

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

**For the Quarterly Period Ended March 29, 2003**

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

**For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 0-19687**

**SYNALLOY CORPORATION**

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

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**57-0426694**

*(IRS Employer  
Identification Number)*

**2155 West Croft Circle**

**Spartanburg, South Carolina**

*(Address of principal executive offices)*

**29302**

*(Zip code)*

**(864) 585-3605**

*(Registrant's telephone number, including area code)*

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 is an accelerated filer as defined in Rule 12b-2 of the Exchange Act. Yes  No .

The number of shares outstanding of the registrant's common stock as of May 12, 2003 was 5,964,304.

<page>

- 1 -

***Synalloy Corporation***

***Index***

**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements (unaudited)

Condensed consolidated balance sheets - March 29, 2003 and December 28, 2002

Condensed consolidated statements of income - Three months ended March 29, 2003  
and March 30, 2002

Condensed consolidated statements of cash flows - Three months ended March 29, 2003  
and March 30, 2002

Notes to condensed consolidated financial statements - March 29, 2003

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

Item 4. Controls and Procedures

## PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

Signatures and Certifications

<page>

-2-

## PART I

### Item 1. Financial Statements

#### Synalloy Corporation

#### Condensed Consolidated Balance Sheets

	Mar 29, 2003	Dec 28, 2002
	<u>(Unaudited)</u>	<u>(Note)</u>
<b>Assets</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 4,039	\$ 48,656
Accounts receivable, less allowance for doubtful accounts	12,403,066	11,424,904
Inventories		
Raw materials	7,580,140	7,053,787
Work-in-process	4,090,905	3,586,785
Finished goods	<u>9,773,402</u>	<u>9,113,902</u>
Total inventories	21,444,447	19,754,474
Deferred income taxes	479,000	479,000
Income taxes receivable	1,575,483	1,342,435
Prepaid expenses and other current assets	<u>695,451</u>	<u>541,696</u>
Total current assets	36,601,486	33,591,165
Cash value of life insurance	2,396,299	2,381,299
Property, plant & equipment, net of accumulated depreciation of \$36,243,000 and \$35,520,000	20,754,526	21,206,419
Deferred charges and other assets	<u>2,804,080</u>	<u>2,787,336</u>
<b>Total assets</b>	\$ 62,556,391	\$ 59,966,219
	=====	=====
<b>Liabilities and Shareholders' Equity</b>		
<i>Current liabilities</i>		
Notes payable	\$ 5,510,636	\$ 3,863,088
Accounts payable	7,573,558	7,039,179
Accrued expenses	2,813,796	1,612,794
Current portion of environmental reserves	<u>982,965</u>	<u>1,016,454</u>
Total current liabilities	16,880,955	13,531,515
Long-term debt, less current portion	10,000,000	10,000,000
Environmental reserves	419,015	567,696
Deferred compensation	542,311	814,662
Deferred income taxes	1,178,000	1,178,000
Shareholders' equity		
Common stock, par value \$1 per share - authorized 12,000,000 shares; issued 8,000,000 shares	8,000,000	8,000,000
Capital in excess of par value	9,491	9,491
Retained earnings	42,613,980	42,952,216
Less cost of Common Stock in treasury: 2,065,696 shares	<u>(17,087,361)</u>	<u>(17,087,361)</u>
Total shareholders' equity	<u>33,536,110</u>	<u>33,874,346</u>
<b>Total liabilities and shareholders' equity</b>	\$ 62,556,391	\$ 59,966,219
	=====	=====

Note: The balance sheet at December 28, 2002 has been derived from the audited financial statements at that date. See accompanying notes to condensed consolidated financial statements.

<page>

- 3 -

**Synalloy Corporation**  
**Condensed Consolidated Statements of Operations**

(Unaudited)

	<b>Three Months Ended</b>	
	<b>(<sup>1</sup>Restated)</b>	
	<u>March 29, 2003</u>	<u>March 30, 2002</u>
Net sales	\$ 20,298,570	\$ 20,422,691
Cost of sales	<u>18,124,278</u>	18,837,266
Gross profit	2,174,292	1,585,425
Selling, general and administrative expense	<u>2,463,730</u>	<u>2,855,447</u>
Operating loss	(289,438)	(1,270,022)
Other (income) and expense		
Gain on sale of investments	-	(65,916)
Interest expense	246,296	219,096
Other, net	(7,498)	663
Loss before taxes	(528,236)	(1,423,865)
Benefit for income taxes	<u>(190,000)</u>	<u>(501,000)</u>
Loss before cumulative effect of a change in accounting principle	(338,236)	(922,865)
Cumulative effect, net of income tax of \$127,000, of a change in accounting principle	-	(235,473)
Net loss	\$ (338,236)	\$ (1,158,338)
	=====	=====
Net loss per basic and diluted common share:		
Before cumulative effect of a change in accounting principle	(\$ .06)	(\$ .15)
Cumulative effect of a change in accounting principle	<u>\$ -</u>	<u>(\$ .04)</u>
	(\$ .06)	(\$ .19)
	=====	=====
Shares Outstanding		
Basic	5,964,304	5,964,304
	=====	=====
Diluted	5,964,304	5,964,304
	=====	=====

<sup>1</sup>Restated for implementation of FAS 142

See accompanying notes to condensed consolidated financial statements

<page>

-4-

**Synalloy Corporation**  
**Condensed Consolidated Statements of Cash Flows**

(Unaudited)

	<b>Three Months Ended</b>	
	<b>(<sup>1</sup>Restated)</b>	
	<u>March 29, 2003</u>	<u>March 30, 2002</u>
<b>Operating activities</b>		
Net loss	\$ (338,236)	\$ (1,158,338)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation expense	737,199	844,231
Amortization of deferred charges	86,106	35,642
Deferred compensation	(272,351)	(268,241)
Deferred income taxes	-	(26,000)
Provision for losses on accounts receivable	67,846	1,396
Loss (gain) on sale of property, plant and equipment	(2,690)	36,839
Write-off of goodwill	-	362,473
Gain on sale of investment	-	(65,916)

Cash value of life insurance	(15,000)	33,618
Environmental reserves	(182,170)	(112,810)
Changes in operating assets and liabilities:		
Accounts receivable	(1,046,008)	(473,727)
Inventories	(1,689,973)	1,405,714
Other assets	(484,683)	(429,471)
Accounts payable	534,379	767,035
Accrued expenses	1,201,002	229,440
Income taxes payable	<u>(233,048)</u>	<u>(647,000)</u>
<b>Net cash (used in) provided by operating activities</b>	<b>(1,637,627)</b>	<b>534,885</b>
<b>Investing activities</b>		
Purchases of property, plant and equipment	(287,616)	(611,902)
Proceeds from sale of property, plant and equipment	5,000	10,000
Decrease in note receivables	228,078	125,000
Proceeds from sale of investments	<u>-</u>	<u>285,260</u>
<b>Net cash used in investing activities</b>	<b>(54,538)</b>	<b>(191,642)</b>
<b>Financing activities</b>		
Proceeds from revolving lines of credit	22,070,809	6,879,000
Payments on revolving lines of credit	<u>(20,423,261)</u>	<u>(6,995,000)</u>
<b>Net cash provided by (used in) financing activities</b>	<b><u>1,647,548</u></b>	<b><u>(116,000)</u></b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(44,617)</b>	<b>227,243</b>
<b>Cash and cash equivalents at beginning of year</b>	<b><u>48,656</u></b>	<b><u>4,989</u></b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,039</b>	<b>\$ 232,232</b>
	<b>=====</b>	<b>=====</b>

*1Restated for implementation of FAS 142*

*See accompanying notes to condensed consolidated financial statements.*

<page> -5-

## *Synalloy Corporation*

### *Notes To Condensed Consolidated Financial Statements*

*(Unaudited)*

**March 29, 2003**

#### **NOTE 1--**

**BASIS OF PRESENTATION:** The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 29, 2003, are not necessarily indicative of the results that may be expected for the year ending January 3, 2004. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the period ended December 28, 2002.

**CHANGE IN ACCOUNTING PRINCIPLE:** In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets ("Statements") effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company applied the new standards on accounting for goodwill and other intangible assets during the second quarter of 2002, which resulted in a one-time charge of \$235,000, or \$.04 per share, representing the cumulative effect of a change in accounting principle, recorded as a restatement in the first quarter and included in the year-to-date numbers.

#### **NOTE 2--INVENTORIES**

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

#### **NOTE 3--STOCK OPTIONS**

The Company accounts for its stock-based compensation plans under the recognition and measurement principles of Accounting Standards Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Statement of Financial Accounting Standards No. 123 requires the Company to disclose pro forma net income and income per share data as if a fair value based accounting method had been

used in the computation of compensation expense. Under APB No. 25, because the exercise price of the Company's employee stock options at least equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized. For purposes of the following pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period:

<page>

-6-

**Synalloy Corporation**

**Notes To Condensed Consolidated Financial Statements**

*(Unaudited)*

**March 29, 2003**

	<b>THREE MONTHS ENDED</b>	
	<u>March 29, 2003</u>	<u>March 30, 2002</u>
Net loss reported	\$ (338,236)	\$ (1,158,338)
Compensation expense, net of tax	<u>(41,835)</u>	<u>(59,921)</u>
Pro forma net loss	<u>\$ (380,071)</u>	<u>\$ (1,218,259)</u>
Basic and diluted loss per share	\$ (.06)	\$ (.19)
Compensation expense, net of tax	<u>(.01)</u>	<u>(.01)</u>
Pro forma basic and diluted net loss per share	<u>\$ (.07)</u>	<u>\$ (.20)</u>

**NOTE 4--SEGMENT INFORMATION**

*(Dollar amounts in thousands)*

	<b>THREE MONTHS ENDED</b>	
	<u>March 29, 2003</u>	<u>March 30, 2002</u>
<b>Net sales</b>		
Colors Segment	\$ 4,619	\$ 4,664
Specialty Chemicals Segment	<u>5,917</u>	<u>5,508</u>
Chemicals Group	10,536	10,172
Metals Segment	<u>9,763</u>	<u>10,251</u>
	<u>\$ 20,299</u>	<u>\$ 20,423</u>
<b>Operating (loss) income</b>		
Colors Segment	(6)	(528)
Specialty Chemicals Segment	<u>52</u>	<u>(123)</u>
Chemicals Group	46	(651)
Metals Segment	<u>(100)</u>	<u>(333)</u>
	(54)	(984)
<b>Unallocated expenses</b>		
Corporate	236	286
Interest, net	238	219
Gain on sale of assets	<u>-</u>	<u>(65)</u>
<b>Loss before income taxes and cumulative effect of a change in accounting principle</b>	<u>\$ (528)</u>	<u>\$ (1,424)</u>

<page>

-7-

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

---

The following is management's discussion of certain significant factors that affected the Company during the quarter ended March 29, 2003.

Consolidated sales for the quarter were down slightly, decreasing less than one percent compared to the same period one year ago. The Company realized a consolidated net loss of \$338,000 for the quarter, or \$.06 per share compared to a net loss of \$1,158,000 or \$.19 per share reported the same period one year ago.

Sales in the Colors Segment were down one percent from a year earlier resulting in an operating loss of \$6,000 compared to a \$528,000 loss reported in 2002's first quarter. Selling prices continued to decline causing the sales decline. The significant reduction in operating loss came from an increase in unit volumes resulting in improved cost recoveries of manufacturing costs, and from cost reductions implemented in the third quarter of last year. The Colors Segment has generated positive cash flows for four consecutive quarters and operating costs have been reduced to levels consistent with current sales volumes. However, the textile industry continues to struggle and competition among dye suppliers to maintain market share reflects the excess capacity that exists for supplying textile dyes. Management is continuing to explore ways of improving its return on capital for this Segment and minimizing capital employed.

The Specialty Chemicals Segment had a seven percent increase in sales which generated operating income of \$52,000 compared to a \$123,000 operating loss for the same quarter last year. The improvement resulted from a combination of slightly improved business conditions, especially at the Cleveland, Tennessee plant, and from cost reductions implemented in the third quarter of last year. The Segment has now had four consecutive profitable quarters reflecting the Company's objective of expanding sales into non-textile markets and moving away from the textile industry as current sales to the textile industry are running less than fifteen percent.

Dollar sales in the Metals Segment declined five percent from a year earlier as a result of 21 percent lower unit volumes partially offset by 22 percent higher average selling prices. The lower unit volumes came from lower piping systems sales and commodity pipe sales for the first two months of 2003. However, commodity pipe unit volumes for the month of March 2003 were back in line with the monthly averages of 2002. The increase in selling prices came from a more favorable product mix and to a lesser extent, price increases for commodity pipe. The operating loss of \$100,000 was about one-third last year's first quarter operating loss of \$333,000, and piping systems more than accounted for the operating loss. The decline in operating loss came from the improvement in selling prices coupled with the cost reductions implemented in the third quarter of last year, offset by the poor piping system performance. We are currently experiencing increases in demand and selling prices for commodity pipe as evidenced by our March results. We are hopeful that this trend will continue over the balance of the year, which should generate an improvement in profitability, but there can be no assurance that this will occur.

<page>

-8-

### ***Synalloy Corporation***

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

---

Consolidated selling and administrative expense for the quarter decreased \$392,000, or 14 percent, compared to the first quarter of last year, and was 12 percent of sales for the quarter compared to 14 percent for the first quarter of last year. Cost reductions implemented in the third quarter of 2002 accounted for the decrease.

Cash flows used in operations for the quarter totaled \$1,638,000 compared to cash flows provided by operations of \$535,000 for the first three months of 2002. The significant decline came primarily from a \$1,690,000 increase in inventories resulting almost totally from the purchase of stainless steel raw material for a specific project that is expected to be produced and shipped over the second quarter. This increase compares to a \$1,406,000 decrease in inventories for the same period last year as the Company was in an inventory reduction program. The Company has filed its Federal income tax return for 2002 and expects to collect a \$2,000,000 refund in the second quarter by applying the 2002 loss against prior years' taxable income. Although the line of credit does not expire until 2004, the Company anticipates reducing the amount owed under the line of credit to approximately \$10,000,000 over the next twelve months and has therefore classified \$5,511,000 as a current liability. Borrowings under the line of credit are limited to a borrowing base calculation including eligible accounts receivable, inventories, and cash surrender value of the Company's life insurance as defined in the agreement related to the line of credit. As of March 29, 2003, the amount available for borrowing was \$18,000,000 of which \$15,511,000 was borrowed leaving \$2,489,000 of availability. Covenants include, among others, restrictions on the payment of dividends. The Company expects that available cash and existing lines of credit will be sufficient to meet normal operating requirements, including capital expenditures over the near term.

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

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

update the information included herein.

<page> -9-

**Synalloy Corporation**

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

---

**Item 4. Controls and Procedures.**

(a) Based on their evaluation of the issuer's disclosure controls and procedures (as defined in 17 C.F.R. Sections 240.13a-14(c) and 240.15d-14(c)) as of a date within 90 days prior to the filing of this quarterly report, the issuer's chief executive officer and chief financial officer concluded that the effectiveness of such controls and procedures was adequate.

(b) There were no significant changes in the issuer's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

<page> -10-

**PART II: OTHER INFORMATION**

**Synalloy Corporation**

Item 6. Exhibits And Reports On Form 8-K

The following exhibits are included herein:

None

The Company did not file any reports on Form 8-K during the three months ended March 29, 2003

<page> -11-

**Synalloy Corporation**

**SIGNATURES**

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

**SYNALLOY CORPORATION**

(Registrant)

Date: May 12, 2003

By: /s/ Ralph Matera  
Ralph Matera  
President and Chief Executive Officer

Date: May 12, 2003

By: /s/ Gregory M. Bowie  
Gregory M. Bowie  
Vice President Finance and Chief Financial Officer

<page> -12-

**CERTIFICATIONS**

I, Gregory M. Bowie, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Synalloy Corporation;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ Gregory M. Bowie

Gregory M. Bowie  
Vice President, Finance & Chief Financial Officer

<page>

-13-

I, Ralph Matera, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Synalloy Corporation;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ Ralph Matera

Ralph Matera  
Chief Executive Officer

<page>

-14-