require us to apply judgment in estimating expected pounds to be shipped and future price per pound. We apply judgment in estimating future payments, including the selection of an appropriate discount rate to determine the present value of the contingent payments to be made and liability balance at a period end.

### *Effect if actual results differ from assumptions*

We have not made any material changes in the methodology used to establish our earn-out liabilities in the past two fiscal years. This approach reasonably estimates future payments related to the earn-out liabilities, however, it is possible that actual results could differ from recorded earn-out liabilities. 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. For instance, a 10% change in estimated pounds shipped or future price per pound used in our earn-out liability calculation would not have had a material effect on earnings for 2021.

## **Goodwill**

### *Description*

Goodwill is the excess of the purchase price over the fair value of identifiable assets acquired, less fair value of liabilities assumed, in a business combination. The Company reviews goodwill for impairment at the reporting unit level, which is the operating segment level or one level below the operating segment level. A reporting unit is an operating segment or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by segment management. Goodwill is not amortized but is evaluated for impairment at least annually on October 1

or whenever events or changes in circumstances indicate that it is more likely than not that the carrying amount may not be recoverable. The evaluation begins with a qualitative assessment to determine whether a quantitative impairment test is necessary. If, after assessing qualitative factors, we determine it is more likely than not that the fair value of the reporting unit is less than the carrying amount, then the quantitative goodwill impairment test is performed.

*Judgments and uncertainties involved in the estimate*

We make various estimates and assumptions about our goodwill, including whether any potential impairment events have occurred. Examples of such events or changes in circumstances, many of which are subjective in nature, include the following:

- Significant negative industry or economic trends;
- A significant change in the use of the acquired assets or our strategy;
- A significant divestiture or other disposition activity;
- A significant decrease in the market value of the asset;
- A significant change in legal factors or the business climate that could affect the value of the asset; and
- A change in segment by one or more reporting unit

Additionally, we make estimates and assumptions regarding the inputs used to perform a quantitative assessment of our goodwill, if necessary. The Company performed a discounted cash flow analysis and a market multiple analysis. The discounted cash flow analysis included management assumptions for expected sales growth, capital expenditures and overall operational forecasts. The market multiple analysis included historical and projected performance, market capitalization, volatility and multiples for industry peers.

*Effect if actual results differ from assumptions*

We have not made any material changes in our methodology used to determine whether potential impairment events have occurred or any material changes in the estimates and assumptions used in our quantitative goodwill impairment testing. During 2021, goodwill was allocated to the Company's Specialty Chemicals Segment and as of December 31, 2021, we determined that no impairment of the carrying value of goodwill for this reporting unit was required. During the third and fourth quarter of 2020, the Company determined potential indicators of impairment existed within our Welded Pipe and Tube reporting unit existed and quantitatively tested the goodwill assigned to the reporting unit for impairment. As a result of the quantitative analysis, the Company incurred goodwill impairment expenses of \$16.2 million. In the event that our estimates vary from actual results, we may record additional impairment losses, which could be material to our results of operations.

**Inventory**

*Description*

Inventory is stated at the lower of cost or net realizable value. Cost is determined by either specific identification or weighted average methods. At the end of each quarter, all facilities review recent sales reports to identify sales price trends that would indicate products or product lines that are being sold below our cost. This would indicate that an adjustment would be required.

We record an obsolete inventory reserve for identified finished goods with no sales activity and raw materials with no usage. This reserve is based on our current knowledge with respect to inventory levels, sales trends and historical experience. During 2021, our reserve increased approximately \$0.9 million to \$1.1 million as of December 31, 2021.

We also record an inventory reserve for the estimated shrinkage (quantity losses) between physical inventories. This reserve is based upon the most recent physical inventory results. During 2021, the inventory shrink reserve decreased approximately \$0.3 million to \$0.2 million as of December 31, 2021, in response to estimated shrinkage rates based on results from previous physical inventories.

*Judgments and uncertainties involved in the estimate*

We do not believe that our inventories are subject to significant risk of obsolescence in the near term and we have the ability to adjust purchasing practices based on anticipated sales trends and general economic conditions. However, changes in demand, product life cycle, cost trends, product pricing or a deterioration in product quality could result in the need for additional reserves. Likewise, changes in the estimated shrink reserve may be necessary, based on the timing and results of physical inventories. We also apply judgment in the determination of levels of obsolete inventory and assumptions about net realizable value.

*Effect if actual results differ from assumptions*

We have not made any material changes in the methodology used to establish our reserves for obsolete inventory or inventory shrinkage during the past two fiscal years. However, it is possible that actual results could differ from recorded reserves. For instance, a 10% change in the amount of products considered obsolete or the estimated shrinkage rate would not have had a material impact on net earnings for 2021.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

The Company is a smaller reporting company as defined in Rule 12b-2 of the Exchange Act and is not required to provide the information required by this Item.

## Item 8. Financial Statements and Supplementary Data

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## Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors  
Synalloy Corporation  
Richmond, Virginia

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Synalloy Corporation (the “Company”) as of December 31, 2021, the related consolidated statements of operations, shareholders’ equity, and cash flows for the year ended December 31, 2021, and the related notes and schedules (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021, and the results of its operations and its cash flows for the year ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We also have audited the adjustments to the 2020 consolidated financial statements described in Note 9 and 12 to the consolidated financial statements to retrospectively apply the change in presentation of earnings per share for a deemed stock dividend related to a rights offering. In our opinion, such retrospective adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2020 financial statements of the Company other than with respect to the retrospective adjustments, and accordingly, we do not express an opinion or any other form of assurance on the 2020 financial statements taken as a whole.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

## Business Combination

As described in Notes 1 and 2 of the consolidated financial statements, the Company completed its acquisition of DanChem Technologies, Inc on October 22, 2021, for a preliminary purchase price of \$34.1 million. As a result of the acquisition, management was required to estimate the preliminary fair values of the assets acquired, including certain identifiable intangible and tangible assets, and liabilities assumed. Estimates and assumptions that the Company made in estimating the preliminary fair value of the customer relationship and the machinery, fixtures, and equipment required use of estimates and judgments.

We identified the determination of the preliminary fair values of the customer relationships and machinery, fixtures, and equipment assets, as a critical audit matter. The principal considerations for our determination included the following: (i) significant unobservable inputs and assumptions utilized by management in determining the fair value of customer relationships, including future revenue growth, customer attrition rate, and the weighted average cost of capital; and (ii) significant estimates and assumptions to determine the estimated fair value of the machinery, fixtures, and equipment by considering the loss in value caused by physical deterioration, functional obsolescence, and economic obsolescence. Auditing these elements involved especially challenging and subjective auditor judgment due to the nature and extent of audit effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Assessing the reasonableness of significant underlying assumptions used to calculate the preliminary fair value of customer relationships through (i) evaluating the earnings before interest, taxes, depreciation and amortization (“EBITDA”) margin utilizing the historical performance of the acquired entity, (ii) evaluating the reasonableness of the revenue growth rate utilizing historical performance of the acquired entity and external and industry data, and (iii) evaluating the reasonableness of customer attrition including testing and validating the underlying data utilized in estimating future customer attrition and considering the potential effect of changes in the assumption on future cash flows.
- Testing and validating the existence of machinery, fixtures, and equipment assets.
- Utilizing professionals with specialized knowledge and skill in valuation to assist in (i) evaluating the qualifications of the valuation specialists used by management, (ii) evaluating the valuation methodology applied by management to estimate the preliminary fair value of customer relationships, (iii) testing specific assumptions including the weighted average cost of capital, (iv) evaluating the valuation methodology applied by management to estimate the preliminary fair value of the machinery, fixtures, and equipment, (v) comparing the asset categories selected by management to the asset descriptions in the fixed asset listing, (vi) independently recalculating the estimated current reproduction cost new (“CRN”) of certain assets in the fixed asset listing, and (vii) independently recalculating the estimated CRN, less depreciation of certain assets in the fixed asset listing, to account for physical deterioration, functional obsolescence, and economic obsolescence.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2021.

Richmond, Virginia

March 29, 2022

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
Synalloy Corporation:

### *Opinion on the Consolidated Financial Statements*

We have audited, before the effects of the retrospective application of the 2021 Rights Offering described in Note 9 and Note 12 (the earnings per share retrospective adjustment), the consolidated balance sheet of Synalloy Corporation and subsidiaries (the Company) as of December 31, 2020, the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for the year then ended, and the related notes and financial statement Schedule II (collectively, the consolidated financial statements). The 2020 consolidated financial statements before the effects of the earnings per share retrospective adjustment are not presented herein. In our opinion, except for the effects of the earnings per share retrospective adjustment, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We were not engaged to audit, review, or apply any procedures to the earnings per share retrospective adjustment, accordingly, we do not express an opinion or any other form of assurance about whether such adjustment is appropriate and has been properly applied. This adjustment was audited by other auditors.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ KPMG, LLP

We served as the Company's auditor from 2015 to 2021.

Richmond, Virginia  
March 9, 2021

**SYNALLOY CORPORATION**  
**Consolidated Balance Sheets**  
**As of December 31, 2021 and 2020**  
(in thousands, except par value and share data)

	2021	2020
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,021	\$ 236
Accounts receivable, net	50,126	28,183
Inventories, net		
Raw materials	48,448	35,997
Work-in-process	24,990	20,304
Finished goods	29,811	28,779
Total inventories, net	103,249	85,080
Prepaid expenses and other current assets	3,728	13,384
Assets held for sale	855	—
Total current assets	159,979	126,883
Property, plant and equipment, net	43,720	35,096
Right-of-use assets, operating leases, net	30,811	31,769
Goodwill	12,637	1,355
Intangible assets, net	14,382	11,426
Deferred charges, net	302	455
Other non-current assets	4,171	—
Total assets	<u>\$ 266,002</u>	<u>\$ 206,984</u>
<b>Liabilities and Shareholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 32,318	\$ 19,732
Accounts payable - related parties	2	—
Accrued expenses and other current liabilities	12,407	6,123
Current portion of long-term debt	2,464	875
Current portion of earn-out liability	1,961	3,434
Current portion of operating lease liabilities	1,104	867
Current portion of finance lease liabilities	233	19
Total current liabilities	50,489	31,050
Long-term debt	67,928	60,495
Long-term portion of earn-out liability	—	287
Long-term portion of operating lease liabilities	32,059	32,771
Long-term portion of finance lease liabilities	1,414	37
Deferred income taxes	2,433	1,957
Other long-term liabilities	89	92
Total liabilities	154,412	126,689
Commitments and contingencies – see Note 15		
Shareholders' equity:		
Common stock - \$1 par value: Authorized 24,000,000 shares; issued 11,085,103 and 10,300,000 shares, respectively	11,085	10,300
Capital in excess of par value	46,058	37,719
Retained earnings	63,080	42,835
	120,223	90,854
Less cost of common stock in treasury - 918,471 and 1,123,319 shares, respectively	8,633	10,559
Total shareholders' equity	111,590	80,295
Total liabilities and shareholders' equity	<u>\$ 266,002</u>	<u>\$ 206,984</u>

See accompanying notes to consolidated financial statements.



**SYNALLOY CORPORATION**  
**Consolidated Statements of Operations**  
**For the years ended December 31, 2021 and 2020**  
(in thousands, except per share data)

	<b>2021</b>	<b>2020</b>
Net sales	\$ 334,715	\$ 256,000
Cost of sales	273,949	233,348
Gross profit	60,766	22,652
Selling, general and administrative expense	30,144	28,718
Acquisition costs and other	1,001	845
Proxy contest costs and recoveries	168	3,105
Earn-out adjustments	1,872	(1,195)
Asset impairment	233	6,214
Goodwill impairment	—	16,203
Gain on lease modification	—	(171)
Operating income (loss)	27,348	(31,067)
Other (income) and expense		
Interest expense	1,486	2,110
Loss on extinguishment of debt	223	—
Change in fair value of interest rate swap	(2)	51
Other, net	143	(1,255)
Income (loss) before income taxes	25,498	(31,973)
Income tax provision (benefit)	5,253	(4,706)
Net income (loss)	\$ 20,245	\$ (27,267)
Net income (loss) per common share:		
Basic	\$ 2.17	\$ (2.98)
Diluted	\$ 2.14	\$ (2.98)
Weighted average number of common shares outstanding:		
Basic	9,340	9,140
Diluted	9,456	9,140

*See accompanying notes to consolidated financial statements.*

**SYNALLOY CORPORATION**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2021 and 2020**  
(in thousands)

	2021	2020
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 20,245	\$ (27,267)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	7,547	7,572
Amortization expense	2,794	3,028
Amortization of debt issuance costs	95	177
Asset impairment	233	6,214
Goodwill impairment	—	16,203
Loss on extinguishment of debt	223	—
Unrealized gain on equity securities	—	(208)
Deferred income taxes	(2,071)	1,167
Proceeds from business interruption insurance	—	1,040
Loss on sale of equity securities	—	38
Earn-out adjustments	1,872	(1,195)
Payments of earn-out liabilities in excess of acquisition date fair value	(138)	(292)
(Reduction of) provision for losses on accounts receivable	(398)	890
Provision for losses on inventories	1,649	271
(Gain) loss on disposal of property, plant and equipment	(848)	237
Non-cash lease expense	481	510
Non-cash lease termination loss	5	24
Gain on lease modification	—	(171)
Change in fair value of interest rate swap	(2)	51
Payments for termination of interest rate swap	(46)	—
Issuance of treasury stock for director fees	132	345
Share-based compensation expense	799	1,791
Changes in operating assets and liabilities:		
Accounts receivable	(16,185)	5,552
Inventories	(18,873)	9,122
Other assets and liabilities	(55)	(912)
Accounts payable	10,835	(1,418)
Accounts payable - related parties	2	—
Accrued expenses	1,506	86
Accrued income taxes	9,253	(4,877)
<b>Net cash provided by operating activities</b>	<b>19,055</b>	<b>17,978</b>
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(1,497)	(3,748)
Proceeds from disposal of property, plant and equipment	1,400	312
Proceeds from sale of equity securities	—	4,430
Acquisitions, net of cash acquired	(32,564)	—
<b>Net cash (used in) provided by investing activities</b>	<b>(32,661)</b>	<b>994</b>
<b>Cash flows from financing activities:</b>		
Borrowings from long-term debt	215,528	—
Proceeds from the issuance of common stock related to Rights Offering	10,010	—
Proceeds from exercise of stock options	109	—
Payments on long-term debt	(206,505)	(4,000)
Payments on BB&T line of credit	—	(10,184)
Principal payments on finance lease obligations	(92)	(109)
Payments for finance lease terminations	—	(204)
Payments on earn-out liabilities	(3,494)	(3,946)
Repurchase of common stock	—	(635)
Payments of deferred financing costs	(165)	(284)
<b>Net cash provided by (used in) financing activities</b>	<b>15,391</b>	<b>(19,362)</b>
Increase (Decrease) in cash and cash equivalents	1,785	(390)
<b>Cash and cash equivalents at beginning of year</b>	<b>236</b>	<b>626</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 2,021</b>	<b>\$ 236</b>

See accompanying notes to consolidated financial statements.

**SYNALLOY CORPORATION**  
**Consolidated Statements of Shareholders' Equity**  
**For the years ended December 31, 2021 and 2020**  
(in thousands, except share and per share data)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Cost of Common Stock in Treasury	Total
<b>Balance December 31, 2019</b>	<b>\$ 10,300</b>	<b>\$ 37,407</b>	<b>\$ 70,552</b>	<b>\$ (11,748)</b>	<b>\$ 106,511</b>
Net loss	—	—	(27,267)	—	(27,267)
Cumulative adjustment due to adoption of ASU 2016-13	—	—	(450)	—	(450)
Issuance of 194,082 shares of common stock from treasury	—	(1,479)	—	1,824	345
Share-based compensation	—	1,791	—	—	1,791
Purchase of common stock	—	—	—	(635)	(635)
<b>Balance December 31, 2020</b>	<b>\$ 10,300</b>	<b>\$ 37,719</b>	<b>\$ 42,835</b>	<b>\$ (10,559)</b>	<b>\$ 80,295</b>
Net income	—	—	20,245	—	20,245
Issuance of 785,103 shares of common stock - Rights Offering	785	9,225	—	—	10,010
Issuance of 191,673 shares of common stock from treasury	—	(1,670)	—	1,802	132
Exercise of stock options for 13,174 shares, net	—	(15)	—	124	109
Share-based compensation	—	799	—	—	799
<b>Balance December 31, 2021</b>	<b>\$ 11,085</b>	<b>\$ 46,058</b>	<b>\$ 63,080</b>	<b>\$ (8,633)</b>	<b>\$ 111,590</b>

See accompanying notes to consolidated financial statements.

**Notes to Consolidated Financial Statements**

**Note 1: Summary of Significant Accounting Policies**

Synalloy Corporation (the "Company") was incorporated in Delaware in 1958 as the successor to a chemical manufacturing business founded in 1945. Its charter is perpetual. The name was changed on July 31, 1967 from Blackman Uhler Industries, Inc. The Company's executive office is located at 4510 Cox Road, Suite 201, Richmond, Virginia 23060.

The Company's business is divided into two reportable operating segments, the Metals Segment and the Specialty Chemicals Segment. As of December 31, 2021, the Metals Segment operates as three reporting units that include Bristol Metals, LLC ("BRISMET") and American Stainless Tubing, LLC ("ASTI") (collectively "Welded Pipe & Tube"), Palmer of Texas Tanks, Inc. ("Palmer") and Specialty Pipe & Tube, Inc. ("Specialty"). As discussed in [Note 4](#), on February 17, 2021 the Board of Directors authorized the permanent cessation of operations at Palmer and the subleasing of the Palmer facility. As of December 31, 2021, the Company permanently ceased operations and is in the process of divesting all remaining assets at the facility. The Specialty Chemicals Segment operates as one reportable unit and is comprised of Manufacturers Chemicals, LLC ("MC"), a wholly-owned subsidiary of Manufacturers Soap and Chemical Company ("MS&C"), CRI Tolling, LLC ("CRI") and DanChem Technologies, Inc. ("DanChem").

**Principles of Consolidation** - The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated.

**Use of Estimates** - The preparation of the Company's financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosures of contingent assets and liabilities. The Company bases these estimates on historical results and various other assumptions believed to be reasonable, all of which form the basis for making estimates concerning the carrying value of assets and liabilities that are readily available from other sources. Actual results may differ from these estimates.

**Impacts of COVID-19** - During the year ended December 31, 2021, aspects of the Company's business continued to be affected by macroeconomic factors related to the COVID-19 pandemic, including production in our plants and within our supply chain. The nature of the situation is dynamic and the full extent of any future impacts of the COVID-19 pandemic on the Company's operational and financial performance is currently uncertain and will depend on many factors outside of the Company's control.

**Immaterial Out of Period Adjustment** - During the fourth quarter of fiscal 2021, the Company identified certain immaterial adjustments in the accounting for inventory and related effect on income taxes that impacted the Company's quarterly and annual financial statements previously issued. Therefore, the Company recorded an out of period adjustment which increased cost of sales by \$2.2 million and decreased inventory by \$2.2 million resulting in a decrease to operating income and income before income taxes of \$2.2 million, a decrease to income tax provision of \$0.5 million and a decrease to net income of \$1.7 million.

**Cash and Cash Equivalents** - The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company maintains cash levels in bank accounts that, at times, may exceed federally-insured limits.

**Accounts Receivable** - Accounts receivable from the sale of products are recorded at net realizable value and the Company generally grants credit to customers on an unsecured basis. Substantially all of the Company's accounts receivable are due from companies located throughout the United States. The Company provides an allowance for credit losses for projected uncollectible amounts. The allowance is based upon an analysis of accounts receivable balances with similar risk characteristics on a collective basis, considering factors such as the aging of receivables balances, historical loss experience, current information, and future expectations. Each reporting period, the Company reassesses whether any accounts receivable no longer share similar risk characteristics and should instead be evaluated as part of another pool or on an individual basis. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Receivables are generally due within 30 to 60 days. Delinquent receivables are written off based on individual credit evaluations and specific circumstances of the customer. The Company had an allowance for credit losses of \$0.2 million and \$0.5 million at December 31, 2021 and 2020, respectively.

**Inventories** - Inventory is stated at the lower of cost or net realizable value. Cost is determined by either specific identification or weighted average methods.

At the end of each quarter, all facilities review recent sales reports to identify sales price trends that would indicate products or product lines that are being sold below our cost. This would indicate that an adjustment would be required.

Stainless steel, both in its raw material (coil or plate) or finished goods (pipe and tube) state is purchased/sold using a base price plus an additional surcharge which is dependent on current nickel prices. As raw materials are purchased, it is priced to the Company based upon the surcharge at that date. When the selling price of the finished pipe is set for the customer, approximately three months later, the then-current nickel surcharge is used to determine the proper selling prices. A lower of cost or net realizable value ("LCNRV") adjustment is recorded when the Company's inventory cost, based upon a historical nickel price, is greater than the current selling price of that product due to a reduction in the nickel surcharge. During the years ended December 31, 2021 and 2020, respectively, no material LCNRV adjustments were required by our Metals Segment other than those at our storage tank facility.

During the year ended December 31, 2020, adjustments of \$3.8 million to inventory cost were required due to the curtailment of operations at our Palmer facility as a result of the COVID-19 pandemic and lower demand for oil and gas products which caused the net realizable value to fall below inventory cost for certain tanks.

In addition, the Company establishes inventory reserves for:

- *Estimated obsolete or unmarketable inventory* - The Company identified inventory items with no sales activity for finished goods or no usage for raw materials for a certain period of time. For those inventory items not currently being marketed and unable to be sold, a reserve was established for 100% of the inventory cost less any estimated scrap proceeds. The Company reserved \$1.1 million and \$0.2 million as of December 31, 2021 and 2020, respectively.
- *Estimated quantity losses* - The Company performs an annual physical count of inventory during the fourth quarter each year. For those facilities that complete their physical inventory counts before the end of December, a reserve is established for the potential quantity losses that could occur subsequent to their physical inventory. This reserve is based upon the most recent physical inventory results. The Company had \$0.2 million and \$0.5 million reserved for physical inventory quantity losses as of December 31, 2021 and 2020, respectively.

**Property, Plant and Equipment** - Property, plant and equipment are stated at cost. Depreciation is determined based on the straight-line method over the estimated useful life of the assets. Substantially all depreciation is recorded within cost of goods sold on the consolidated statement of operations. Leasehold improvements are depreciated over the shorter of their useful lives or the remaining non-cancellable lease term, buildings are depreciated over a range of 10 years to 40 years, and machinery, fixtures and equipment are depreciated over a range of three years to 20 years. The costs of software licenses are amortized over five years using the straight-line method. The Company continually reviews the recoverability of the carrying value of long-lived assets. The Company also reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. When the future undiscounted cash flows of the operation to which the assets relate do not exceed the carrying value of the asset, the assets are written down to fair value.

**Business Combinations** - Business combinations are accounted for using the acquisition method of accounting. Under this method, the total consideration transferred to consummate the business combination 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 transaction. 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, if any, and liabilities assumed. See [Note 2](#) for further discussion on the Company's acquisition of DanChem in 2021.

**Goodwill** - Goodwill is the excess of the purchase price over the fair value of identifiable assets acquired, less fair value of liabilities assumed, in a business combination. The Company reviews goodwill for impairment at the reporting unit level, which is the operating segment level or one level below the operating segment level. Goodwill is not amortized but is evaluated for impairment at least annually on October 1 or whenever events or changes in circumstances indicate that it is more likely than not that the carrying amount may not be recoverable. The evaluation begins with a qualitative assessment to determine whether a quantitative impairment test is necessary. If, after assessing qualitative factors, we determine it is more

**SYNALLOY CORPORATION**  
Notes to Consolidated Financial Statements

likely than not that the fair value of the reporting unit is less than the carrying amount, then the quantitative goodwill impairment test is performed.

The quantitative goodwill impairment test used to identify potential impairment compares the fair value of a reporting unit with its carrying amount, including goodwill. Fair value represents the price a market participant would be willing to pay in a potential sale of the reporting unit and is based on a combination of an income approach, based on discounted future cash flows, and a market approach, based on market multiples applied to free cash flow. If the fair value exceeds the carrying value, then no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Any impairment identified is included within "goodwill impairment" in the consolidated statement of operations.

A reporting unit is an operating segment or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by segment management. During 2021, goodwill was allocated to the Specialty Chemicals Segment. During 2020, goodwill was allocated to the Welded Pipe and Tube reporting unit and the Specialty Chemicals Segment.

The changes in the carrying amount of goodwill for the years ended December 31, 2021 and 2020 were as follows:

<i>(in thousands)</i>	<b>Specialty Chemicals Segment</b>	<b>Metals Segment</b>	<b>Total</b>
Balance December 31, 2019	\$ 1,355	\$ 16,203	\$ 17,558
Impairment charges	—	(16,203)	(16,203)
Balance December 31, 2020	1,355	—	1,355
Acquisitions	11,282	—	11,282
Balance December 31, 2021	<u>\$ 12,637</u>	<u>\$ —</u>	<u>\$ 12,637</u>

During the third quarter of 2020, the Company determined potential indicators of impairment within the Welded Pipe & Tube reporting unit included in the Metals Segment existed. Continued declines in the Company's stock price, reporting unit operating losses, and continued declines in the reporting unit's net sales compared to forecast, collectively, indicated that the reporting unit had experienced a triggering event and the need to perform another quantitative evaluation of goodwill. As a result, the Company quantitatively evaluated the Welded Pipe & Tube reporting unit for impairment. Fair value of the reporting unit was determined using a combination of an income approach and a market-based approach with equal weighting applied to each approach. The income approach utilized the estimated discounted cash flows expected to be generated by the reporting unit's assets while the market-based approach utilized comparable company information. Determining the fair value of the reporting unit to determine the implied fair value of the goodwill is judgmental in nature and requires the use of significant management estimates and assumptions. These estimates and assumptions include the discount rate, terminal growth rate, tax rate, projected capital expenditures, and overall operational forecasts, including sales growth, gross margins, and operating margins. Any changes in the judgments, estimates, or assumptions could produce significantly different results. As a result of the goodwill impairment evaluation, it was concluded that the estimated fair value of the Welded Pipe and Tube reporting unit was below its carrying value by 9.7% resulting in a goodwill impairment charge of \$10.7 million for the quarter ended September 30, 2020.

During the fourth quarter of 2020, the Company determined potential indicators of impairment within the Welded Pipe & Tube reporting unit included in the Metals Segment existed. Continued risks within the stainless steel industrial business, reporting unit operating losses, and continued declines in the reporting unit's net sales compared to forecast, collectively, indicated that the reporting unit had experienced a triggering event and the need to perform another quantitative evaluation of goodwill. As a result, the Company quantitatively evaluated the Welded Pipe & Tube reporting unit for impairment. Fair value of the reporting unit was determined using a combination of an income approach and a market-based approach with equal weighting applied to each approach. The income approach utilized the estimated discounted cash flows expected to be generated by the reporting unit's assets while the market-based approach utilized comparable company information. Determining the fair value of the reporting unit to determine the implied fair value of the goodwill is judgmental in nature and requires the use of significant management estimates and assumptions. These estimates and assumptions include the discount rate, terminal growth rate, tax rate, projected capital expenditures, and overall operational forecasts, including sales growth, gross margins, and operating margins. Any changes in the judgments, estimates, or assumptions could produce significantly different results. As a result of the goodwill impairment evaluation, it was concluded that the estimated fair value of the Welded Pipe and Tube reporting unit was below its carrying value by 24.1% resulting in the remainder of the

**SYNALLOY CORPORATION**  
Notes to Consolidated Financial Statements

goodwill attributable to the Welded Pipe and Tube reporting unit being impaired and a goodwill impairment charge of \$5.5 million for the quarter ended December 31, 2020.

We conducted our annual impairment test of the Specialty Chemicals Segment as of October 1, 2021. The Company performed a discounted cash flow analysis and a market multiple analysis for the Specialty Chemicals Segment. The discounted cash flow analysis included management assumptions for expected sales growth, capital expenditures and overall operational forecasts. The market multiple analysis included historical and projected performance, market capitalization, volatility and multiples for industry peers. As of December 31, 2021, we determined that no impairment of the carrying value of goodwill for this reporting unit was required.

**Intangible Assets** - Intangible assets consists primarily of customer relationships and represents the fair value of intellectual, non-physical assets resulting from business acquisitions and are amortized over their estimated useful lives using either an accelerated or straight-line method over a period ranging from eight to 15 years. Amortization expense is recorded in selling, general and administrative expense on the consolidated statement of operations. The weighted average amortization period for the customer relationships is approximately 12 years.

Intangible assets totaled \$28.9 million and \$30.9 million as of December 31, 2021 and 2020, respectively. Accumulated amortization of intangible assets as of December 31, 2021 and 2020 totaled \$14.5 million and \$19.5 million, respectively.

Estimated amortization expense for the next five fiscal years based on existing intangible assets is as follows:

<i>(in thousands)</i>		
2022	\$	2,884
2023		1,433
2024		1,336
2025		1,238
2026		1,141
Thereafter		6,350
Total	\$	<u>14,382</u>

The Company recorded amortization expense related to intangible assets of \$2.8 million and \$3.0 million for 2021 and 2020, respectively.

**Deferred Charges** - Deferred charges represent debt issuance costs and are amortized over their estimated useful lives using the straight-line method over a period of four years and is recorded in interest expense on the consolidated statement of operations. On January 15, 2021, the Company and its subsidiaries entered into a new Credit Agreement (the "Credit Agreement") with BMO Harris Bank, N.A. ("BMO") providing the Company with a new four-year revolving credit facility and replacing the Company's previous asset based revolving line of credit and term loan with Truist Bank ("Truist"). The Company accounted for this refinance as a debt extinguishment and, as a result, \$0.2 million of unamortized debt issuance costs associated with the Company's previously existing bank debt were written off as a loss on extinguishment of debt during the year ended December 31, 2021.

Deferred charges totaled \$0.4 million and \$0.8 million as of December 31, 2021 and 2020, respectively. Accumulated amortization of deferred charges as of December 31, 2021 and 2020 totaled \$0.1 million and \$0.3 million, respectively.

The Company recorded amortization expense related to deferred charges of \$0.1 million for 2021.

**Long-Lived Asset Impairment** - The carrying amounts of long-lived assets are reviewed whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. A potential impairment has occurred for long-lived assets held-for-use if projected future undiscounted cash flows expected to result from the use and eventual disposition of the assets are less than the carrying amounts of the assets. An impairment loss is recorded for long-lived assets held-for-use when the carrying amount of the asset is not recoverable and exceeds its fair value.

Long-lived assets that are expected to be sold within the next 12 months and meet the other relevant held-for-sale criteria are classified as long-lived assets held-for-sale. An impairment loss is recorded for long-lived assets held-for-sale when the carrying amount of the asset exceeds its fair value less cost to sell. A long-lived asset is not depreciated while its classified as held-for-sale.

For long-lived assets to be abandoned, the Company considers the asset to be disposed of when it ceases to be used. Until it ceases to be used, the Company continues to classify the asset as held-for-use and test for potential impairment accordingly. If the Company commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life, its depreciable life is re-evaluated.

Fair value measurements associated with long-lived asset impairments are included in [Note 4](#) to the consolidated financial statements.

**Earn-Out Liabilities** - In connection with the 2019 American Stainless acquisition, the Company is required to make quarterly earn-out payments to American Stainless for a period of three years following closing equal to six and one-half percent (6.5%) of ASTI's revenue over the three-year earn-out period. These quarterly earn-out payments end in 2022.

In connection with the 2018 MUSA-Galvanized acquisition, the Company is required to make quarterly earn-out payments to MUSA for a period of four years following closing, based on actual sales levels of galvanized pipe and tube. These quarterly earn-out payments end in 2022.

In connection with the 2017 MUSA-Stainless acquisition, the Company is required to make quarterly earn-out payments to MUSA for a period of four years following closing, based on actual sales levels of stainless steel pipe and tube (outside diameter of 10 inches or less). These quarterly earn-out payments ended in 2021.

The fair value of the earn-out liabilities are estimated by applying the probability-weighted expected return method using management's estimates of pounds to be shipped and future price per unit. Changes to the fair value of the earn-out liabilities are determined each quarter-end and charged to income or expense in the "Earn-Out Adjustments" line item in the consolidated statements of operations. See [Note 4](#) for additional information on the Company's earn-out liabilities.

**Revenue Recognition** - 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 expect to be entitled to in exchange for those goods or services. Substantially all of the Company's revenues are derived from contracts with customers where performance obligations are satisfied at a point-in-time. Our contracts with customers may include multiple performance obligations. For such arrangements, revenue for each performance obligation is based on its standalone selling price and revenue is recognized as each performance obligation is satisfied. The Company generally determines standalone selling prices based on the prices charged to customers using the adjusted market assessment approach or expected cost plus margin. Deferred revenues are recorded when cash payments are received in advance of satisfying the performance obligation, including amounts which are refundable. See [Note 3](#) for additional information on the Company's revenue.

**Shipping Costs** - Shipping costs are treated as fulfillment activities at the time control and title of the promised good and services rendered are transferred to the customer. Shipping costs of approximately \$9.4 million and \$8.0 million in 2021 and 2020, respectively, are recorded in cost of goods sold on the consolidated statement of operations.

**Share-Based Compensation** - Share-based payments to employees, including grants of employee stock options, are recognized in the consolidated statements of operations as compensation expense (based on their estimated fair values at grant date) generally over the vesting period of the awards using the straight-line method. Any forfeitures of share-based awards are recorded as they occur. See [Note 10](#) for additional information on the Company's accounting for share-based payments.

**Income Taxes** - Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing accounts and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

Additionally, the Company maintains reserves for uncertain tax provisions, if necessary. See [Note 11](#) for additional information on the Company's income taxes.

**Earnings Per Share** - Earnings per share of common stock are computed based on the weighted average number of basic and diluted shares outstanding during each period.

**Leases** - The Company determines whether an arrangement is a lease at contract inception. For leases in which the Company is the lessee, the Company recognizes a right-of-use asset and corresponding lease liability on the consolidated balance sheets



equal to the present value of the fixed lease payments over the lease term. Lease liabilities represent an obligation to make lease payments arising from a lease while right-of-use assets represent a right to use an underlying asset during the lease term. The Company does not separate lease and non-lease components for its underlying assets. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets.

If readily determinable, the rate implicit in the lease is used to discount lease payments to present value; however, the Company's leases generally do not provide a readily determinable implicit rate. When the implicit rate is not determinable, the Company's estimated incremental borrowing rate is utilized, determined on a fully collateralized and fully amortizing basis, to discount lease payments based on information available at lease commencement. The Company determines the appropriate incremental borrowing rate by identifying a reference rate and making adjustments that take into consideration financing options and certain lease-specific circumstances. Such adjustments include assuming the Store Capital lease would require two lenders with the secondary lender being secured on a second lien requiring mezzanine rates. Lease costs are recognized on a straight-line basis over the lease term.

Right-of-use assets and operating lease liabilities are remeasured upon certain modifications to leases using the present value of the remaining lease payments and estimated incremental borrowing rate upon lease modification. The difference between the remeasured right-of-use asset and the operating lease liabilities are recognized as a gain or loss within operating expenses. The Company reviews any changes to its lease agreements for potential modifications and/or indicators of impairment of the respective right-of-use asset. Operating leases are included in ROU assets, current portion of operating lease liabilities and long-term portion of operating lease liabilities on the accompanying consolidated balance sheets. Finance leases are included in property, plant and equipment, current portion of finance lease liabilities and long-term portion of finance lease liabilities. See [Note 7](#) for additional information on the Company's leases.

The Company subleases portions of certain properties that are not used in its operations. Sublease income was not significant for any periods presented.

**Concentrations of Credit Risk** - Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash deposits and trade accounts receivable. The Specialty Chemicals Segment has one customer that accounted for approximately 15% of the segment's revenues for 2021.

**Accounting Pronouncement Recently Adopted** - On January 1, 2020, the Company adopted ASU No. 2018-13 *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The updated guidance removes disclosure requirements pertaining to the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements. In addition, the amendment clarifies that the measurement uncertainty disclosure is to communicate information about uncertainty in measurement as of the reporting date. The guidance also adds disclosure requirements for changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 measurements held at the end of the reporting period as well as the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The adoption of this standard by the Company did not have a material impact on the consolidated financial statements or footnote disclosures. See [Note 4](#) for further discussion on the Company's fair value measurements.

On January 1, 2020, the Company adopted ASU No. 2017-04 *Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment*. The updated guidance eliminated step two of the goodwill impairment test and specifies that goodwill impairment should be measured by comparing the fair value of a reporting unit with its carrying amount. Additionally, the amount of goodwill allocated to a reporting unit with a zero or negative carrying amount of net assets should be disclosed. The adoption of this standard by the Company did not have a material impact on the consolidated financial statements.

On January 1, 2020, the Company adopted ASU No. 2016-13 *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The updated guidance amends the current accounting guidance and requires the measurement of all expected losses based on historical experience, current conditions, and reasonable and supportable forecasts rather than the incurred loss model which reflects losses that are probable. Entities are required to apply these changes through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company evaluated its financial instruments and determined that its trade accounts receivable are subject to the new current expected credit loss model. Based upon the application of the new current expected credit loss model, on January 1, 2020, we recorded a cumulative effect adjustment of \$0.4 million to Retained Earnings. The adoption of this standard by the Company did not have a material impact on the consolidated statement of operations or cash flows.

On September 30, 2020, the Company early adopted ASU No. 2019-12 *"Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes."* This ASU removes certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences as well as adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for goodwill and allocating taxes to members of a consolidated group. The most significant impact to the Company is the removal of a limit on the tax benefit recognized on pre-tax losses in interim periods.

**Accounting Pronouncements Not Yet Adopted** - In March 2020, the Financial Accounting Standards Board (FASB) issued ASU 2020-04 *"Reference Rate Reform (Topic 848): Facilitation of Effects of Reference Rate Reform on Financial Reporting."* The ASU, and subsequent clarifications, provide practical expedients for contract modification accounting related to the transition away from the London Interbank Offered Rate (LIBOR) and other interbank offering rates to alternative reference rates. The expedients are applicable to contract modifications made and hedging relationships entered into on or before December 31, 2022. The Company intends to use the expedients where needed for reference rate transition. The Company continues to evaluate this standard update and does not currently expect a material impact to the Company's financial statements or disclosures.

**Note 2: Acquisitions**

*Acquisition of DanChem Technologies, Inc.*

On October 22, 2021, the Company completed the acquisition of all of the issued and outstanding shares of common stock of DanChem, a contract manufacturer of chemical products located in Danville, Virginia. The Company accounted for the transaction as a business combination using the acquisition method of accounting in accordance with Accounting Standards Codification ("ASC") Topic 805 - "Business Combinations". The preliminary purchase price was \$34.1 million including \$1.5 million in cash obtained through the acquisition. The purchase price was paid in cash and funded through a drawdown of \$34.5 million on the Company's existing revolving credit facility. Amounts outstanding under the revolving line of credit portion of the facility currently bear interest, at the Company's option, at (a) the Base Rate (as defined in the Credit Agreement) plus 0.50%, or (b) LIBOR plus 1.50%. See [Note 6](#) for more information on the Company's long-term debt.

The table below summarizes the preliminary estimates of fair value of identifiable assets acquired and liabilities assumed in the Acquisition. These preliminary estimates of the fair value are subject to revisions, which may result in an adjustment to the preliminary values presented below.

<i>(in thousands)</i>	<b>October 22, 2021</b>
Cash and cash equivalents	\$ 1,533
Accounts receivable, net of allowance for credit losses	5,358
Inventories	1,561
Prepaid expenses and other current assets	454
Property, plant and equipment	15,697
Right of use asset, operating leases	208
Intangible assets	5,750
<b>Total identifiable assets acquired</b>	<b>30,561</b>
Accounts payable	1,751
Accrued expenses and other current liabilities	1,622
Current portion of operating lease liabilities	51
Current portion of finance lease liabilities	215
Deferred income taxes	2,542
Long-term portion of operating lease liabilities	157
Long-term portion of finance lease liabilities	1,408
<b>Total identifiable liabilities assumed</b>	<b>7,746</b>
Net identifiable assets acquired	22,815
Transaction price	34,097
<b>Goodwill</b>	<b>\$ 11,282</b>

The Company is in various phases of valuing the assets acquired and liabilities assumed, including deferred tax balances, and the Company's estimate of these values was still preliminary on December 31, 2021. Therefore, these provisional amounts are subject to change as the Company continues to evaluate information required to complete the valuations throughout the measurement period, which will not exceed one year from the acquisition date.

Goodwill is calculated as the excess of the purchase price over the fair value of the net assets acquired. The recognized goodwill is attributable to operational synergies, assembled workforce and growth opportunities and was allocated to the Company's Specialty Chemicals Segment. Substantially all of the goodwill resulting from this acquisition is not expected to be deductible for tax purposes.

Approximately \$1.0 million of one-time, acquisition-related costs, is recognized in acquisition costs and other expenses in the consolidated statement of operations as of December 31, 2021.

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The Company identified DanChem's customer relationships, product development know-how, and tradename as finite-lived assets with estimated fair values as of the acquisition date of \$5.1 million, \$0.5 million, and \$0.2 million, respectively. The finite-lived assets are subject to amortization using the straight-line method over 15 years. Total net sales and operating income for DanChem for the period from October 22, 2021 through December 31, 2021 were as follows:

<i>(in thousands)</i>	<b>Period from 10/22/2021 - 12/31/2021</b>	
Net sales	\$	5,692
Operating income	\$	621

**Pro Forma Financial Information**

The following unaudited consolidated pro forma summary has been prepared by adjusting the Company's historical data to give effect to the acquisition of DanChem as if it had occurred on January 1, 2020:

<i>(unaudited)</i> <i>(in thousands, except per share data)</i>	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	
Net sales	\$ 358,735	\$	282,365
Net income (loss)	21,681		(26,468)
Basic net income (loss) per common share	2.32		(2.90)
Diluted net income (loss) per common share	\$ 2.29	\$	(2.90)

These unaudited pro forma results include adjustments, such as property, plant and equipment step-up, amortization of acquired intangible assets and interest expense on debt financing in connection with the acquisition.

The unaudited consolidated pro forma financial information was prepared in accordance with GAAP and is not necessarily indicative of the results of operations that would have occurred if the acquisition had been completed on the date indicated, nor is it indicative of the future operating results of the Company.

The unaudited pro forma results do not reflect events that either have occurred or may occur after the acquisition date, including, but not limited to, the anticipated realization of operating synergies in subsequent periods. These results do not give effect to certain charges that the Company expects to incur in connection with the acquisition, including, but not limited to, additional professional fees and employee integration.

**Note 3: Revenue Recognition**

Revenue is generated primarily from contracts to produce, ship and deliver steel and specialty chemical products. The Company's performance obligations are satisfied and revenue is recognized when control and title of the contract promised goods or services is transferred to our customers for product shipped or services rendered. Revenues are recorded net of any sales incentives and discounts. Sales tax and other taxes we collect with revenue-producing activities are excluded from revenue. Shipping costs charged to customers are treated as fulfillment activities and are recorded in both revenue and cost of sales at the time control is transferred to the customer. Costs related to obtaining sales contracts are incidental and are expensed when incurred. Because customers are invoiced at the time title transfers and the Company's right to consideration is unconditional at that time, the Company does not maintain contract asset balances. Additionally, the Company does not maintain material contract liability balances, as performance obligations for substantially all contracts are satisfied prior to customer payment for product. The Company offers industry standard payment terms.

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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.

<i>(in thousands)</i>	<b>2021</b>	<b>2020</b>
Fiberglass and steel liquid storage tanks and separation equipment	\$ 1,343	\$ 5,503
Heavy wall seamless carbon steel pipe and tube	40,539	23,670
Stainless steel pipe and tube	186,651	154,974
Galvanized pipe and tube	38,705	20,312
Specialty chemicals	67,477	51,541
<b>Net sales</b>	<b>\$ 334,715</b>	<b>\$ 256,000</b>

**Note 4: Fair Value Measurements**

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

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

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

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

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

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

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

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

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

The fair value of contingent consideration liabilities ("earn-out") resulting from the 2019 American Stainless acquisition, 2018 MUSA-Galvanized acquisition and 2017 MUSA-Stainless acquisition are classified as Level 3. The fair value as of December 31, 2021 of the MUSA-Galvanized earn-out and the American Stainless earn-out was estimated by applying the probability-weighted expected return method using management's estimates 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.

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The following table presents a summary of changes in fair value of the Company's Level 3 earn-out liabilities measured on a recurring basis for 2021 and 2020:

<i>(in thousands)</i>	<u>MUSA-Stainless</u>	<u>MUSA-Galvanized</u>	<u>American Stainless</u>	<u>Total</u>
Balance December 31, 2019	\$ 2,403	\$ 1,782	\$ 4,969	\$ 9,154
Earn-out payments during period	(1,625)	(611)	(2,002)	\$ (4,238)
Changes in fair value during the period	(403)	(230)	(562)	\$ (1,195)
Balance December 31, 2020	\$ 375	\$ 941	\$ 2,405	\$ 3,721
Earn-out payments during period	(385)	(780)	(2,467)	\$ (3,632)
Changes in fair value during the period	10	945	917	\$ 1,872
Balance December 31, 2021	\$ —	\$ 1,106	\$ 855	\$ 1,961

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

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

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

<b>Instrument</b>	<b>Fair Value December 31, 2021</b>	<b>Principal Valuation Technique</b>	<b>Significant Unobservable Inputs</b>	<b>Range</b>	<b>Weighted Average</b>
			Discount rate	-	5%
Contingent consideration (earn-out) liabilities	\$1,961	Probability Weighted Expected Return	Timing of estimated payouts	2022	-
			Future revenue projections	\$9.1M	\$9.1M

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

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

For the fiscal years ended December 31, 2021 and 2020, the Company's only significant measurements of assets and liabilities at fair value on a non-recurring basis subsequent to their initial recognition were certain long-lived assets and goodwill (see [Note 1](#) to the consolidated financial statements for additional information regarding this Level 3 fair value measurement).

*Long-lived assets*

The Company reviews the carrying amounts of long-lived assets whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company assesses performance quarterly against historical patterns, projections of future profitability, and whether it is more likely than not that the assets will be disposed of significantly prior to the end of their estimated useful life for evidence of possible impairment. An impairment loss is recognized when the carrying amount of the asset (disposal) group is not recoverable and exceeds fair value. The Company estimates the fair values of assets subject to long-lived asset impairment based on the Company's own judgments about the assumptions market participants would use in pricing the assets and observable market data, when available. The Company classifies these fair value measurements as Level 3.

During 2021, the Company determined that technology associated with certain long-lived assets within the Specialty Chemicals Segment was obsolete and, as a result, recognized a \$0.2 million non-cash, pre-tax asset impairment charge.

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During 2020, due to the continued curtailment of operations related to the COVID-19 pandemic, inventory of Palmer was written down to its net realizable value of \$3.1 million and certain long-lived assets of Palmer, including tangible and intangible assets, were written down to their estimated fair value of \$1.4 million, resulting in asset impairment charges of \$6.2 million.

*Assets Held-for-Sale*

On February 17, 2021 the Board of Directors authorized the permanent cessation of operations at Palmer and the subleasing of the Palmer facility. During the three months ended December 31, 2021 the Company permanently ceased operations at the Palmer facility and is in the process of divesting all remaining assets at the facility. The Company determined that the remaining asset group is ready for immediate sale, completion of sale is probable within the next year, and no significant changes to the plan to sell are expected to occur. As of December 31, 2021, the Company determined that the held-for-sale criteria were met and initially measured the remaining assets at the lower of carrying value or fair value less costs to sell. The Company uses observable inputs, such as prices of comparable assets in active markets to determine the fair value of the remaining assets. The Company classifies these fair value measurements as Level 2.

The assets classified as held for sale as of December 31, 2021 are as follows:

<i>(in thousands)</i>	<b>2021</b>
Inventory, net	\$ 617
Property, plant and equipment, net	238
Assets held for sale	<u>\$ 855</u>

The Company remains obligated under the terms of the leases for the rent and other costs that may be associated with the lease of the facility through 2036. During the fourth quarter of 2021 the Company entered into a sublease for a portion of the Palmer facility and is actively pursuing a sublease for the remaining portions of the facility. The Company will continue to dispose of the remaining assets through the first quarter of 2022.

**Fair Value of Financial Instruments**

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

There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 or changes in the fair value methodologies used by the Company in the years ended December 31, 2021 or 2020, respectively.

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

Property, plant and equipment consist of the following:

<i>(in thousands)</i>	<b>2021</b>	<b>2020</b>
Land	\$ 723	\$ 3
Leasehold improvements	4,641	2,939
Buildings	53	84
Machinery, fixtures and equipment	110,127	100,352
Construction-in-progress	1,900	2,772
	<u>117,444</u>	<u>106,150</u>
Less accumulated depreciation and amortization	(73,724)	(71,054)
Property, plant and equipment, net	<u>\$ 43,720</u>	<u>\$ 35,096</u>

The Company recorded depreciation expense of \$7.5 million and \$7.6 million for 2021 and 2020, respectively.

**Note 6: Long-term Debt**

**Credit Facilities**

<i>(in thousands)</i>	<b>2021</b>	<b>2020</b>
Revolving line of credit, due January 15, 2025	\$ 65,571	\$ —
Term loan, due January 15, 2025	4,821	—
Revolving line of credit, due December 20, 2021	—	49,037
Term loan, due February 1, 2024	—	12,333
<b>Total long-term debt</b>	<b>70,392</b>	<b>61,370</b>
Less: Current portion of long-term debt	(2,464)	(875)
<b>Long-term debt, less current portion</b>	<b>\$ 67,928</b>	<b>\$ 60,495</b>

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

The initial borrowing capacity under the Facility totals \$110.0 million consisting of a \$105.0 million revolving line of credit and a \$5.0 million delayed draw term loan. The revolving line of credit includes a \$17.5 million machinery and equipment sub-limit which requires quarterly payments of \$0.4 million with a balloon payment due upon maturity of the Facility in January 2025. The term loan requires quarterly payments of \$0.2 million with a balloon payment due upon maturity of Facility in January 2025.

We have pledged all of our accounts receivable, inventory, and certain machinery and equipment as collateral for the Credit Agreement. Availability under the Credit Agreement is subject to the amount of eligible collateral as determined by the lenders' borrowing base calculations. Amounts outstanding under the revolving line of credit portion of the Facility currently bear interest, at the Company's option, at (a) the Base Rate (as defined in the Credit Agreement) plus 0.50%, or (b) LIBOR plus 1.50%. Amounts outstanding under the delayed draw term loan portion of the Facility bear interest at LIBOR plus 1.65%. The Facility also provides an unused commitment fee based on the daily used portion of the Facility.

The revolving line of credit interest rate was 2.29% and 1.81% as of December 31, 2021 and 2020, respectively. Average borrowings under the revolving line of credit during 2021 and 2020 were \$61.9 million and \$60.3 million with a weighted average interest rate of 2.23% and 3.50%, respectively.

The term loan interest rate was 1.90% and 2.06% as of December 31, 2021 and 2020, respectively.

The Company made interest payments on all credit facilities of \$1.4 million and 2.0 million in 2021 and 2020, respectively.

Principal payments on long-term debt during the next five fiscal years and thereafter are as follows (in thousands):

2022	\$	2,464
2023		2,464
2024		2,464
2025		63,000
2026	\$	—

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

As of December 31, 2021, the Company had \$39.4 million of remaining availability under its credit facility.



**Note 7: Leases**

The Company's portfolio of leases contains both finance and operating leases that relate to real estate and manufacturing equipment. Substantially all of the value of the Company's lease portfolio relates to the Master Lease with Store Master Funding XII, LLC ("Store"), an affiliate of Store Capital Corporation ("Store Capital") that was entered into in 2016 and amended with the American Stainless acquisition in 2019 as well as the sale of land at the Munhall facility in 2020. As of December 31, 2021, operating lease liabilities related to the master lease agreement with Store Capital totaled \$32.2 million, or 98% of the total lease liabilities on the consolidated balance sheet.

On August 30, 2021, the Company entered into a thirty-eight month operating lease agreement for office space with an entity affiliated with the Company's Interim President and Chief Executive Officer. Pursuant to the terms of the lease agreement, the Company will pay a base rent in the first year of the agreement of \$5,364 monthly with an annual increase in October each year of 2.5% through the term of the agreement.

As discussed in [Note 2](#), on October 22, 2021, the Company completed the DanChem acquisition. As part of the acquisition, the Company assumed certain operating and finance leases which were recorded net of preliminary purchase price accounting adjustments. As of December 31, 2021, the balances associated with these leases in the consolidated balance sheet include operating lease assets and liabilities of \$0.2 million and finance lease assets and liabilities of \$1.6 million.

During the year ended December 31, 2021, the Company had \$0.3 million of right-of-use assets recognized in exchange for new operating lease liabilities.

**Balance Sheet Presentation**

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

Classification	Financial Statement Line Item	Year Ended December 31,	
		2021	2020
Operating lease assets	Right-of-use assets, operating leases	\$ 30,811	\$ 31,769
Finance lease assets	Property, plant and equipment, net	1,640	56
Current liabilities	Current portion of lease liabilities, operating leases	1,104	867
Current liabilities	Current portion of lease liabilities, finance leases	233	19
Non-current liabilities	Non-current portion of lease liabilities, operating leases	32,059	32,771
Non-current liabilities	Non-current portion of lease liabilities, finance leases	\$ 1,414	\$ 37

**Total Lease Cost**

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

<i>(in thousands)</i>	Year Ended December 31,	
	2021	2020
Operating lease cost <sup>1</sup>	\$ 4,099	\$ 4,124
Finance lease cost:		
Reduction in carrying amount of right-of-use assets	100	92
Interest on finance lease liabilities	11	24
Total lease cost	\$ 4,210	\$ 4,240

<sup>1</sup> Includes short term leases and sublease income, which is immaterial

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

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**Maturity of Leases**

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

<i>(in thousands)</i>	<b>Operating</b>	<b>Finance</b>
2022	\$ 3,782	\$ 269
2023	3,818	260
2024	3,658	246
2025	3,677	233
2026	3,683	233
Thereafter	39,865	543
Total undiscounted minimum future lease payments	58,483	1,784
Imputed Interest	(25,320)	(137)
Total lease liabilities	<u>\$ 33,163</u>	<u>\$ 1,647</u>

**Lease Term and Discount Rate**

	<b>Year Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Weighted-average discount rate		
Operating leases	8.30 %	8.33 %
Finance leases	2.27 %	2.44 %
Weighted-average remaining lease term		
Operating leases	14.43 years	15.47 years
Finance leases	7.07 years	2.91 years

**Note 8: Accrued Expenses**

Accrued expenses consist of the following:

<i>(in thousands)</i>	<b>2021</b>	<b>2020</b>
Salaries, wages, and commissions	\$ 5,052	\$ 3,776
Income taxes	3,212	—
Taxes, other than income taxes	889	133
Advances from customers	441	298
Insurance	517	702
Professional fees	527	272
Warranty reserve	40	233
Benefit plans	333	238
Interest rate swap liability	—	45
Customer rebate liability	379	168
Other accrued items	1,017	258
Total accrued expenses	<u>\$ 12,407</u>	<u>\$ 6,123</u>

**Note 9: Shareholders' Equity**

**Share Repurchase Program**

On February 17, 2021, the Board of Directors re-authorized the Company's share repurchase program. The previous share repurchase program had a term of 24 months and terminated on February 21, 2021. The share repurchase program allows for repurchase of up to 790,383 shares of the Company's outstanding common stock over 24 months. The shares will be purchased from time to time at prevailing market prices, through open market or privately negotiated transactions, depending on market conditions. Under the program, the purchases will be funded from available working capital, and the repurchased shares will be returned to the status of authorized, but unissued shares of common stock or held in treasury. There is no guarantee as to the exact number of shares that will be repurchased by the Company, and the Company may discontinue purchases at any time that management determines additional purchases are not warranted. As of December 31, 2021, the Company has 790,383 shares of its share repurchase authorization remaining.

Shares repurchased for the year ended December 31, 2021 and 2020 were as follows:

	Year Ended December 31,	
	2021	2020
Number of shares repurchased	—	59,617
Average price per share	\$ —	\$ 10.65
Total cost of shares repurchased	\$ —	\$ 636,940

**Rights Offering**

On November 16, 2021, the Company announced its Board of Directors had approved a Rights Offering to existing shareholders. Under the terms of the Rights Offering, the Company distributed non-transferable subscription rights to each holder of its common stock as of November 29, 2021 with each subscription right exercisable for 0.083768 shares of common stock at an exercise price of \$12.75 per full common share. The Company completed its Rights Offering to the Company's shareholders as of the close of business on December 16, 2021. The Rights Offering was fully subscribed for the maximum offering amount of 785,103 shares of the Company's common stock resulting in gross proceeds to the Company of approximately \$10.0 million. The proceeds of the Rights Offering was used for general corporate purposes, including in part, certain growth initiatives (including acquisitions) as well as repayment of the revolving credit facility.

**Dividends**

At the end of each fiscal year the Board reviews the financial performance and capital needed to support future growth to determine the amount of cash dividend, if any, which is appropriate. In 2021 and 2020, no dividends were declared or paid by the Company.

**Note 10: Accounting for Share-Based Payments**

**Overview of Share-Based Payment Plans**

The Company has a number of active and inactive equity incentive plans (the "Incentive Plans") under which the Company has been authorized to grant share-based awards to key employees and non-employee directors. A total of 1.5 million shares have been previously authorized for grant to key employees and non-employee directors under the Company's currently active Incentive Plans. As of December 31, 2021, there were 0.9 million shares remaining available for grants under the currently active equity Incentive Plans.

The Company recognized share-based compensation expense within SG&A expense on the consolidated statement of operations of \$0.8 million and \$1.8 million in 2021 and 2020, respectively. The Company had \$0.2 million of associated income tax benefit recognized for 2021 and 2020.

**Stock Options**

*2011 Long-Term Incentive Stock Option Plan*

The 2011 Long-Term Incentive Stock Option Plan (the "2011 Plan") is an incentive stock option plan; therefore, there are no income tax consequences to the Company when an option is granted or exercised. Stock options have terms of 10 years and vest in 20% or 33% increments annually on a cumulative basis, beginning one year after the date of grant, and are assigned an exercise price equal to the average of the high and low common stock price on the day prior to the date of grant. Options are expensed on a straight-line basis over the grant vesting period, which is considered to be the requisite service period. In order for the options to vest, the employee must be in the continuous employment of the Company since the date of the grant. Except for death, disability, or qualifying retirement, any portion of the grant that has not vested will be forfeited upon termination of employment. Shares representing grants that have not yet vested will be held in escrow by the Company. An employee will not be entitled to any voting rights with respect to any shares not yet vested, and the shares are not transferable. As of December 31, 2021, the Company has no options authorized for issuance under the 2011 Plan.

Under the 2011 Plan, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. When determining expected volatility, the Company considers the historical volatility of the Company's stock price. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant, based on the options' expected term. The Company granted no new options in 2021. The weighted-average assumptions used in the Black-Scholes option-pricing model and weighted-average grant date fair value for options granted in 2020 are as follows:

	Grant Date	
	February 5, 2020	June 30, 2020
Weighted-average assumptions used:		
Expected volatility	35.1 %	38.7 %
Dividend yield	1.79 %	1.89 %
Risk-free interest rate	1.66 %	0.64 %
Expected term, in years	10	10
Weighted-average grant date fair value	\$ 4.53	\$ 2.59

In 2021, options for 13,174 shares were exercised by employees and directors for an aggregate exercise price of \$109,324. There were no options exercised by employees and directors in 2020.

At the 2021 and 2020 respective year ends, options to purchase 129,163 and 86,531 shares, respectively, with weighted average exercise prices of \$13.05 and \$13.77, respectively, were fully exercisable.

Compensation cost charged against income before taxes for the options was approximately \$0.1 million for 2021 and \$0.4 million for 2020, respectively. As of December 31, 2021, there was \$13,786 of unrecognized compensation cost related to unvested stock options granted under the Company's stock option plans. The weighted average period over which the stock option compensation cost is expected to be recognized is 1.10 years.

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A summary of activity for the 2011 Plan is as follows:

	Weighted Average Exercise Price	Options Outstanding	Weighted Average Contractual Term (in years)	Intrinsic Value of Options
December 31, 2019	\$ 14.26	55,468	3.8	\$ 18,331
Granted February 5, 2020	13.00	123,500		
Granted June 30, 2020	7.33	20,000		
Exercised	—	—		
Canceled, forfeited, or expired	13.14	(19,437)		
December 31, 2020	\$ 12.74	179,531	7.2	\$ 9,402
Exercised	12.71	(13,174)		
Canceled, forfeited, or expired	13.33	(22,529)		
December 31, 2021	\$ 13.04	143,828	6.0	\$ 487,011
Exercisable options	\$ 13.05	129,163	5.8	\$ 436,637

	Weighted Average Exercise Price	Options Outstanding	Weighted Average Contractual Term (in years)	Grant Date Fair Value
Options expected to vest:				
December 31, 2019	\$ 16.01	3,723	5.1	\$ 6.11
Granted February 5, 2020	13.00	123,500		4.53
Granted June 30, 2020	7.33	20,000		2.59
Vested	13.24	(34,786)		4.68
Canceled, forfeited, or expired	13.14	(19,437)		4.62
December 31, 2020	\$ 11.78	93,000	9.2	\$ 5.53
Vested	10.83	(55,806)		3.72
Canceled, forfeited, or expired	13.33	(22,529)		4.80
December 31, 2021	\$ 13.00	14,665	8.1	\$ 4.99

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The following table summarizes information about stock options outstanding as of December 31, 2021:

<b>Outstanding Stock Options</b>				<b>Exercisable Stock Options</b>	
<b>Weighted Average</b>					
<b>Range of Exercise Prices</b>	<b>Shares</b>	<b>Exercise Price</b>	<b>Remaining Contractual Life in Years</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
\$ 11.35	9,068	\$ 11.35	0.1	9,068	\$ 11.35
13.70	12,370	13.70	1.1	12,370	13.70
14.76	8,109	14.76	2.1	8,109	14.76
16.01	18,447	16.01	3.1	18,447	16.01
13.00	85,834	13.00	8.1	71,169	13.00
\$ 7.33	10,000	\$ 7.33	8.5	10,000	\$ 7.33
	<b>143,828</b>			<b>129,163</b>	

**Restricted Stock Awards**

*2015 Stock Awards Plan*

The 2015 Stock Awards Plan (the "2015 Plan") was approved by the Compensation & Long-Term Incentive Committee (the "Compensation Committee") and originally authorized the issuance of up to 250,000 shares. At the 2018 Annual Meeting, upon the recommendation of the Company's Board of Directors, a majority of the shareholders of the Company voted to amend and restate the 2015 Plan to increase the authorization of issuances from 250,000 shares to 500,000 shares. At the 2021 Annual Meeting, upon the recommendation of the Company's Board of Directors, a majority of the shareholders of the Company voted to amend and restate the 2015 Plan to increase the authorization of issuances from 500,000 shares to 1.5 million shares. Shares which can be awarded under the 2015 Plan for a period of 10 years from the effective date of the plan. Stock awards issued under the 2015 Plan vest in either 20% or 33% increments annually on a cumulative basis, beginning one year after the date of grant. The fair value of the restricted stock awards are determined based on the average of the high and low common stock price on the day prior to 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. Except for death, disability, or qualifying retirement, 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 Plan. An employee is not entitled to any voting rights with respect to any shares not yet vested, and the shares are not transferable.

A summary of plan activity for the 2015 Plan is as follows:

	<b>Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding December 31, 2019	100,775	\$ 13.28
Granted February 5, 2020	45,418	13.00
Granted November 10, 2020	50,000	5.65
Vested	(81,233)	12.87
Forfeited	(17,535)	13.11
Outstanding December 31, 2020	97,425	\$ 11.97
Granted February 10, 2021	15,181	8.57
Granted October 28, 2021	6,751	11.11
Granted November 15, 2021	751	13.32
Vested	(64,398)	9.25
Forfeited	(12,129)	10.54
Outstanding December 31, 2021	43,581	\$ 9.82

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Compensation expense on the grants issued is charged against earnings equally before forfeitures, if any, with the offset recorded in Shareholders' Equity. Compensation cost charged against income for the awards was approximately \$0.4 million and \$1.0 million for 2021 and 2020, respectively. As of December 31, 2021, there was \$0.2 million of total unrecognized compensation cost related to unvested restricted stock grants under the Company's 2015 Plan. The weighted average period over which the stock grant compensation cost is expected to be recognized is 2.89 years.

**Performance-Based Restricted Stock Awards**

The Company issues performance-based restricted stock classified as equity awards which contain performance and service conditions that must be satisfied for an employee to earn the right to benefit from the award. The performance condition is based on the achievement of the Company's EBITDA targets. In November 2020, the Compensation Committee approved stock grants under the 2015 Plan to the Company's Interim President and Chief Executive Officer. For these awards, the performance condition was based on the achievement of thirty-day volume weighted average price targets of a Company share of stock.

The fair value of the performance-based restricted stock awards are determined based on the average of the high and low common stock price on the day prior to the date of grant. The fair value of the performance-based restricted stock awards granted with a market performance condition are determined using a Monte Carlo simulation considering historical performance of the Company's stock as well as the probability of attaining the market performance condition determined on the date of grant. Expense is recognized on a straight-line method over the requisite service period, based on the probability of achieving the performance condition, with changes in expectations recognized as an adjustment to earnings in the period of change. Compensation cost is not recognized for performance-based restricted stock awards that do not vest because service or performance conditions are not satisfied and any previously recognized compensation cost is reversed. Performance-based restricted stock awards do not have dividend rights. The Company recognizes forfeitures as they occur.

In general, 0% to 150% of the Company's performance-based restricted stock awards vest at the end of a three year service period from the date of grant based upon achievement of the specified performance condition.

The weighted-average grant-date fair value per unit of performance-based restricted stock classified as equity awards granted was \$0.69 and \$13.00 in 2021 and 2020, respectively. The total fair value of performance-based restricted stock awards vesting was approximately \$1.1 million and \$0.6 million in 2021 and 2020, respectively.

A summary of the status of our performance-based restricted stock awards as of December 31, 2021, and changes during fiscal 2021, were as follows:

	Units	Weighted-Average Grant Date Fair Value
Outstanding December 31, 2019	77,986	\$ 13.66
Granted <sup>1</sup>	36,647	13.00
Vested <sup>2</sup>	(64,711)	13.21
Forfeited	(20,558)	13.73
Outstanding December 31, 2020	29,364	\$ 13.76
Granted <sup>3</sup>	90,000	0.69
Vested	(116,260)	3.66
Forfeited	(3,104)	12.99
Outstanding December 31, 2021	—	\$ —

<sup>1</sup> Contingent shares granted excluded from 2020

<sup>2</sup> Excludes the vesting of an additional 5,074 shares due to performance conditions of the awards exceeding target.

<sup>3</sup> Contingent shares granted in prior year included in 2021

As of December 31, 2021, there was no unrecognized compensation expense related to non-vested performance-based restricted stock awards.

**Inducement Awards**

During the year ended December 31, 2021, the Company granted stock-based awards to incoming executive officers as incentives to enter into an at-will employment agreement with the Company. These inducement awards were approved by the Compensation Committee of the Board of Directors and did not require shareholder approval in accordance with NASDAQ Rule 5635(c)(4). In accordance with the rule, the only persons eligible to receive incentive awards are individuals not previously an employee or director of the Company.

In general, 50% of the inducement awards vest based on the achievement of thirty-day volume weighted average price targets of a Company share of stock and 50% vest on the third anniversary of the grant date. The fair value of the market based portion of inducement awards are determined using a Monte Carlo simulation considering historical performance of the Company's stock as well as the probability of attaining the market condition determined on the date of grant. The fair value of the time based portion of inducement awards are determined based on the average of the high and low common stock price on the day prior to the date of grant. A summary of the status of our inducement stock awards as of December 31, 2021, and changes during fiscal 2021, were as follows:

	Units	Weighted-Average Grant Date Fair Value
Outstanding December 31, 2020	—	\$ —
Granted	53,696	6.35
Vested	(12,516)	2.35
Forfeited/Canceled	(10,324)	5.96
Outstanding December 31, 2021	30,856	\$ 8.11

Compensation expense charged against income for the inducement awards was approximately \$0.1 million for 2021. There was no compensation expense related to inducement awards in 2020. The total fair value of inducement awards vesting was approximately \$0.2 million in 2021. There were no inducement awards that vested in 2020.

As of December 31, 2021, there was \$0.2 million of total unrecognized compensation cost related to inducement awards. The weighted average period over which the stock grant compensation cost is expected to be recognized is 2.53 years.

**Non-Employee Director Compensation Plan**

Each year, the Company allows each non-employee director to elect to receive up to 100% of the director's annual retainer in restricted stock. The number of restricted shares issued is determined by the average of the high and low common stock price on the day prior to the Annual Meeting of Shareholders or the date prior to the appointment to the Board for those individuals that are appointed mid-term. Non-employee directors received an aggregate of 22,026 and 43,603 shares, respectively, of restricted stock in lieu of total retainer fees of \$214,000 and \$345,000, respectively. The Company also issued an aggregate of 20,000 additional shares of restricted stock to the Company's new Chairman of the Board due to the increased responsibilities of the role. The shares granted to the directors are not registered under the Securities Act of 1933 and are subject to forfeiture in whole or in part upon the occurrence of certain events.



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**Note 11: Income Taxes**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows at the respective year ends:

<i>(in thousands)</i>	<b>2021</b>	<b>2020</b>
<b>Deferred income tax assets:</b>		
Inventory valuation reserves	\$ 310	\$ 176
Inventory capitalization	1,207	1,120
Accrued bonus	680	328
State net operating loss carryforwards	1,606	1,669
Federal net operating loss carryforwards	890	—
Lease liabilities	8,069	7,484
Accrued Federal Insurance Contributions Act ("FICA") deferral	155	299
Intangible asset basis differences	2,980	3,706
Other	550	534
<b>Total deferred income tax assets</b>	<b>16,447</b>	<b>15,316</b>
Federal & State valuation allowance	(3,700)	(4,243)
<b>Total net deferred income tax assets</b>	<b>12,747</b>	<b>11,073</b>
<b>Deferred income tax liabilities:</b>		
Fixed asset basis differences	7,276	5,562
Prepaid expenses	381	276
Lease assets	7,523	7,067
Interest rate swap	—	68
Other	—	57
<b>Total deferred income tax liabilities</b>	<b>15,180</b>	<b>13,030</b>
Deferred income taxes, net	<b>\$ (2,433)</b>	<b>\$ (1,957)</b>

Significant components of the provision for income taxes are as follows:

<i>(in thousands)</i>	<b>2021</b>	<b>2020</b>
<b>Current:</b>		
Federal	\$ 6,786	\$ (6,024)
State	538	23
<b>Total current</b>	<b>7,324</b>	<b>(6,001)</b>
<b>Deferred:</b>		
Federal	(1,943)	1,011
State	(128)	284
<b>Total deferred</b>	<b>(2,071)</b>	<b>1,295</b>
<b>Total</b>	<b>\$ 5,253</b>	<b>\$ (4,706)</b>

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The reconciliation of income tax computed at the U. S. federal statutory tax rates to income tax expense is:

<i>(in thousands)</i>	2021		2020	
	Amount	%	Amount	%
Tax at U.S. statutory rates	\$ 5,354	21.0 %	\$ (6,714)	21.0 %
State income taxes, net of federal tax benefit	371	1.5 %	73	(0.2)%
Federal and State valuation allowance	(539)	(2.1)%	2,541	(7.9)%
CARES Act carryback benefits	—	— %	(1,123)	3.5 %
Stock option compensation	(196)	(0.8)%	65	(0.2)%
Executive compensation limitation	59	0.2 %	280	(0.9)%
Transaction costs	134	0.5 %	—	— %
Other nondeductible expenses	51	0.2 %	35	(0.1)%
Other, net	19	0.1 %	137	(0.5)%
Total	\$ 5,253	20.6 %	\$ (4,706)	14.7 %

The Company's effective tax rate for 2021 was less than the U.S. statutory rate of 21% primarily driven by windfall tax benefits associated with share-based compensation and the release of valuation allowances on certain deferred tax assets partially offset by state taxes and transaction costs, net of federal benefit.

The Company made income tax payments of \$1.6 million and \$16,000 in 2021 and 2020, respectively. The Company has \$4.2 million of U.S. Federal net operating loss carryforwards and no interest limitation carryforwards at the end of 2021 compared with no U.S. Federal net operating loss carryforwards or interest limitation carryforwards at the end of 2020. The U.S. Federal net operating loss carryforwards were acquired in the DanChem acquisition and are subject to certain limitations under IRC Section 382. However, the Company believes that these losses are more likely than not to be utilized. In addition, on a gross basis the Company had state operating loss carryforwards of \$36.2 million and \$39.4 million at the end of 2021 and 2020, respectively. The majority of these losses will expire between the years of 2022 and 2039, while certain losses are not subject to expiration.

During 2021, the Company recognized a combined U.S. federal and state valuation allowance of \$3.7 million because it is more likely than not that the underlying deferred tax assets will not be realized. This represents a \$0.5 million decrease year over year, primarily driven by deferred tax liabilities acquired in the DanChem acquisition.

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 2018 or state examinations for years before 2017.

The Company had no uncertain tax position activity during 2021 or 2020. The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in the provision for income taxes. The Company had no accruals for uncertain tax positions including interest and penalties at the end of 2021.

**Note 12: Earnings (Loss) Per Share**

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

<i>(in thousands, except per share data)</i>	<b>2021</b>	<b>2020<sup>(a)</sup></b>
<b>Numerator:</b>		
Net earnings (loss)	\$ 20,245	\$ (27,267)
<b>Denominator:</b>		
Denominator for basic earnings (loss) per share - weighted average shares	9,340	9,140
<b>Effect of dilutive securities:</b>		
Employee stock options and stock grants	116	—
Denominator for diluted earnings (loss) per share - weighted average shares	<u>9,456</u>	<u>9,140</u>
<b>Net earnings (loss) per share:</b>		
Basic	\$ 2.17	\$ (2.98)
Diluted	\$ 2.14	\$ (2.98)

<sup>(a)</sup>As discussed in [Note 9](#), the Company distributed subscription rights to holders of common stock, which were priced at a discount to the market value, to acquire additional common shares. The Rights Offering, because of the discount, contains a bonus element that is similar to a stock dividend. As such, the basic and diluted EPS has been retroactively adjusted for the bonus element for all prior periods presented.

The diluted earnings per share calculations exclude the effect of potentially dilutive shares when the inclusion of those shares in the calculation would have an anti-dilutive effect. The Company had 0.1 million and 0.2 million shares of common stock that were anti-dilutive in 2021 and 2020, respectively.

**Note 13: Industry Segments**

The Company's business is divided into two operating segments: Metals and Specialty Chemicals. The Company identifies such segments based on products and services, long-term financial performance and end markets targeted. The Metals Segment operates as three reporting units including Welded Pipe & Tube, Palmer and Specialty. The Specialty Chemicals Segment operates as one reporting unit which includes MC, CRI and DanChem.

The chief operating decision maker evaluates performance and determines resource allocations based on a number of factors, the primary measure being operating income (loss). The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Segment operating income (loss) is the segment's total revenue less operating expenses. Identifiable assets, all of which are located in the U.S., are those assets used in operations by each segment. Centralized data processing and accounting expenses are allocated to the two segments based upon estimates of their percentage of usage. Corporate assets consist principally of cash, certain investments and equipment.

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

<i>(in thousands)</i>	2021	2020
Net sales		
Metals Segment	\$ 267,238	\$ 204,459
Specialty Chemicals Segment	67,477	51,541
	<u>\$ 334,715</u>	<u>\$ 256,000</u>
Operating income (loss)		
Metals Segment	\$ 33,561	\$ (24,599)
Specialty Chemicals Segment	3,656	4,033
	<u>37,217</u>	<u>(20,566)</u>
Unallocated corporate expenses	6,828	7,917
Acquisition costs and other	1,001	845
Proxy contest costs and recoveries	168	3,105
Earn-out adjustments	1,872	(1,195)
Gain on lease modification	—	(171)
Operating income (loss)	<u>27,348</u>	<u>(31,067)</u>
Interest expense	1,486	2,110
Change in fair value of interest rate swap	(2)	51
Loss on extinguishment of debt	223	—
Other income, net	143	(1,255)
Income (loss) before income taxes	<u>\$ 25,498</u>	<u>\$ (31,973)</u>
Identifiable assets		
Metals Segment	\$ 160,625	\$ 141,799
Specialty Chemicals Segment	72,908	25,039
Corporate	32,469	40,146
	<u>\$ 266,002</u>	<u>\$ 206,984</u>
Depreciation and amortization		
Metals Segment	\$ 8,206	\$ 8,883
Specialty Chemicals Segment	2,005	1,552
Corporate	130	165
	<u>\$ 10,341</u>	<u>\$ 10,600</u>
Capital expenditures		
Metals Segment	\$ 1,011	\$ 1,761
Specialty Chemicals Segment	486	866
Corporate	—	1,121
	<u>\$ 1,497</u>	<u>\$ 3,748</u>
Sales by product group		
Fiberglass and steel liquid storage tanks and separation equipment	\$ 1,343	\$ 5,503
Heavy wall seamless carbon steel pipe and tube	40,539	23,670
Stainless steel pipe and tube	186,651	154,974
Galvanized pipe and tube	38,705	20,312
Specialty chemicals	67,477	51,541
	<u>\$ 334,715</u>	<u>\$ 256,000</u>
Geographic sales		
United States	\$ 325,335	\$ 248,470
Elsewhere	9,380	7,530
	<u>\$ 334,715</u>	<u>\$ 256,000</u>

#### **Note 14: Benefit Plans and Collective Bargaining Agreements**

The Company has a 401(k) Employee Stock Ownership Plan (the "401(k)/ESOP Plan") covering all non-union employees. Employees could contribute to the 401(k)/ESOP Plan up to 100% of their wages with a maximum of \$19,500 for 2021. Under the Economic Growth and Tax Relief Reconciliation Act, employees who are age 50 or older could contribute an additional \$6,500 per year for a maximum of \$26,000 for 2021. Contributions by the employees are invested in one or more funds at the direction of the employee; however, employee contributions cannot be invested in Company stock. Contributions by the Company are made in accordance with the investment elections made by each participant for his or her deferral contributions. The Company contributes on behalf of each eligible participant a matching contribution equal to a percentage determined each year by the Board of Directors. For 2021 and 2020 the maximum was 100% of employee contributions up to a maximum of 4% of their eligible compensation. The matching contribution is applied to the employee accounts after each payroll. Matching contributions of approximately \$0.7 million and \$0.4 million were made for 2021 and 2020, respectively. The Company may also make a discretionary contribution, which if made, would be distributed to all eligible participants regardless of whether they contribute to the 401(k)/ESOP Plan. No discretionary contributions were made to the 401(k)/ESOP Plan in 2021 or 2020.

The Company has a 401(k) and Profit Sharing Plan (the "Bristol Plan") covering all employees as part of the United Steel Workers of America, Local Union 4586 Collective Bargaining Agreement (the "Bristol CBA"). Employees could contribute to the Bristol Plan up to 60% of pretax annual compensation, as defined in the Bristol Plan, with a maximum of \$19,500 for 2021. Under the Economic Growth and Tax Relief Reconciliation Act, employees who are age 50 or older could contribute an additional \$6,500 per year for a maximum of \$26,000 for 2021. During 2021, the Company contributed 4% of a participant's eligible compensation regardless of whether the participants contribute to the Bristol Plan. During 2020, the Company contributed 3% of a participant's eligible compensation from January to July and increased the amount to 4% for the remainder of the plan year. The Company's contributions were \$0.3 million and \$0.2 million for 2021 and 2020, respectively. Additional profit sharing amounts may also be contributed at the option of the Company's Board of Directors, which if made, would be allocated to participants based on the ratio of the participant's compensation to the total compensation of all participants eligible to participate in the Bristol Plan. No discretionary contributions were made to the Bristol Plan in 2021 or 2020.

The Company also has a 401(k) Plan (the "DanChem Plan") covering substantially all employees at the DanChem facility. Employees could contribute to the DanChem Plan up to a maximum of \$19,500 for 2021. Under the Economic Growth and Tax Relief Reconciliation Act, employees who are age 50 or older could contribute an additional \$6,500 per year for a maximum of \$26,000 for 2021. The Company contributes on behalf of each eligible participant a matching contribution equal to a percentage determined each year by the Board of Directors. For 2021 and 2020 the maximum was 100% of employee contributions up to the first 3% of their eligible compensation and 50% for employee contributions from 3% to 6%. The Company also maintains a Collective Bargaining Agreement (the "Danville CBA") with the United Food and Commercial Workers, Local Union 400 (the "Danville Union"), which represents employees at the Danville facility and is required to make additional quarterly contributions for hourly employees who had a hire date prior to June 1, 2013. Matching contributions of approximately \$0.4 million were made for 2021.

The Company maintains a Collective Bargaining Agreement (the "Munhall CBA") with the United Steel Workers of America, Local Union 5852-22 (the "Munhall Union"), which represents the employees at the Munhall facility. As a part of this Munhall CBA, the Company assumed the obligation of participating in the Steelworkers Pension Trust, a union-sponsored multi-employer defined benefit plan (the "Munhall Plan"), which covers all the Company's eligible Munhall Union employees. The Munhall Plan has a calendar plan year. Per the most recent available annual funding notice, the plan was at least 87% funded for the plan year ended December 31, 2020. Per the terms of the Munhall CBA the Company contributes 4.25% of each participant's eligible compensation for the 2020 plan year. Munhall Union employees make no contributions to the Munhall Plan. The Company's contributions to the Munhall Plan totaled \$0.2 million for the year ended December 31, 2021 and 2020, respectively. Additionally, as part of the Munhall CBA, members of the union are eligible to make deferral contributions to the Company's 401(k)/ESOP Plan per the plan guidelines; however they do not receive matching contributions of the 401(k)/ESOP Plan.

The Company maintains a Collective Bargaining Agreement (the "Mineral Ridge CBA") with the United Steel Workers of America, Local Union 4564-07, which represents employees at the Specialty-Mineral Ridge facility. In connection with the Mineral Ridge CBA, the Company contributes to union-sponsored defined contribution retirement plans. Contributions relating to these plans were \$37,208 and \$29,851 for 2021 and 2020, respectively.

**Note 15: Commitments and Contingencies**

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

**Note 16: Proxy Contest Costs and Recoveries**

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

During the year ended December 31, 2021, the Company incurred proxy contest costs of \$0.6 million related to the reimbursement of documented out-of-pocket fees and expenses to Privet and UPG. See [Note 17](#) for further information on this related party transaction.

During the year ended December 31, 2021, the Company received insurance recoveries of \$0.5 million related to a claim for a portion of the costs associated with the proxy contest. The Company received no insurance recoveries for the year ended December 31, 2020. The Company continues to seek coverage under its policies for reimbursement of costs associated with the proxy contest; however, any future reimbursement under the policies are neither probable nor estimable at this time.

**Note 17: Related Party Transactions**

The Company from time-to-time engages in transactions with related parties. The Company's Board of Directors reviews any related party relationships and approves any significant modifications to any existing related party transactions, as well as any new significant related party transactions.

Expense Reimbursement

During the six months ended June 30, 2020, Privet and UPG, with an ownership interest of approximately 25% of the Company's outstanding common shares, filed a proxy statement with the Securities and Exchange Commission seeking an election of five of its nominees to the Synalloy Board of Directors at the Company's 2020 Annual Meeting of Shareholders. At the Annual Meeting held on June 30, 2020, Synalloy shareholders voted to elect three of the five nominees designated by Privet and UPG to serve on Synalloy's Board of Directors. In May 2021, the Company agreed to reimburse Privet and UPG for up to 90% of its documented out-of-pocket fees and expenses (including legal expenses) incurred related to the proxy contest through the date of the 2020 Annual Meeting. During the third quarter of 2021, the Company paid \$0.6 million related to the reimbursement to Privet and UPG. As of December 31, 2021, there are no charges outstanding related to this matter.

During the year ended December 31, 2021, the Company paid reimbursable travel expenses of \$3,140 to an entity affiliated with the Company's Interim President and Chief Executive Officer. The Company had no such transactions for the year ended December 31, 2020.

Sales to Related Parties

The Company's Interim President and Chief Executive Officer has ownership interests in other entities with which the Company may, from time-to-time, conduct business. During the year ended December 31, 2021, the Company recorded revenue of \$31,073 from the sale of product to certain of these entities. During the year ended December 31, 2021, the Company received \$40,000 in cash and recognized a loss on disposal of property, plant and equipment of \$13,000 from the sale of property, plant and equipment to certain of these entities. The Company had no such transactions for the year ended December 31, 2020.

Lease Agreement

On August 30, 2021, the Company entered into a thirty-eight month operating lease agreement for office space with an entity affiliated with the Company's Interim President and Chief Executive Officer. Pursuant to the terms of the lease agreement, the Company will pay a base rent in the first year of the agreement of \$5,364 monthly with an annual increase in October each year of 2.5% through the term of the agreement. During the year ended December 31, 2021, the Company recognized \$0.2 million of right-of-use assets in exchange for new operating lease liabilities and incurred \$23,220 in rent expense associated with this lease agreement. See [Note 7](#) for additional information on the Company's leases.

### Shared Services Agreement

In September 2021, the Company entered into a shared services agreement (the "Shared Services Agreement") with UPG, an entity that has an ownership interest of approximately 8% of the Company's outstanding common shares and an entity in which the Company's Interim Chief Executive Officer has an ownership interest. Pursuant to the agreement, UPG provides the Company with certain corporate functions, including human resources and information technology services. The Shared Services Agreement has an indefinite term, with either party having the right to terminate any or all services with 30 days' prior written notice. Charges allocated to the Company are based on the Company's actual use of specific services detailed in the Shared Services Agreement at a rate of \$145 per hour. The Company will also pay or reimburse UPG for all out-of-pocket fees and expenses incurred by UPG in connection with the rendering of services under the Shared Services Agreement including, (i) reasonable fees and disbursements of any independent professionals and organizations, including independent accountants, outside legal counsel or consultants and (ii) travel expenses or similar expenses not associated with UPG's ordinary operations. During the year ended December 31, 2021, the Company incurred \$2,320 of expense related to the Shared Service Agreement.

### **Note 18: Subsequent Events**

On March 18, 2022, the Compensation Committee approved an equity grant to Christopher Hutter of (i) 50,000 restricted stock units ("RSUs") and (ii) 150,000 performance stock units ("PSUs") with a market price of \$18.89 per share. The RSUs will vest over two years, with half of such RSUs vesting on March 18, 2023, and the other half vesting on March 18, 2024, subject to continued employment unless provided otherwise under the terms of the Executive Employment Agreement dated October 26, 2020, between the Company and Mr. Hutter (the "Hutter Employment Agreement") and/or the Company's Amended and Restated 2015 Stock Awards Plan (the "2015 Awards Plan"). The PSUs will vest based on the 30-day volume weighted average price ("VWAP") of the Company's common stock, with 33.3%, 26.7%, 20%, and 20% of such PSUs vesting if the 30-day VWAP equals or exceeds \$25.00, \$27.50, \$30.00, and \$35.00, respectively, subject to continued employment unless provided otherwise under the terms of the Hutter Employment Agreement and/or the 2015 Awards Plan. The PSU award will have a term of three years. The grant of RSUs and PSUs was made in connection with the decision of the Board to remove the "interim" designation from the title of Mr. Hutter and approve his position as Chief Executive Officer of the Company.

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

### Item 9A. Controls and Procedures

#### *a) Evaluation of Disclosure Controls and Procedures*

The Company conducted an evaluation, under the supervision and with the participation of its management, of the effectiveness of the design and operation of its disclosure controls and procedures. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (“Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, the Company's principal executive and principal financial officers concluded as of December 31, 2021 that its disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses in its internal control over financial reporting discussed below.

#### *(b) Management's Report on Internal Control Over Financial Reporting.*

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed by, or under the supervision of, its CEO and CFO, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America (GAAP). The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2021. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 *Internal Control-Integrated Framework*. Management has excluded the DanChem operations from its assessment of internal control over financial reporting as of December 31, 2021 because this material acquisition closed in the fourth quarter of 2021. Total assets of \$42.0 million and total revenue of \$5.7 million associated with the DanChem operations represent approximately 58% and 2% respectively, of the related financial amounts of the Specialty Chemicals Segment as of, and for the year ended December 31, 2021. Based on its evaluation, management has concluded that the Company's internal control over financial reporting was not effective at the reasonable assurance level as of December 31, 2021.

#### *Material Weaknesses in Internal Control over Financial Reporting*

A material weakness, as defined in the standards established by the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.



Management has determined that the Company had the following material weaknesses in its internal control over financial reporting:

- *Entity Level Activities* - Management did not maintain appropriately designed entity-level controls impacting the control environment, risk assessment procedures, and effective monitoring activities to prevent or detect potential material misstatements to the financial statements. These deficiencies were attributed to:
  - Lack of structure and responsibility, insufficient number of qualified resources due to significant turnover in key personnel leading to insufficient oversight and accountability over the performance of controls;
  - Insufficient identification and assessment of risks impacting the design and implementation of internal controls over financial reporting; and,
  - Insufficient evaluation and determination as to whether the components of internal control were present and functioning based upon evidence maintained for certain management review controls and activity level controls across a significant portion of the Company's financial statement areas.
- *Control Activities* - Management did not have effective policies and procedures or adequate selection and development of effective control activities, which resulted in the following additional material weaknesses:
  - *Inventory* - Management did not maintain effectively designed and implemented controls over the balances recorded within inventory, including controls over physical inventory counts performed during an interim period and the review for obsolescence of inventories.
  - *Revenue recognition* - Management did not maintain effectively designed and implemented controls over recorded revenue and accounts receivable, including procedures over the existence and accuracy of data input for price and quantity as well as appropriate allocation of transaction price across identified performance obligations within the Company's contracts with customers.
  - *Period-end financial reporting, journal entries, reconciliations, and account analyses* - Management did not maintain effectively designed and implemented controls to detect potential material misstatements to period-end financial statements and related footnote disclosures through review of account reconciliations and account analyses as well as other aspects of the financial statement preparation and review process. Additionally, management did not maintain effectively designed and implemented controls over the review of journal entries.

While there were no material misstatements in 2021, these material weaknesses, individually or in the aggregate, could result in misstatements of accounts or disclosures in the consolidated financial statements that would not be prevented or detected on a timely basis. Accordingly, management has concluded that these control deficiencies constitute material weaknesses.

#### *Management's Plan to Remediate the Material Weakness*

Management plans to implement measures designed to ensure that we improve our internal controls over financial reporting and remediate the material weaknesses. The remediation actions planned include development of policies and procedures and design and enhancement of internal controls over our financial reporting process as well as monitoring of the effectiveness of these controls.

#### *Remediation Plan*

In response to the identified deficiencies that aggregated to the aforementioned material weaknesses, management, with oversight from the Company's Audit Committee, is in the process of developing a detailed plan for remediation, including:

- Providing relevant training on internal controls over financial reporting to control owners and control preparers
- Hiring accounting and finance resources with public company experience
- Evaluating and realigning roles and responsibilities of management
- Enhancing/designing/implementing controls over physical inventory counts and inventory valuation
- Enhancing/designing/implementing controls over revenue recognition and accounts receivable
- Enhancing/designing/implementing controls over period-end financial reporting, account reconciliation and account analyses processes

As the Company continues to evaluate the control deficiencies that gave rise to the material weaknesses, the Company may determine additional remediation measures are necessary.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. A control system, no matter how well designed and operated can provide only reasonable, but not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their cost.

Pursuant to Regulation S-K Item 308(b), this Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting.

***c) Changes in Internal Control over Financial Reporting***

Other than the material weaknesses described above, there were no changes in the Company's internal controls over financial reporting during the fiscal quarter ended December 31, 2021 that materially affected, or are reasonably likely to have a materially affect, on our internal control over financial reporting.

**Item 9B. Other Information**

Not applicable.

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

Not applicable.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

In accordance with General Instruction G(3), information called for by Part III, Item 10, is incorporated herein by reference from the information appearing under the caption "Proposal 1 - Election of Directors," "Executive Officers," and "Section 16(a) Beneficial Ownership Reporting Compliance" in the definitive Proxy Statement for the 2022 Annual Meeting of Shareholders, which definitive Proxy Statement will be filed electronically with the SEC pursuant to Regulation 14A.

Code of Conduct. The Company's Board of Directors has adopted a Code of Conduct that applies to the Company's Chief Executive Officer, Chief Financial Officer and corporate and divisional controllers. The Code of Conduct is available on the Company's website at [www.synalloy.com](http://www.synalloy.com). Any amendment to, or waiver from, this Code of Conduct will be posted on the Company's website.

Audit Committee. The Company has a separately designated standing Audit Committee of the Board of Directors established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The members of the Audit Committee are Henry L. Guy, Benjamin Rosenzweig and John P. Schauerman.

Audit Committee Financial Expert. The Company's Board of Directors has determined that the Company has at least one "audit committee financial expert," as that term is defined by Item 407(d)(5) of Regulation S-K promulgated by the Securities and Exchange Commission, serving on its Audit Committee. Mr. John P. Schauerman meets the terms of the definition and is independent, as independence is defined for audit committee members in the rules of the NASDAQ Global Market. Pursuant to the terms of Item 407(d) of Regulation S-K, a person who is determined to be an "audit committee financial expert" will not be deemed an expert for any purpose as a result of being designated or identified as an "audit committee financial expert" pursuant to Item 407(d), and such designation or identification does not impose on such person any duties, obligations or liability that are greater than the duties, obligations or liability imposed on such person as a member of the Audit Committee and Board of Directors in the absence of such designation or identification. Further, the designation or identification of a person as an "audit committee financial expert" pursuant to Item 407(d) does not affect the duties, obligations or liability of any other member of the Audit Committee or Board of Directors.

## Item 11. Executive Compensation

In accordance with General Instruction G(3), information called for by Part III, Item 11, is incorporated herein by reference from the information appearing under the caption "Board of Directors and Committees - Compensation Committee Interlocks and Insider Participation," "Director Compensation," "Discussion of Executive Compensation" and "Compensation Committee Report" in the definitive Proxy Statement for the 2022 Annual Meeting of Stockholders, which definitive Proxy Statement will be filed electronically with the SEC pursuant to Regulation 14A.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

In accordance with General Instruction G(3), information called for by Part III, Item 12, is incorporated by reference from the information appearing under the caption "Beneficial Owners of More Than Five Percent of the Company's Common Stock" and "Security Ownership of Certain Beneficial Owners and Management" in the definitive Proxy Statement for the 2022 Annual Meeting of Shareholders, which definitive Proxy Statement will be filed electronically with the SEC pursuant to Regulation 14A.

Equity Compensation Plan Information. The following table sets forth aggregated information as of December 31, 2021 about all of the Company's equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) <sup>1</sup> (c)
Equity compensation plans approved by security holders	143,828	\$ 13.04	925,741
Equity compensation plans not approved by security holders	—	—	—
Total	143,828	\$ 13.04	925,741

<sup>1</sup>Represents shares remaining available for issuance under the 2015 Stock Awards Plan

Non-employee directors are paid an annual retainer of \$102,000, and each director has the opportunity to elect to receive 100% of the retainer in restricted stock, which vest quarterly over a one year period. The number of restricted shares is determined by the average of the high and low sale price of the Company's stock on the day prior to the Annual Meeting of Shareholders. On May 20, 2021, the Company issued an aggregate of 22,026 shares of restricted stock to non-employee directors in lieu of \$214,000 of their annual cash retainer fees. On May 25, 2021, the Company also issued an aggregate of 20,000 additional shares of restricted stock to the Company's new Chairman of the Board due to the increased responsibilities of the role. Issuance of the shares granted to the directors is not registered under the Securities Act of 1933 and the shares are subject to forfeiture in whole or in part upon the occurrence of certain events. The above table does not reflect these shares issued to non-employee directors.

## Item 13. Certain Relationships and Related Transactions, and Director Independence

In accordance with General Instruction G(3), information called for by Part III, Item 13, is incorporated by reference from the information appearing under the caption "Board of Directors and Committees - Related Party Transactions" and "- Director Independence" in the definitive Proxy Statement for the 2022 Annual Meeting of Shareholders, which definitive Proxy Statement will be filed electronically with the SEC pursuant to Regulation 14A.

## Item 14. Principal Accounting Fees and Services

In accordance with General Instruction G(3), information called for by Part III, Item 14, is incorporated by reference from the information appearing under the caption "Independent Registered Public Accounting Firm - Fees Paid to Independent Registered Public Accounting Firm" and "- Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of

Independent Registered Public Accounting Firm" in the definitive Proxy Statement for the 2022 Annual Meeting of Shareholders, which definitive Proxy Statement will be filed electronically with the SEC pursuant to Regulation 14A.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as a part of this report:

1. Financial Statements: The following consolidated financial statements of Synalloy Corporation are included in Part II, Item 8:

[Consolidated Balance Sheets as of December 31, 2021 and 2020](#)

[Consolidated Statements of Operations for the years ended December 31, 2021 and 2020](#)

[Consolidated Statements of Cash Flows for the years ended December 31, 2021 and 2020](#)

[Consolidated Statements of Shareholders' Equity for the years ended December 31, 2021 and 2020](#)

Notes to Consolidated Financial Statements

2. Financial Statements Schedule: The following consolidated financial statements schedule of Synalloy Corporation is included in Item 15:

[Schedule II - Valuation and Qualifying Accounts](#)

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

3. Listing of Exhibits:  
See "Exhibit Index"

### 2. Financial Statement Schedule

#### Schedule II Valuation and Qualifying Accounts

<i>(in thousands)</i>	Balance at Beginning of Period	Charged to (Reduction of) Cost and Expenses	Other	Deductions	Balance at End of Period
<b>Year ended December 31, 2021</b>					
Deducted from asset account:					
Allowance for credit losses	\$ 496	\$ (68)	\$ 118 <sup>(a)</sup>	\$ (330)	\$ 216
Inventory reserves	\$ 718	\$ 1,649	\$ 216 <sup>(a)</sup>	\$ (1,311)	\$ 1,272
<b>Year ended December 31, 2020</b>					
Deducted from asset account:					
Allowance for credit losses	\$ 70	\$ 440	\$ 450 <sup>(b)</sup>	\$ (464)	\$ 496
Inventory reserves	\$ 747	\$ 271	\$ —	\$ (300)	\$ 718

<sup>(a)</sup> DanChem acquired reserve on October 22, 2021

<sup>(b)</sup> Amount charged to retained earnings upon adoption of ASC 326 on January 1, 2020.

### 3. Exhibit Index

Exhibit No.  
from  
Item 601 of  
Regulation S-K

#### Description

<a href="#">2.1</a>	<a href="#">Stock Purchase Agreement, dated as of October 22, 2021, by and between the Company and DanChem Holdings, LLC, incorporated by reference to Registrant's Form 8-K filed October 25, 2021†</a>
<a href="#">3.1</a>	<a href="#">Amended and Restated Certificate of Incorporation of Registrant</a>
<a href="#">3.2</a>	<a href="#">Amended and Restated Bylaws of Registrant, incorporated by reference to Registrant's Form 8-K filed March 21, 2022</a>
<a href="#">4.1</a>	<a href="#">Form of Common Stock Certificate, incorporated by reference to Registrant's Form 10-Q for the period ended March 31, 2001</a>
<a href="#">4.2</a>	<a href="#">Description of Common Stock</a>
<a href="#">10.1</a>	<a href="#">Amended and Restated Synalloy Corporation 2015 Stock Awards Plan, incorporated by reference to Registrant's Form 10-Q for the period ended June 30, 2021</a>
<a href="#">10.2</a>	<a href="#">2011 Long-Term Incentive Stock Option Plan, incorporated by reference to Registrant's Proxy Statement for the 2011 Annual Meeting of Shareholders</a>
<a href="#">10.3</a>	<a href="#">Agreement between Registrant's Bristol Metals, LLC subsidiary and the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union Local 5852-22, dated March 12, 2018, but effective January 6, 2018, incorporated by reference to Registrant's Form 10-K for the year ended December 31, 2017</a>
<a href="#">10.4</a>	<a href="#">Agreement between Registrant's Bristol Metals, LLC subsidiary and the United Steelworkers of America Local 4586, dated August 1, 2019, incorporated by reference to Registrant's Form 10-K for the period ended December 31, 2019</a>
<a href="#">10.5</a>	<a href="#">Agreement between Registrant's Specialty Pipe &amp; Tube, Inc. subsidiary and the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union Local 1375-18, dated July 1, 2020, incorporated by reference to Registrant's Form 10-K for the year ended December 31, 2020</a>
<a href="#">10.6</a>	<a href="#">Credit Agreement, dated as of January 15, 2021, between Registrant and BMO Harris Bank N.A., incorporated by reference to Registrant's Form 8-K filed on January 19, 2021</a>
<a href="#">10.7</a>	<a href="#">Joinder Agreement, dated November 5, 2021, between Registrant and BMO Harris Bank N.A., incorporated by reference to Registrant's Form 10-Q for the period ended September 30, 2021</a>
<a href="#">10.8</a>	<a href="#">Employment Agreement, dated as of October 26, 2020, between Registrant and Christopher G. Hutter, incorporated by reference to Registrant's Form 8-K filed on October 28, 2020</a>
<a href="#">10.9</a>	<a href="#">Employment Agreement, dated as of February 5, 2021, between Registrant and Sally M. Cunningham, incorporated by reference to Registrant's Form 8-K filed on February 5, 2021</a>
<a href="#">10.10</a>	<a href="#">Offer Letter, dated as of August 1, 2021, between Registrant and Aaron Tam, incorporated by reference to Registrant's Form 8-K filed on August 30, 2021</a>
<a href="#">10.11</a>	<a href="#">Confidential Separation and Release Agreement, dated as of May 14, 2021, between Registrant and J. Greg Gibson, incorporated by reference to Registrant's Form 10-Q for the period ended June 30, 2020</a>
<a href="#">10.12</a>	<a href="#">Confidential Separation and Release Agreement, dated as of August 27, 2021, between Registrant and Sally M. Cunningham</a>
<a href="#">10.13</a>	<a href="#">Asset Purchase Agreement, dated as of June 29, 2018, but with a closing effective date of July 1, 2018, between Marcegaglia USA, Inc. and Registrant's Bristol Metals, LLC subsidiary, incorporated by reference to Registrant's Form 10-Q for the period ended June 30, 2018</a>
<a href="#">10.14</a>	<a href="#">Asset Purchase Agreement, dated as of November 30, 2018, between American Stainless Tubing, Inc. (now HLM Legacy Group, Inc.) and Registrant's ASTI Acquisition, LLC (now American Stainless Tubing, LLC) subsidiary, incorporated by reference to Registrant's Form 10-K for the period ended December 31, 2018.</a>
<a href="#">10.15</a>	<a href="#">Third Amended and Restated Master Lease Agreement, dated as of September 10, 2020, between Registrant and Store Master Funding XII, LLC, incorporated by reference to Registrant's Form 10-Q for the period ending September 30, 2020</a>
<a href="#">21</a>	<a href="#">Subsidiaries of the Registrant</a>
<a href="#">23.1</a>	<a href="#">Consent of BDO USA LLP, independent registered public accounting firm</a>
<a href="#">23.2</a>	<a href="#">Consent of KPMG LLP, independent registered public accounting firm</a>

[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](#)

[32.1](#) [Certifications Pursuant to 18 U.S.C. Section 1350](#)

101.INS\* XBRL Instance Document

101.SCH\* XBRL Taxonomy Extension Schema

101.CAL\* XBRL Taxonomy Extension Calculation Linkbase

101.LAB\* XBRL Taxonomy Extension Label Linkbase

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase

101.DEF\* XBRL Taxonomy Extension Definition Linkbase

104 Cover Page Interactive Data File (formatted as Inline XBRL document and included in Exhibit 101\*)

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

† Portions of this exhibit have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

#### **Item 16. Form 10-K Summary**

None.

**Signatures**

Pursuant to the requirements of Section 13 or 15(d) 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**

By /s/ Christopher G. Hutter  
Christopher G. Hutter  
President and Chief Executive Officer  
(principal executive officer)

March 29, 2022  
Date

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Benjamin Rosenzweig  
Benjamin Rosenzweig  
Executive Chairman of the Board

March 29, 2022  
Date

/s/ Henry L. Guy  
Henry L. Guy  
Director

March 29, 2022  
Date

/s/ John P. Schauerman  
John P. Schauerman  
Director

March 29, 2022  
Date

Aldo J. Mazzaferro, Jr.  
Director

March 29, 2022  
Date

/s/ Christopher G. Hutter  
Christopher G. Hutter  
Chief Executive Officer and Director

March 29, 2022  
Date

/s/ Aaron M. Tam  
Aaron M. Tam  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

March 29, 2022  
Date

RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
SYNALLOY CORPORATION (DELAWARE)  
(Originally Incorporated on March 15, 1988)

We, James G. Lane, Jr., president and Cheryl C. Carter, secretary of Synalloy Corporation (Delaware) do hereby certify as follows:

That the amendment changing the corporation's name to "Synalloy Corporation" and restated certificate of incorporation have been duly adopted in accordance with the provisions of Section 245 of the General Corporation Law of the State of Delaware by the unanimous vote of the sole shareholder; and

That the text of the certificate of incorporation of Synalloy Corporation (Delaware), as amended is hereby amended to read as follows:

ARTICLE ONE

The name of the Corporation is Synalloy Corporation.

ARTICLE TWO

The address of the registered office of the Corporation in the State of Delaware is Corporation Trust Center, 1209 Orange Street in the City of Wilmington, County of New Castle. The name of the registered agent of the Corporation at such address is the Corporation Trust Company.

ARTICLE THREE

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE FOUR

The aggregate number of shares of all classes of stock which the Corporation shall have authority to issue is six million (6,000,000) shares of Common Stock, par value one dollar (\$1.00) per share. Except as may be provided by the Laws of the State of Delaware or this Certificate of Incorporation, the holders of the Common Stock shall have exclusively all rights of stockholders. The holders of the Common Stock shall be entitled to





one vote per share and to vote such shares cumulatively at all elections of directors of the Corporation.

#### ARTICLE FIVE

The business and affairs of the Corporation shall be managed under the direction of the Board of Directors. The Board of Directors shall fix the number of directors to serve on the Board of Directors which shall consist of not less than three nor more than fifteen and may be increased or decreased above or below these limits only by amendment to this Certificate of Incorporation.

#### ARTICLE SIX

The following provisions are hereby adopted for the purpose of defining, limiting and regulating the powers of the Corporation and of its directors and stockholders:

1. The Corporation reserves the right from time to time to make any amendment to its Certificate of Incorporation, now or hereafter authorized by law, including any amendment which alters the contract rights as expressly set forth therein, of any outstanding stock.

2. The Board of Directors is expressly authorized to adopt, alter and repeal the Bylaws of the Corporation in whole or in part at any regular, or special meeting of the Board of Directors, by vote of a majority of the entire Board of Directors. Such power shall not divest the stockholders of the power nor limit their power to adopt, amend, or repeal bylaws.

3. The Board of Directors may determine from time to time the amount and type of compensation which shall be paid to its members for service on the Board of Directors. The Board of Directors shall also have power, in its discretion, to provide for and to pay to directors rendering services to the Corporation not ordinarily rendered by directors, as such, special compensation appropriate to the value of such services, as determined by the Board from time to time.

4. Any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative (whether or not by or in the right of the Corporation) by reason of the fact that he is or was a director, officer, incorporator, employee, or agent of the Corporation, or any predecessor of the Corporation, or is or was serving at the request of the Corporation, or any predecessor of the Corporation, as a director, officer, incorporator, employee, or agent of another corporation, or partnership, joint venture, trust, or other enterprise (including an employee benefit plan), shall be entitled to be indemnified by the Corporation to the full extent then permitted by law against expenses (including attorneys' fees), judgments, fines (including excise taxes assessed on a person with respect to an employee benefit plan), and amounts paid in settlement incurred by him in connection with such action, suit or proceeding. Such right of indemnification shall



inure whether or not the claim asserted is based on matters which antedate the adoption of this Article Six. Such right of indemnification shall continue as to a person who has ceased to be a director, officer, incorporator, employee, or agent and shall inure to the benefit of the heirs and personal representatives of such a person. Subject only to any limitations prescribed by the laws of the State of Delaware now or hereafter in force, the foregoing shall not limit the authority of the Corporation to indemnify the directors, officers and other employees and agents of this Corporation consistent with law and shall not be deemed to be exclusive of any rights to which those indemnified may be entitled as a matter of law or under any resolution, Bylaw provision, or agreement.

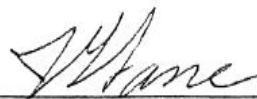
5. Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

6. A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, as it now exists or hereafter may be amended, or (iv) for any transaction from which the director derived an improper personal benefit. If the General Corporation Law of the State of Delaware is amended hereafter to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the Corporation, in addition to the limitation of personal liability provided herein, shall be limited to the fullest extent permitted by the amended General Corporation Law of the State of Delaware. Any amendment, repeal or modification of this paragraph by the stockholders of the Corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the Corporation existing at the time of such amendment, repeal or modification. This paragraph 6 does not affect the availability of equitable remedies for breach of fiduciary duties.

7. The Corporation expressly elects not to be governed by the provisions of Section 203 of the General Corporation Law of the State of Delaware.



IN WITNESS WHEREOF, I have made, signed and sealed this Restated Certificate of Incorporation this 31st day of May, 1988, and hereby acknowledge the execution thereof as my act and deed.



\_\_\_\_\_  
James G. Lane, Jr., President

ATTEST:



\_\_\_\_\_  
Cheryl C. Carter, Secretary



**STATE OF DELAWARE  
CERTIFICATE OF AMENDMENT  
OF  
CERTIFICATE OF INCORPORATION**

**SYNALLOY CORPORATION,**

a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware.

**DOES HEREBY CERTIFY:**

**FIRST:** That at a meeting of the Board of Directors of Synalloy Corporation resolutions were duly adopted setting forth a proposed amendment of the Certificate of Incorporation of said Corporation, declaring said amendment to be advisable and directed that the amendment be considered at the next annual meeting of the stockholders. The resolution setting forth the proposed amendment is as follows:

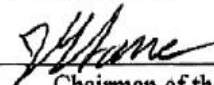
**RESOLVED,** that the Restated Certificate of Incorporation of this Corporation be amended by changing the Article thereof numbered "Four" so that, as amended, said Article shall be and read as follows:

"The aggregate number of shares of all classes of stock which the Corporation shall have authority to issue is twelve (12,000,000) million shares of Common Stock, par value One Dollar (\$1.00) per share. Except as may be provided by the Laws of the State of Delaware or this Certificate of Incorporation, the holders of the Common Stock shall have exclusively all rights of stockholders. The holders of the Common Stock shall be entitled to one (1) vote per share and to vote such shares cumulatively at all elections of directors of the Corporation."

**SECOND:** That thereafter, pursuant to resolution of its Board of Directors, at the next annual meeting of the stockholders of said Corporation, upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware, the necessary number of shares as required by statute were voted in favor of the amendment.

**THIRD:** That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

**IN WITNESS WHEREOF,** said Synalloy Corporation has caused this certificate to be signed by James G. Lane, Jr., an Authorized Officer, this 5<sup>th</sup> day of May, 1999.

BY:   
TITLE: Chairman of the Board and Chief  
Executive Officer



1



State of Delaware  
Secretary of State  
Division of Corporations  
Delivered 10:00 AM 05/14/2015  
FILED 10:00 AM 05/14/2015  
SRV 150677747 - 2154910 FILE

STATE OF DELAWARE  
CERTIFICATE OF AMENDMENT  
OF CERTIFICATE OF INCORPORATION

The corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware does hereby certify:

**FIRST:** That at a meeting of the Board of Directors of Synalloy Corporation resolutions were duly adopted setting forth a proposed amendment of the Certificate of Incorporation of said corporation, declaring said amendment to be advisable and calling a meeting of the stockholders of said corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

**RESOLVED,** that the Certificate of Incorporation of this corporation be amended by changing the Article thereof numbered "Article Four" so that, as amended, said Article shall be and read as follows:

The aggregate number of shares of all classes of stock which the Corporation shall have authority to issue is twenty-four million (24,000,000) shares of Common Stock, par value One Dollar (\$1.00) per share. Except as may be provided by the Laws of the State of Delaware or this Certificate of Incorporation, the holders of the Common Stock shall have exclusively all rights of stockholders. The holders of the Common Stock shall be entitled to one (1) vote per share and to vote such shares cumulatively at all elections of directors of the Corporation.

**SECOND:** That thereafter, pursuant to resolution of its Board of Directors, the annual meeting of the stockholders of said corporation was duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

**THIRD:** That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

**IN WITNESS WHEREOF,** said corporation has caused this certificate to be signed this 13<sup>th</sup> day of May, 2015.

By:  \_\_\_\_\_

Authorized Officer

Title: President & CEO

Name: Craig C. Bram

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**DESCRIPTION OF THE SECURITIES  
REGISTERED PURSUANT TO SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934**

The following descriptions of the capital stock of Synalloy Corporation (the "Company", "we", "us" or "our"), certain provisions of our Amended and Restated Certificate of Incorporation (our "Certificate of Incorporation"), our Amended and Restated By-Laws (our "By-Laws"), and certain provisions of the Delaware General Corporation Law (the "DGCL"), are summaries and qualified in their entirety by reference to our Certificate of Incorporation, our By-Laws and the DGCL, as the case may be. Copies of our Certificate of Incorporation and our By-Laws are filed<sup>[1]</sup> as exhibits to the Annual Report of the Company on Form 10-K, of which this Exhibit is a part, and each of which may be amended from time to time.

We have one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: our common stock, par value \$1.00 per share.

**Authorized Capital Shares**

Our authorized capital stock consists of twenty-four million (24,000,000) shares of common stock, par value \$1.00 per share. Our common stock is listed on the NASDAQ Global Market under the trading symbol "SYNL." Our Certificate of Incorporation does not currently authorize the issuance of preferred stock.

**Voting**

Holders of shares of our common stock are entitled to one vote for each share held of record on all matters on which stockholders are entitled to vote generally, including the election or removal of directors. The holders of our shares are permitted cumulative voting rights in the election of directors. Each stockholder is entitled to multiply the number of votes they are entitled to cast by the number of directors for whom they are entitled to vote and cast by the number of directors for whom they are entitled to vote and cast the product for a single candidate or distribute the product among two or more candidates. Our Certificate of Incorporation and By-Laws do not contain supermajority voting requirements, and stockholders can approve binding By-Law amendments with a simple majority vote.

**Stockholder Action by Written Consent**

[Our Certificate of Incorporation and By-Laws provide that any action that may be taken at any annual or special meeting of stockholders may be taken without a meeting and without a vote if, in accordance with the By-Laws, (a) record holders of shares of our outstanding common stock request in writing that the Board establish a record date for the proposed action; (b) consents are solicited by the stockholders proposing to take such action from all holders of our shares as of the record date; and (c) the Company receives written consents setting forth the action so taken that are signed by the holders of outstanding stock on the record date having not less than the minimum number of votes that would be necessary to authorize or take that action at a meeting at which all shares entitled to vote on the action were present and voting.][2]

**Dividends; Liquidation Rights**

Holders of shares of our common stock have equal ratable rights to dividends (payable in cash, stock or otherwise) out of funds legally available for that purpose, when and if dividends are declared by the Board of Directors of the Company (the "Board"), subject to applicable law. Holders of shares of common stock are entitled to share ratably, as a single class, in all of the Company's assets available for distribution to stockholders upon the Company's liquidation or dissolution or the winding up of our affairs, after satisfaction of the Company's liabilities in accordance with the DGCL and other applicable law.

**Rights and Preferences**

Stockholders of the Company have no preemptive or conversion rights, and there are no redemption or sinking fund provisions applicable to our common stock.

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**Fully Paid and Nonassessable**

All outstanding shares of our common stock are fully paid and not liable to any further call or assessments by us.

**Certain Anti-Takeover Provisions**

Our Certificate of Incorporation, our By-Laws and the DGCL contain certain provisions that could delay or make more difficult an acquisition of control of us that is not approved by our Board, whether by means of a tender offer, open-market purchases, a proxy contest or otherwise. These provisions could have the effect of discouraging third parties from making proposals involving an acquisition or change of control of us, even though such a proposal, if made, might be considered desirable by a majority of our stockholders. These provisions also may have the effect of making it more difficult for third parties to cause the replacement of our current management without the concurrence of our Board. Set forth below is a description of various provisions contained in our Certificate of Incorporation, our By-Laws and the DGCL that could impede or delay an acquisition of control of us that our Board has not approved. This description is intended as a summary only and is subject to, and qualified in its entirety by reference to, our Certificate of Incorporation and our By-Laws, as well as the DGCL.

*Requirements for Advance Notification of Stockholder Nominations and Proposals*

The By-Laws provide that stockholders seeking to present proposals before a meeting of stockholders or to nominate candidates for election as directors at a meeting of stockholders must provide timely advance written notice to us, and specify requirements as to the form and content of such notice, which may preclude stockholders from bringing matters before a meeting of stockholders or from making nominations for directors at a meeting of stockholders.

*Proxy Access*

Our By-Laws provide that, in certain circumstances, a stockholder or group of stockholders may include director candidates that they have nominated in our annual meeting proxy materials. The nominating stockholder or group of stockholders is required to deliver certain information and undertakings, and each nominee is required to meet certain qualifications, as described in more detail in the By-Laws.

*Special Stockholder Meetings*

Our By-Laws provide that special meetings of the stockholders of the corporation may only be called by the Chairman of the Board, the Board, the President, or the holders of not less than 25% of our shares of common stock entitled to vote at such meeting.

*Delaware Anti-Takeover Statute*

We elected not to be governed by Section 203 of the DGCL, an anti-takeover statute that prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the time the person became an interested stockholder, unless the business combination or the acquisition of shares that resulted in a stockholder becoming an interested stockholder is approved in a prescribed manner. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Delaware corporations have the right to opt out of Section 203 of the DGCL.

**Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is American Stock Transfer & Trust

**SEPARATION AND RELEASE AGREEMENT**

As a result of the separation of employment between the individual listed on the last page of this Separation and Release Agreement (“You” or “Employee”) and Synalloy Corporation (including its parents, divisions, affiliates, holding companies, owners, subsidiaries, predecessors, successors, employees, officers, shareholders, and directors) (“Company”), you and the Company enter into the following Separation and Release Agreement (“Agreement”) and acknowledge and agree as follows:

1. You acknowledge that the Company is allowing you at least twenty-one (21) days from your receipt of this Agreement in which to consider and sign it. If you do not sign and return the Agreement without modification to Doug Tackett at the address listed below in Paragraph 8 within the time specified in Paragraph 2, the Company’s offer shall expire.

2. Your employment with the Company will terminate effective August 27, 2021 (“Termination Date”). The earliest date that you may execute this Agreement to memorialize your acceptance of its terms is at the end of your workday on the Termination Date. The latest date that you may execute this agreement is twenty-one (21) days from your receipt of this Agreement.

3. Severance.

a. Upon the execution of this Agreement (which is a condition precedent to your right to receive the benefits set forth herein, and as consideration for this Agreement, the adequacy of which you acknowledge, the Company agrees to pay to you the following amounts (collectively “Severance”) in accordance with the terms of your employment agreement (“Employment Agreement”) dated February 5, 2021: i) a pro rata portion of your 2021 Incentive Plan (as approved by the Board of Directors and/or the Compensation Committee of the Board of Directors) at the target level in the gross amount of \$138,667.00; ii) three quarters (0.75) times your current base salary as severance pay in the total gross amount of \$240,000.00, less applicable deductions, which will be paid to you over the course of nine (9) months in accordance with the Company’s normal payroll schedule; iii) one half (0.5) times the average of the two (2) most recent Cash Incentive payments and Equity Incentive awards you received in the gross amount of \$103,223.00, which payment shall be made to you in a lump sum within (90) days following termination; iv) a lump sum payment equal to the cost of COBRA health insurance premiums (for currently enrolled medical and dental policies and coverages) for twelve (12) months following the date of termination in the gross amount of \$16,142.50; and v) immediate vesting of 100% of any previously granted and unvested equity awards.

b. Nothing in this Agreement adversely affects any right you may have to: (i) base pay earned by you through the Termination Date, and you shall be paid all such pay regardless of whether you sign this Agreement; (ii) earned, unused vacation, where payout upon termination is required by state law, which will be paid by the Company in your final pay check following the Termination Date; (iii) reimbursement for approved business expenses incurred by you through the Termination Date for which you have not been reimbursed; (iv) continued medical, dental and vision insurance coverage pursuant to the terms of Company-provided insurance plans or applicable law; and (v) vested retirement benefits to which you are entitled as of the Termination Date pursuant to the terms of any Company retirement benefit plan(s) or applicable laws. Other than the Severance Pay and the other items discussed in this Paragraph 3, you acknowledge and agree that the Company has no further financial obligations to you.

c. The Company will not contest any claim you may file with the state for unemployment benefits.

4. Each party agrees that it will not make or cause to be made any oral or written statements that are derogatory, defamatory, disparaging or harmful concerning the other party, including as to Company, its policies or programs, or its past or present officers, directors, employees, agents, or business associates, including but not limited to its past or present suppliers or vendors, or take any actions that are harmful to the business affairs of the Company and/or its employees.

5. Release.

a. In consideration of this Agreement and all payments and benefits to be paid or accorded to you under this Agreement, you waive all claims, both known and unknown, and release, quitclaim unto, demise unto, and discharge the Company and its past and present respective parents, affiliates, subsidiaries, employee benefit plans, directors and officers, fiduciaries, employees, agents, attorneys, successors and assigns, in their individual, official and corporate capacities ("Released Parties"), from any and all demands, commissions, bonuses, wages, salaries, debts, sums of money, accounts, damages, financial information, liabilities, rights of reinstatement, actions, causes of action, and/or suits at law or in equity, of any kind or nature whatsoever, whether known or not now known or hereafter arising, including, but not limited to (1) those arising from, relating to, or in connection with any acts or omissions related to any matter at any time prior to and including the date of your execution of this Agreement, and (2) those arising from, relating to, or in connection with your employment with or separation from the Company, from the beginning of time up to and including the date of your execution of this Agreement. The claims you are releasing and waiving include, but are not limited to, any claims which you may have under any contract or policy, whether such policy is written or oral, express or implied; demands and causes of action for any alleged violation of any federal, state or local statutes, ordinances or common laws, including but not limited to the Age Discrimination in Employment Act, or on the basis of my race, sex, or any other basis in violation of the Americans with Disabilities Act, the Rehabilitation Act, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, 42 U.S.C. 1981, or any other local, state, or federal law or regulations related to unlawful employment discrimination, the Fair Labor Standards Act, the Family and Medical Leave Act, the Worker Adjustment and Retraining Notification Act, ERISA; tortious or contractual wrongful discharge or conduct; breach of the covenant of good faith and fair dealing; violation of public policy; tortious interference with contract or prospective business relations; intentional or negligent infliction of emotional distress; claims for personal injuries; claims pursuant to any state's worker's compensation law; fraud or misrepresentation; battery or assault; negligence; negligent hiring or supervision; vicarious liability for the torts of others; invasion of privacy; defamation-libel-slander; failure to pay wages, stock awards, bonuses, commissions, incentive pay, benefits, vacation pay, profit sharing, severance or other compensation of any sort; and harassment, retaliation or discrimination on the basis of race, color, national origin, religion, sex, sexual preference, age, handicap or disability, veteran's status, or any other status protected by law; and any other state or local civil, labor, pension, wage-hour or human rights law, and any claim for costs or attorney's fees.

You agree to release and discharge the Company not only from any and all claims which you could make on your own behalf, but also specifically waive any right to become, and promise not to become, a member of any class in any proceeding or case in which a claim or claims against the Company may arise, in whole or in part, from any event which occurred prior to the date of this Agreement. If you are not permitted to opt-out of a future class, then you agree to waive any recovery for which you would be eligible as a member of such class. You hereby acknowledge that you may hereafter discover facts different from or in addition to those that you now know or believed to be true when you expressly agreed to assume the risk of the possible discovery of additional facts, and you agree that this Agreement will be and remain effective regardless of such additional or different facts.



By signing this Agreement, you confirm your intent that the release contained herein to be a general release of any and all claims to the fullest extent permissible by law. Notwithstanding the foregoing, nothing in this Agreement shall be a waiver of: (i) your rights with respect to payment of amounts under this Agreement, (ii) your rights as discussed in Paragraph 3.b., or (iii) any claims that cannot be waived by law.

b. You understand that nothing contained in this Agreement limits your ability to communicate, cooperate, or file a charge or complaint about possible violations of U.S. federal, state or local law or regulation to or with any governmental agency or regulatory authority, including with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal, state, or local governmental agency or commission ("Government Agencies"), provided that in each case such communications and disclosures are consistent with applicable law. You shall not be held criminally or civilly liable under any U.S. federal or state trade secret law for the disclosure of a trade secret that is made (a) in confidence to a U.S. federal, state, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, or (b) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal, and does not disclose the trade secret, except pursuant to court order. You are not required to give prior notice to (or get prior authorization from) the Company regarding any such communication or disclosure. Except as otherwise provided in this section or under applicable law, under no circumstance are you authorized to disclose any information covered by the Company's attorney-client privilege or attorney work product, or the Company's trade secrets, without the Company's prior written consent. This Agreement does not limit your right to receive an award for information provided to any Government Agencies. Nothing in this Agreement shall affect your rights to engage in concerted activity protected by Section 7 of the National Labor Relations Act.

c. In consideration of this Agreement, including Employee's release of the Company set forth in Section 5(a), the Company, on behalf of itself, its parents, subsidiaries, directors, officers, employees, contractors, attorneys, and assigns (collectively, "Company Releasing Parties"), waives all claims, both known and unknown, and releases, quitclaims unto, demises unto, and discharges the Employee and her/his heirs, executives, and assigns ("Employee Released Parties"), from any and all demands, debts, sums of money, accounts, damages, financial information, liabilities, actions, causes of action, and/or suits at law or in equity of any kind or nature whatsoever, whether known or not now known, in connection with any acts or omissions those arising from, relating to, or in connection with your employment with or separation from the Company.

6. You acknowledge that you have not filed any complaint, charge, claim or proceeding, against any of the Released parties before any local, state, federal or foreign agency, court or other body (each individually a "Proceeding"). You represent that you are not aware of any basis on which such a Proceeding could reasonably be instituted. You represent that you have not suffered any job-related wrongs or injuries that you have not previously disclosed to the Company. You further acknowledge that you have been paid all wages and/or commissions owing to you and that you have not worked any hours for which you have not been paid. Except for the obligations and promises set forth in this Agreement, you agree and understand that this Agreement releases the Released Parties from each and every obligation, monetary or otherwise, owed to you now and in the future.

7. You affirm, covenant, and warrant you are not a Medicare beneficiary and are not currently receiving, have not received in the past, will not have received at the time payments are

due under this Agreement, are not entitled to, are not eligible for, and have not applied for or sought Social Security Disability or Medicare benefits. In the event any statement in the preceding sentence is incorrect (for example, but not limited to, if you are a Medicare beneficiary, etc.), the following sentences of this paragraph apply. You affirm, covenant, and warrant you have made no claim for illness or injury against, nor are you aware of any facts supporting any claim against, the Released Parties under which the Released Parties could be liable for medical expenses incurred by you before or after the execution of this Agreement. Furthermore, you are aware of no medical expenses that Medicare has paid and for which the Released Parties are or could be liable now or in the future. You agree and affirm that, to the best of your knowledge, no liens of any governmental entities, including those for Medicare conditional payments, exist. You will indemnify, defend, and hold the Released Parties harmless from Medicare claims, liens, damages, conditional payments, and rights to payment, if any, including attorneys' fees, and you further agree to waive any and all future private causes of action for damages pursuant to 42 U.S.C. § 1395y(b)(3)(A) et seq.

8. This Agreement is intended to comply with the Older Workers' Benefit Protection Act. You acknowledge that you have carefully read and fully understand the provisions of this Agreement. You are releasing rights available to you under the Age Discrimination in Employment Act (ADEA). You are not releasing any rights that may arise under the ADEA after you sign this Agreement. You are advised to consult with an attorney before signing this Agreement. You have no fewer than twenty-one (21) days from the date you received this Agreement to consider it. If you choose to sign this document, you have seven (7) days to change your mind and revoke the agreement. If you choose to revoke the Agreement, you must deliver by email and by certified mail, return receipt requested, written notice of revocation to the attention of Doug Tackett, Chief Legal Officer, at dtackett@synalloy.com. The "Effective Date" of this Agreement shall be on the first day following the expiration of the revocation period.

9. You and the Company acknowledge that the execution of this Agreement shall not constitute or be construed as an admission of wrongdoing by either party. You acknowledge and agree that you are signing the Agreement voluntarily and without any other promises or agreements from the Company.

10. Nothing in this Agreement is intended to modify or supersede your obligations under any agreement you signed with the Company requiring you to maintain the confidentiality of its proprietary, confidential, or trade secret information and/or restricting you from unfairly competing with it or soliciting its customers or employees. You likewise agree to keep secret and inviolate all Confidential Information (defined as all confidential or proprietary information concerning the business and affairs of the Company, including without limitation, all trade secrets, know-how and other information generally retained on a confidential basis by the Company concerning its products, methods, know-how, techniques, systems, software codes and specifications, formulae, inventions and discoveries, business plans, pricing, product plans and the identities of and the nature of the Company's dealings with its employees, suppliers and customers, whether or not such information shall, in whole or in part, be subject to or capable of being protected by patent, copyright or trademark laws) which shall have come into your possession, and you will not use the same for your own private benefit, or directly or indirectly for the benefit of others, and you will not disclose such Confidential Information to any other person.

Notwithstanding anything contained herein which may be to the contrary, the term "Confidential Information" does not include any information which at the time of disclosure or thereafter (i) is generally available to and known by the public, other than as a result of a disclosure directly or indirectly by you, (ii) is widely known within the industry in which the Company operates, or you can demonstrate was otherwise known to you prior to becoming an

employee of the Company, or (iii) becomes available to you on a non-confidential basis from a source (other than the Company or a Company employee) that is not prohibited from disclosing such information to you by a legal, contractual or fiduciary obligation to the Company.

11. Except as expressly provided in Paragraph 5.b. and this Paragraph 11, you agree that the terms and conditions of this Agreement are and shall be deemed to be strictly confidential and shall not hereafter be disclosed by you to any other person or entity. The only disclosures excepted by this paragraph are (i) as may be required by court order or subpoena, after notice to the Company; (ii) you may disclose the existence of the Agreement and its terms to your attorneys, accountants, tax or financial advisors and to your immediate family members, provided that you make each such person aware of the confidentiality provision of this paragraph; and (iii) to the extent necessary to enforce this Agreement.

12. You and the Company acknowledge that this Agreement constitutes the entire agreement between the parties and supersedes all previous oral or written negotiations or communications between the you and any Released Parties, except as otherwise provided herein, including but not limited to any employment agreement between you and the Company and/or any policy or program providing for severance upon termination of employment. Additionally, nothing in this Agreement is intended to supersede any arbitration agreement you have with the Company and any Released Parties and any post-employment obligations you have to the Company or any Released Parties that restrict your ability to compete with it, solicit its employees and customers, and use and/or disclose its confidential information. If for any reason an arbitrator or court of competent jurisdiction finds any provision of this Agreement or any portion of this Agreement to be unenforceable, such provision will be enforced to the maximum extent permissible so as to implement the intentions of the parties, and the remainder will continue in full force and effect. This Agreement shall be governed, interpreted, and enforced in accordance with the laws of the State of Virginia without giving effect to its conflict of law principles.

**Employee acknowledges and warrants that Employee has read and understands the effects of this employment release agreement and executes the same of Employee's own free will and accord for the purposes and consideration set forth. Employee further acknowledges and warrants to the Company that having carefully read this employment release agreement that Employee fully understands it to be among other things a release of all claims, known or unknown, now existing or which may hereafter accrue that Employee has or may have against the party or parties released arising out of the matters described.**

This Agreement may be executed in two counterparts and via facsimile or email, each of which shall be deemed an original, all of which together shall constitute one and the same instrument.

Synalloy Corporation

By: \_\_\_\_\_ Date: \_\_\_\_\_  
Authorized Representative

\_\_\_\_\_ Date: \_\_\_\_\_  
Signature of Employee

Sally M. Cunningham  
Address: \_\_\_\_\_  
\_\_\_\_\_

## **Synalloy Corporation**

### **Exhibit 21 Subsidiaries of the Registrant**

All of the Company's subsidiaries are wholly owned. All subsidiaries are included in the Company's consolidated financial statements. The subsidiaries are as follows:

Synalloy Metals, Inc., a Tennessee corporation

Bristol Metals, LLC, a Tennessee limited liability corporation

Manufacturers Soap and Chemicals Company, a Tennessee corporation

Manufacturers Chemicals, LLC, a Tennessee limited liability corporation

Synalloy Fabrication, LLC, a South Carolina limited liability corporation

Palmer of Texas Tanks, Inc., a Texas corporation (formerly Lee-Var, Inc.)

CRI Tolling, LLC, a South Carolina limited liability corporation

Specialty Pipe & Tube, Inc., a Delaware corporation

American Stainless Tubing, LLC, a North Carolina limited liability corporation

DanChem Technologies, Inc., a Delaware corporation

**Consent of Independent Registered Public Accounting Firm**

Synalloy Corporation  
Richmond, Virginia

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-230447) and Form S-8 (No. 333-188937) of Synalloy Corporation of our report dated March 29, 2022, relating to the consolidated financial statements and schedules, which appear in this Form 10-K.

/s/ BDO USA LLP

Richmond, Virginia  
March 29, 2022

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Synalloy Corporation:

We consent to the incorporation by reference in the registration statements on Form S-8 (No. 333-188937) and Form S-3 (No. 333-230447) of our report dated March 9, 2021, with respect to the consolidated balance sheet of Synalloy Corporation as of December 31, 2020, the related consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for the year then ended, and the related notes and financial statement Schedule II, which report appears in the December 31, 2021, annual report on Form 10-K of Synalloy Corporation.

/s/ KPMG LLP

Richmond, Virginia  
March 29, 2022

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**Exhibit 31.1**

**CERTIFICATIONS**

I, Christopher G. Hutter, certify that:

1. I have reviewed this annual report on Form 10-K 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 officer 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 officer 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: March 29, 2022 /s/ Christopher G. Hutter  
Christopher G. Hutter  
Chief Executive Officer

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**Exhibit 31.2**

**CERTIFICATIONS**

I, Aaron M. Tam, certify that:

1. I have reviewed this annual report on Form 10-K 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 officer 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 officer 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: March 29, 2022 /s/ Aaron M. Tam  
Aaron M. Tam  
Chief Financial Officer

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