

SYNALLOY CORP
Form 10-Q
November 12, 2015

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 October 3, 2015

OR

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

For the Transition Period from _____ to _____

COMMISSION FILE NUMBER 0-19687

Synalloy Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

57-0426694

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

775 Spartan Blvd, Suite 102, P.O. Box 5627,
Spartanburg, South Carolina

(Address of principal executive offices)

29304

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated Filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
The number of shares outstanding of the registrant's common stock as of November 6, 2015 was 8,718,554.

Synalloy Corporation
Index

PART I FINANCIAL INFORMATION

- Item 1. Financial Statements
Condensed consolidated balance sheets - October 3, 2015 and January 3, 2015
Condensed consolidated statements of operations - Three and nine month periods ended October 3, 2015 and September 27, 2014
Condensed consolidated statements of cash flows - Nine months ended October 3, 2015 and September 27, 2014
Notes to condensed consolidated financial statements
- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 3. Quantitative and Qualitative Disclosures About Market Risk
- Item 4. Controls and Procedures

Part II OTHER INFORMATION

- Item 1. Legal Proceedings
- Item 1A. Risk Factors
- Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
- Item 3. Defaults Upon Senior Securities
- Item 4. Mine Safety Disclosures
- Item 5. Other Information
- Item 6. Exhibits
- Signatures and Certifications

PART I

Item 1. FINANCIAL STATEMENTS

Synalloy Corporation

Condensed Consolidated Balance Sheets

	Oct 3, 2015 (Unaudited)	Jan 3, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 209,430	\$ 26,623
Accounts receivable, less allowance for doubtful accounts of \$206,042 and \$1,114,814, respectively	21,987,894	29,229,927
Inventories, net	67,963,222	67,674,670
Deferred income taxes	2,689,655	2,921,654
Prepaid expenses and other current assets	5,178,995	5,460,344
Total current assets	98,029,196	105,313,218
Cash value of life insurance	1,524,360	2,046,512
Property, plant and equipment, net of accumulated depreciation of \$49,379,609 and \$46,036,102, respectively	43,348,323	39,937,466
Goodwill	18,512,979	23,250,201
Intangible asset, net of accumulated amortization of \$5,147,250 and \$3,455,475, respectively	15,309,750	17,001,525
Deferred charges, net and other non-current assets	443,238	300,308
Total assets	\$ 177,167,846	\$ 187,849,230
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$ 11,072,264	\$ 21,388,298
Accrued expenses	8,339,199	14,684,686
Current portion of long-term debt	4,533,908	4,533,908
Other current liabilities	159,058	126,000
Total current liabilities	24,104,429	40,732,892
Long-term debt	27,758,896	27,255,442
Long-term contingent consideration	—	2,596,516
Deferred income taxes	7,323,486	6,438,146
Long-term pension liability from the closure of Bristol Fab	—	713,181
Other long-term liabilities	661,000	659,500
Shareholders' equity		
Common stock, par value \$1 per share - authorized 12,000,000 shares; issued 10,300,000 shares	10,300,000	10,300,000
Capital in excess of par value	34,455,003	34,054,374
Retained earnings	86,615,537	79,167,323
	131,370,540	123,521,697
Less cost of common stock in treasury: 1,587,662 and 1,589,698 shares, respectively	14,050,505	14,068,144
Total shareholders' equity	117,320,035	109,453,553
Commitments and contingencies – See Note 11		

Total liabilities and shareholders' equity	\$177,167,846	\$187,849,230
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Note: The condensed consolidated balance sheet at January 3, 2015 has been derived from the audited consolidated financial statements at that date.

See accompanying notes to condensed consolidated financial statements.

3

Synalloy Corporation
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended		Nine Months Ended	
	Oct 3, 2015	Sep 27, 2014	Oct 3, 2015	Sep 27, 2014
Net sales	\$38,083,284	\$48,451,944	\$139,894,977	\$150,935,909
Cost of sales	33,546,114	40,131,353	118,000,119	125,565,826
Gross profit	4,537,170	8,320,591	21,894,858	25,370,083
Selling, general and administrative expense	5,242,055	3,613,857	16,375,583	12,108,703
Acquisition related costs	9,154	210	454,200	(2,936)
Business interruption insurance proceeds	(576,658)	—	(1,056,775)	—
Operating (loss) income	(137,381)	4,706,524	6,121,850	13,264,316
Other (income) and expense				
Interest expense	320,415	261,168	977,063	788,854
Change in fair value of interest rate swap	247,152	(102,972)	233,235	191,527
Specialty and Palmer earn-out adjustments	(2,414,115)	—	(4,897,448)	(3,476,197)
Other, net	(23)	(150)	(137,214)	(6,796)
Income from continuing operations before income taxes	1,709,190	4,548,478	9,946,214	15,766,928
Provision for income taxes	354,000	1,371,000	2,498,000	4,557,000
Net income from continuing operations	1,355,190	3,177,478	7,448,214	11,209,928
Loss from discontinued operations, net of tax	—	(1,898,988)	—	(7,754,872)
Net income	\$1,355,190	\$1,278,490	\$7,448,214	\$3,455,056
Net income per common share from continuing operations:				
Basic	\$0.16	\$0.36	\$0.85	\$1.29
Diluted	\$0.16	\$0.36	\$0.85	\$1.29
Net loss per common share from discontinued operations:				
Basic	\$—	\$(0.22)	\$—	\$(0.89)
Diluted	\$—	\$(0.22)	\$—	\$(0.89)
Net income per common share:				
Basic	\$0.16	\$0.14	\$0.85	\$0.40
Diluted	\$0.16	\$0.14	\$0.85	\$0.40
Weighted average shares outstanding:				
Basic	8,721,833	8,707,063	8,719,612	8,699,428
Dilutive effect from stock options and grants	—	38,776	6,559	15,782
Diluted	8,721,833	8,745,839	8,726,171	8,715,210

See accompanying notes to condensed consolidated financial statements.

4

Synalloy Corporation
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended	
	Oct 3, 2015	Sep 27, 2014
Operating activities		
Net income	\$7,448,214	\$3,455,056
Loss from discontinued operations, net of tax	—	7,754,872
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	3,514,073	2,816,742
Amortization expense	1,771,265	1,027,105
Deferred income taxes	1,117,339	(631,624)
Earn-out adjustments	(4,897,448)	(3,476,197)
(Reduction of) provision for losses on accounts receivable	(99,333)	593,042)
Provision for losses on inventory	1,632,000	3,828,122
Gain on sale of property, plant and equipment	(10,000)	(8,000)
Cash value of life insurance	64,000	(72,000)
Change in fair value of interest rate swap	233,235	191,527
Environmental reserves	33,058	26,496
Issuance of treasury stock for director fees	118,762	110,501
Employee stock option and grant compensation	403,418	252,488
Changes in operating assets and liabilities:		
Accounts receivable	7,341,366	(294,896)
Inventories	397,635	(476,615)
Other assets and liabilities, net	(881,765)	305,948)
Accounts payable	(10,316,034)	2,656,999)
Accrued expenses	(1,987,528)	4,036,683)
Accrued income taxes	739,590	(469,849)
Net cash provided by continuing operating activities	6,621,847	21,626,400
Net cash (used in) provided by discontinued operating activities	(633,880)	189,471)
Net cash provided by operating activities	5,987,967	21,815,871
Investing activities		
Purchases of property, plant and equipment	(7,439,218)	(4,562,734)
Proceeds from sale of property, plant and equipment	12,000	8,000
Proceeds from casualty insurance	512,287	—
Proceeds from life insurance	720,518	—
Net cash used in investing activities of continuing operations	(6,194,413)	(4,554,734)
Net cash provided by discontinued investing activities	—	3,586,044
Net cash used in investing activities	(6,194,413)	(968,690)
Financing activities		
Net borrowings from line of credit	4,070,548	—
Payments on long-term debt	(3,567,094)	(1,900,428)
Proceeds from exercised stock options	8,302	27,026
Purchases of treasury stock	(122,503)	—
Net cash provided by (used in) financing activities	389,253	(1,873,402)
Increase in cash and cash equivalents	182,807	