Form 8-K/A

SYNALLOY CORP - SYNL

Filed: November 5, 2012 (period: August 21, 2012)

Amendment to a previously filed Form 8-K

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported) August 21, 2012

SYNALLOY CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**0-19687**	**57-0426694**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

775 Spartan Blvd, Ste 102, P.O. Box 5627, Spartanburg, SC 29304	**29304**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (864) 585-3605

INAPPLICABLE
(Former name or former address if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):
[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

EXPLANATORY NOTE

The Form 8-K/A is being filed as an amendment to the Current Report filed on Form 8-K on August 24, 2012 (the "Original 8-K") solely for the purpose of providing the financial statements and pro forma financial information required by Regulation S-X with respect to Synalloy Corporation's purchase of all of the outstanding shares of capital stock of Lee-Var, Inc., a Texas corporation doing business as Palmer of Texas ("Palmer"). This Form 8-K/A does not amend or modify the Original Form 8-K in any other respect.

ITEM 9.01 – **Financial Statements and Exhibits**

(a) *Financial Statements of Businesses Acquired.*

The following audited financial statements of Palmer (with the report of independent auditors) are attached hereto as Exhibit 99.1 and incorporated by reference herein:

- Balance Sheets as of September 30, 2011 and 2010.
- Statements of Income for the years ended September 30, 2011 and 2010.
- Statements of Cash Flows for the years ended September 30, 2011 and 2010.
- Statements of Shareholders' Equity for the years ended September 30, 2011 and 2010.
- Notes to Financial Statements.

The following unaudited financial statements of Palmer are attached hereto as Exhibit 99.2 and incorporated by reference herein:

- Balance Sheets as of June 30, 2012 and September 30, 2011.
- Statements of Income for the nine months ended June 30, 2012 and 2011.
- Statements of Cash Flows for the nine months ended June 30, 2012 and 2011.
- Statements of Shareholders' Equity for the nine months ended June 30, 2012.
- Notes to Financial Statements.

(b) *Pro Forma Financial Information.*

The following unaudited pro forma financial information of Synalloy is attached hereto as Exhibit 99.3 and incorporated by reference herein:

- Unaudited Pro Forma Condensed Combined Consolidated Balance Sheet as of June 30, 2012.
- Unaudited Pro Forma Condensed Combined Consolidated Statements of Operations for the six months ended June 30, 2012 and 2011.
- Unaudited Pro Forma Condensed Combined Consolidated Statement of Operations for the year ended December 31, 2011.
- Notes to Unaudited Pro Forma Condensed Combined Consolidated Financial Statements.

(c) *Exhibits.* The following are filed as exhibits to this Current Report on Form 8-K:

Exhibit No.	Description of Exhibit
23.1	Consent of Weaver and Tidwell, L.L.P., independent auditors, of Lee-Var, Inc. dba Palmer of Texas.
99.1	Audited financial statements of Lee-Var, Inc. dba Palmer of Texas.
99.2	Unaudited financial statements of Lee-Var, Inc. dba Palmer of Texas.
99.3	Unaudited pro forma financial information of 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 behalf by the undersigned hereunto duly authorized.

SYNALLOY CORPORATION

By: /S/ **RICHARD D. SIERADZKI**
Richard D. Sieradzki
Chief Financial Officer and Principal Accounting Officer

Dated: November 5, 2012

EXHIBIT INDEX

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EXHIBIT 23.1

CONSENT OF INEPENDENT AUDITORS

We consent to the to the use of our report dated November 5, 2012, with respect to the financial statements of Lee-Var, Inc. dba Palmer of Texas, included in the Current Report (Amendment No. 1) (Form 8-K/A) dated November 5, 2012.

/s/ Weaver and Tidwell, L.L.P.

Houston, Texas
November 5, 2012

EXHIBIT 99.1

Lee-Var, Inc. dba Palmer of Texas

FINANCIAL STATEMENTS

AND

REPORT OF INDEPENDENT AUDITORS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

Lee-Var, Inc. dba Palmer of Texas

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
of Lee-Var, Inc. dba Palmer of Texas:

We have audited the accompanying balance sheets of Lee-Var, Inc. dba Palmer of Texas (the Company) as of September 30, 2011 and 2010, and the related statements of income, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2011 and 2010 financial statements referred to above present fairly, in all material respects, the financial position of Lee-Var, Inc. dba Palmer of Texas as of September 30, 2011 and 2010, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
November 5, 2012

Lee-Var, Inc. dba Palmer of Texas
Balance Sheets
September 30, 2011 and 2010

	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 817,573	$ 701,843
Accounts receivable, net of allowance for doubtful accounts of $138,130 in 2011 and $131,000 in 2010	4,794,864	2,997,317
Inventory	4,846,856	2,508,580
Current deferred tax asset	330,233	179,734
Prepaid expenses	86,120	57,481
Total current assets	10,875,646	6,444,955
Property, plant and equipment, net	3,866,315	3,157,755
Total assets	$ 14,741,961	$ 9,602,710
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 1,711,963	$ 1,407,229
Current portion of long-term debt	457,276	387,905
Accrued liabilities	1,363,428	663,067
Federal income tax payable	764,125	288,360
Accrued sales and use tax payable	955,961	471,749
Customer deposits	507,967	451,553
Other liabilities	93,167	51,229
Total current liabilities	5,853,887	3,721,092
Long-term liabilities		
Long-term deferred tax liability	805,816	314,332
Long-term debt, less current portion	2,218,307	2,182,458
Total liabilities	8,878,010	6,217,882
Shareholders' equity		
Preferred Stock, Series A, $1 par value: 500,000 shares authorized; 0 shares issued and outstanding in 2011 and 2010	-	-
Preferred Stock, Series B, $1 par value: 500,000 shares authorized; 0 shares issued and outstanding in 2011 and 2010	-	-
Common stock, $1 par value: 500,000 shares authorized; 150,000 shares issued and outstanding in 2011 and 2010	150,000	150,000
Capital surplus	84,500	84,500
Retained earnings	5,629,451	3,150,328
Total shareholders' equity	5,863,951	3,384,828
Total liabilities and shareholders' equity	$ 14,741,961	$ 9,602,710

The accompanying notes are an integral part of these financial statements.

Lee-Var, Inc. dba Palmer of Texas
Statements of Income
Years Ended September 30, 2011 and 2010

	2011	2010
Net sales	$ 28,679,666	$ 16,695,925
Cost of sales	21,595,594	12,732,290
Gross profit	7,084,072	3,963,635
Selling, general and administrative expense	3,147,014	1,848,382
Operating income	3,937,058	2,115,253
Other income (expense)		
Other income (expense)	67,591	(69,258)
Interest income	859	408
Interest expense	(146,439)	(166,896)
Total other expense	(77,989)	(235,746)
Income before income taxes	3,859,069	1,879,507
Provision for income taxes	1,379,946	711,697
Net income	$ 2,479,123	$ 1,167,810

Lee-Var, Inc. dba Palmer of Texas
Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Net income	$ 2,479,123	$ 1,167,810
Adjustments to reconcile net income		
to cash provided by operating activities:		
Depreciation	612,051	480,099
Provision for bad debts	147,000	59,000
Gain on sale of property, plant and equipment	(33,119)	(8,240)
Deferred income taxes	340,985	102,488
Net change in:		
Accounts receivable	(1,944,547)	(1,932,247)
Inventory	(2,338,276)	(1,497,042)
Prepaid expenses	(28,639)	82,858
Accounts payable	304,734	867,992
Accrued liabilities	700,361	200,377
Federal income taxes payable	475,765	409,498
Customer deposits	56,414	451,553
Other liabilities	41,938	7,896
Accrued sales and use tax payable	484,212	284,647
Cash provided by operating activities	1,298,002	676,689
Cash florws from investing activities		
Purchases of property, plant and equipment	(1,391,223)	(1,081,134)
Proceeds from sale of equipment	103,731	28,550
Cash used in investing activities	(1,287,492)	(1,052,584)
Cash flows from financing activities		
Proceeds from long-term debt	1,818,924	2,781,056
Payments to reduce long-term debt	(1,713,704)	(2,477,898)
Cash provided by financing activities	105,220	303,158
Net change in cash and cash equivalents	115,730	(72,737)
Cash and cash equivalents at beginning of year	701,843	774,580
Cash and cash equivalents at end of year	$ 817,573	$ 701,843

The accompanying notes are an integral part of these financial statements.

Lee-Var, Inc. dba Palmer of Texas
Statements of Shareholders' Equity
Years Ended September 30, 2011 and 2010

	Preferred Stock Series A	Preferred Stock Series B	Common Stock	Capital Surplus	Retained Earnings	Total Shareholders' Equity
Balance at September 30, 2009	$ -	$ -	$ 150,000	$ 84,500	$ 1,982,518	$ 2,217,018
Net income for 2010	-	-	-	-	1,167,810	1,167,810
Balance at September 30, 2010	-	-	150,000	84,500	3,150,328	3,384,828
Net income for 2011	-	-	-	-	2,479,123	2,479,123
Balance at September 30, 2011	$ -	$ -	$ 150,000	$ 84,500	$ 5,629,451	$ 5,863,951

The accompanying notes are an integral part of these financial statements.

NOTE 1: Summary of Significant Accounting Policies

Nature of Operations

Lee-Var, Inc., doing business as Palmer of Texas (the Company), founded in 1989 from the purchase of the assets of a predecessor company, Andrews Fiberglass, is a manufacturer of fiberglass and steel tanks for the oil and gas, waste water treatment and municipal water industries. The Company is based in Andrews, Texas. Additionally, in 2011, the company opened a second, smaller production facility in Orange, Texas to produce specialized fiberglass tanks to meet a specific customer's needs.

Basis of Accounting

The accounting and reporting policies of the Company conform with U.S. generally accepted accounting principles. Accounting principles followed by the Company and the methods of applying those principles, which materially affect the determination of financial position, results of operations and cash flows are summarized below.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for bad debts and inventory reserves. Actual results could differ from those estimates.

Significant Group Concentrations of Credit Risk

The Company's activities are with customers located primarily in Texas and New Mexico. All transactions are denominated in United States dollars. The Company's operations are primarily dependent on the level of activity in the petroleum industry in the West Texas region. As such, local economic cycles may have an impact on the collectability of customer accounts. The Company considers this contingency when evaluating the allowance for doubtful accounts.

The Company places its cash and cash equivalents with high quality financial institutions, which at times may exceed federally insured limits. The Company has not experienced any losses on such accounts.

NOTE 1: Summary of Significant Accounting Policies – continued

Significant Group Concentrations of Credit Risk – continued

During the year ended September 30, 2011, four customers accounted for approximately 51.0% of the Company's sales. During the year ended September 30, 2010 the same four customers accounted for approximately 29.9% of the Company's sales. As of September 30, 2011 and 2010, the same four customers accounted for approximately 50.6% and 27.0% of the Company's accounts receivable, respectively.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Company maintains cash balances at financial institutions with strong credit ratings.

Accounts Receivable and Related Allowances

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 receivables are due from companies located throughout the United States. The Company provides an allowance for doubtful collections and for disputed claims and quality issues. The allowance is based upon a review of outstanding receivables, historical collection information and existing economic conditions. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require a pledge of collateral. Receivables are usually due within 30 to 45 days. Delinquent receivables are written off based on individual credit evaluations and specific circumstances of the customer.

Activity in the allowance for doubtful accounts was as follows:

	September 30,	
	2011	2010
Balance at beginning of year	$ 131,000	$ 73,000
Provision for bad debts	147,000	59,000
Net charge-offs and recoveries	(139,870)	(1,000)
Balance at end of year	$ 138,130	$ 131,000

Inventory is stated at the lower of cost or market value less allowance for inventory obsolescence, using the first-in, first-out (FIFO) method. The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between cost of inventory and the estimated market value based upon assumptions about future demand and current market conditions. For the years ended September 30, 2011 and 2010, inventory adjustments for obsolescence and market reserves were insignificant.

NOTE 1: Summary of Significant Accounting Policies – continued

Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated using the straight-line method over their estimated useful lives. Land improvements and buildings are depreciated over a range of 15 to 40 years, and machinery, fixtures and equipment are depreciated over a range of three to seven years.

Revenue Recognition

Revenues are recognized when the following conditions are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. Generally, these criteria are met at the time product is delivered to their destination or services are complete. Provisions are made upon sale for estimated product returns. Revenue recognition criteria are the same for all product lines.

Cost of Sales

Cost of sales includes the cost of inventory sold during the period, including costs for manufacturing, inbound freight, receiving, inspection, warehousing, and internal transfers less vendor rebates. Costs associated with shipping and handling products are included in cost of sales. Purchasing costs are included in cost of sales.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the years ended September 30, 2011 and 2010 amounted to $42,002 and $25,569, respectively. Advertising costs are included in selling, general and administrative expense.

Fair Value of Financial Instruments

The carrying amounts of financial instruments including cash, accounts receivable, and accounts payable approximated fair value as of September 30, 2011 and 2010.

Preferred stock

The Company has authorized 500,000 shares each of Preferred Series A stock and Preferred Series B stock, both with a par value of $1.00, each preferred share is convertible into .1656 common shares, are not entitled to voting rights and there are none outstanding.

Common Stock

The Company has authorized 500,000 shares of common stock with a par value of $1.00 for which there are 150,000 shares outstanding as of September 30, 2011 and 2010.

NOTE 1: Summary of Significant Accounting Policies – continued

Income Taxes

On January 1, 2009, the Company adopted the recent accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

The Company's income tax expense consists of the following components: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rate and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more-likely-than-not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any.

A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest accrued on and penalties related to unrecognized tax benefits in tax expense.

During the year ended September 30, 2011 the Company recognized no interest and penalties. The Company has no unrecognized tax benefits at September 30, 2011 and 2010.

The Company files income tax returns in the U.S. federal jurisdiction. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2007.

In May of 2006, the State of Texas implemented a new tax on taxable margin, effective for years ended after December 31, 2006. For the Company, taxable margin is revenue less cost of goods sold. The margin tax was insignificant for the years ended September 30, 2011 and 2010.

NOTE 1: Summary of Significant Accounting Policies – continued

Sales and Use Taxes

Sales and use taxes collected for various states are regarded as a liability to the respective state and do not affect income or expense and are included in selling, general and administrative expense. The liability as of September 30, 2011 and 2010 was $955,961 and $471,749, respectively.

NOTE 2: Inventory

Inventory consisted of the following:

	September 30, 2011	September 30, 2010
Raw materials	$ 1,125,629	$ 662,864
Work-in-process	849,539	700,005
Finished goods	2,871,688	1,145,711
Total	$ 4,846,856	$ 2,508,580

NOTE 3: Accrued Liabilities

Accrued liabilities consist of the following:

	September 30, 2011	September 30, 2010
Interest	$ 3,618	$ 3,173
Payroll	109,915	218,252
Bonuses	1,190,200	414,000
Other taxes	59,695	27,642
Total	$ 1,363,428	$ 663,067

NOTE 4: Property, Plant and Equipment

Property, plant and equipment consist of the following:

	September 30,	
	2011	2010
Land	$ 31,116	$ 31,116
Buildings	2,111,599	2,089,182
Machinery, fixtures and equiment	4,849,903	3,817,018
	6,992,618	5,937,316
Less accumulated depreciation	(3,126,303)	(2,779,561)
	$ 3,866,315	$ 3,157,755

Depreciation expense for years ended September 30, 2011 and 2010 was $612,051 and $480,099 respectively. All depreciation expense is included in cost of sales for the years ended September 30, 2011 and 2010.

NOTE 5: Related Party Transactions

During 2010, the Company entered into business transactions with Vessel Components which distributes a variety of products utilized by the tank and vessel industry. Vessel Components is owned by a relative of a shareholder of the Company. Purchases from Vessel Components for the years ended September 30, 2011 and 2010 totaled approximately $77,000 and $18,000, respectively.

Palmer Manufacturing and Tank Company (Palmer Mfg.) is a manufacturer of fiberglass and steel tanks and is located in Garden City, Kansas. Palmer Mfg. is owned by a relative of a shareholder of the Company. The Company primarily sells tanks to and purchases tanks from Palmer Mfg. Tank sales to Palmer Mfg. totaled approximately $184,000 for the year ended September 30, 2011 and approximately $11,000 for the year ended September 30, 2010. Purchases from Palmer Mfg. totaled approximately $356,000 for the year ended September 30, 2011 and approximately $448,000 for the year ended September 30, 2010. As of September 30, 2011 and 2010, the Company owed Palmer Mfg. $22,740 and $191,982, respectively, for purchases made during the respective years.

NOTE 6: Commitments and Contingent Liabilities

Litigation and Claims

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's financial statements.

Product Performance

Estimated warranty costs and additional service actions are accrued for at the time the product is sold to the customer. Included in the warranty cost accruals are costs for basic warranty coverage on products sold. Estimates for warranty costs are made based primarily on historical warranty claim experience. The required product warranty reserve amount was insignificant as of September 30, 2011 and 2010.

Other Off-Balance-Sheet Arrangements

The Company has no other off-balance-sheet arrangements not disclosed in the financial statements or transactions with unconsolidated special purpose entities that would expose the Company to liability that is not reflected on the face of the financial statements.

State taxes

The Company has determined it may be liable for state income tax and state sales and use tax in jurisdictions outside of the State of Texas. The financial statements include an estimated liability for state income taxes as of September 30, 2011 and 2010 of $44,620 and $20,546, respectively, included in the caption "Accrued liabilities".

In addition, the financial statements include an estimated liability for state sales and use tax as of September 30, 2011 and 2010 of $840,273 and $397,630, respectively, included in the caption "Sales and use tax payable".

Commitments Under Operating Leases

During 2011, the Company entered into various operating leases for certain machinery and equipment. Rental expense for the years ended September 30, 2011 was $82,754. No lease expense was incurred for the year ended September 30, 2010. Future minimum rent commitments under noncancelable lease agreements are:

2012	$	107,940
2013		107,940
2014		107,940
2015		25,186
Thereafter		-
	$	349,006

NOTE 7: Long-term Debt

Long-term notes payable at September 30, 2011 and 2010, consists of the following:

	September 30, 2011	September 30, 2010
Note payable - bearing interest at 5.00%: monthly principal and interest payments of $15,389 due on demand or September 17, 2015; secured by inventory, accounts receivable and property, plant and equipment	$ 620,065	$ 776,324
Note payable - bearing interest at 5.00%: monthly principal and interest payments of $12,794 due on demand or September 23, 2015; secured by real estate	1,478,978	1,581,188
Note payable - bearing interest at 5.00%: monthly principal and interest payments of $4,900 due on demand or November 22, 2015; secured by equipment	219,238	-
Note payable - bearing interest at 5.00%: monthly principal and interest payments of $3,882 due on demand or February 7, 2016; secured by equipment	183,162	-
Note payable - bearing interest at 6.79%: monthly principal and interest payments of $1,039 through April 23, 2013; secured by a vehicle	10,946	27,579
Note payable - bearing interest at 6.59%: monthly principal and interest payments of $892 through November 11, 2013; secured by a vehicle	19,547	29,000
Note payable - bearing interest at 4.59%: monthly principal and interest payments of $563 through November 14, 2013; secured by a vehicle	13,355	18,863
Note payable - bearing interest at 4.54%: monthly principal and interest payments of $1,242 through August 19, 2014; secured by a vehicle	39,553	-
Note payable - bearing interest at 4.59%: monthly principal and interest payments of $1,380 through December 25, 2012; secured by a vehicle	18,748	34,052
Note payable - bearing interest at 6.99%: monthly principal and interest payments of $875 through February 26, 2013; secured by a vehicle	11,498	22,260
Note payable - bearing interest at .90%: monthly principal and interest payments of $1,914 through June 9, 2014; secured by a vehicle	60,493	-

NOTE 7: Long-term Debt – continued

	September 30, 2011	September 30, 2010
Note payable - bearing interest at 0.0%: monthly principal and interest payments of $864 through September 11, 2011; secured by a vehicle	$ -	$ 864
Note payable - bearing interest at 0.0%: monthly principal and interest payments of $1,298 through September 24, 2011; secured by a vehicle	-	7,786
Note payable - bearing interest at 2.90%: monthly principal and interest payments of $1,073 through September 22, 2011; secured by a vehicle	-	23,978
Note payable - bearing interest at 5.30%: monthly principal and interest payments of $3,183 through September 13, 2011; secured by equipment	-	33,617
Note payable - bearing interest at 7.50%: monthly principal and interest payments of $1,903 through September 13, 2011; secured by equipment	-	5,637
Note payable - bearing interest at 7.50%: monthly principal and interest payments of $3,110 through September 13, 2011; secured by equipment	-	9,215
Line of credit - bearing interest at 3.25%: $1.0 mm borrowing base, expires July 17, 2015	-	-
	2,675,583	2,570,363
Less: current maturities	(457,276)	(387,905)
Long-term debt	$ 2,218,307	$ 2,182,458

At September 30, 2011, the schedule of maturities of notes payable is as follows:

2012	$ 457,276
2013	361,907
2014	387,614
2015	1,350,450
2016	118,336
Thereafter	-
	$ 2,675,583

NOTE 8: Employee Benefit Plan

The Company has a 401(k) plan whereby employees with one year of service are offered a 50% matching contribution up to 6% (3% match) of the employee's salary. Contributions to the plan during the years ended September 30, 2011 and 2010 amounted to $48,009 and $42,730, respectively.

NOTE 9: Income Taxes

The provision for federal income taxes consists of current and deferred taxes and differs from amounts that would be calculated by applying federal statutory rates to income before taxes due to the effect of the domestic production activity deduction and nondeductible items such as entertainment limitations, as well as the effect of the provision for state income taxes.

The provision for income taxes consists of the following:

	September 30, 2011	September 30, 2010
Current	$ 955,190	$ 575,173
Deferred	340,985	102,488
State	83,771	34,036
Total provision	$ 1,379,946	$ 711,697

The following is a reconciliation of the effective income tax rate with the federal statutory income tax rate for the years ended:

	September 30, 2011		September 30, 2010	
Income tax expense at federal statutory rate	$ 1,312,083	34%	$ 639,236	34%
Impact of state taxes	83,771	2%	34,036	2%
Permanent differences including domestic production activity deduction and nondeductible items	(15,908)	0%	38,425	2%
	$ 1,379,946	36%	$ 711,697	38%

NOTE 9: Income Taxes – continued

Deferred income tax assets and liabilities have been recognized for following temporary differences in tax and financial accounting for:

	September 30, 2011	September 30, 2010
Current deferred tax assets:		
Allowance for doubtful accounts	$ 44,540	$ 44,540
Accrued liabilities	285,693	135,194
Total current deferred tax assets	330,233	179,734
Noncurrent deferred tax liabilities:		
Depreciable assets	(805,816)	(314,332)
Total noncurrent deferred tax liabilities	(805,816)	(314,332)
Net deferred tax liabilities	$ (475,583)	$ (134,598)

NOTE 10: Supplementary Cash Flow Information

The following is a summary of supplemental cash flow information:

	For the year ended September 30, 2011	2010
Interest paid	$ 145,994	$ 168,708
Income taxes paid	904,181	302,199

NOTE 11: Subsequent Events

Synalloy Corporation (Synalloy) entered into a letter of intent (LOI) dated April 27, 2012 with the Company to acquire 100% of the outstanding stock of the Company for $25,575,000 in cash and subject to working capital and fixed assets adjustments at closing. The adjustments at closing increased the purchase price at closing to $28,054,467. The closing price is based on further adjustments after closing based on working capital, maintenance capital expenditure over the 18-month period following closing, and the actual cost of a production expansion capital project underway at the time of closing. On August 21, 2012, Synalloy completed the announced purchase of all of the outstanding shares of capital stock of the Company.

The Company has evaluated all subsequent events through November 5, 2012, the date the financial statements were available to be issued.

Exhibit 99.2

Lee-Var, Inc. dba Palmer of Texas

FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED JUNE 30, 2012 AND 2011 (UNAUDITED)

Lee-Var, Inc. dba Palmer of Texas

CONTENTS

Lee-Var, Inc. dba Palmer of Texas
Balance Sheets
June 30, 2012 and September 30, 2011

ASSETS	2012 (Unaudited)	2011 (Audited)
Current assets		
Cash and cash equivalents	$ 95,929	$ 817,573
Accounts receivable, net of allowance for doubtful accounts		
of $721,000 in 2012 and $138,130 in 2011	6,592,414	4,794,864
Inventory	4,673,081	4,846,856
Deferred tax asset	119,680	330,233
Prepaid expenses	99,131	86,120
Total current assets	11,580,235	10,875,646
Property, plant and equipment,net	4,754,907	3,866,315
Total assets	$ 16,335,142	$ 14,741,961
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 1,839,602	$ 1,711,963
Current portion of long-term debt	600,434	457,276
Accrued liabilities	280,714	1,363,428
Federal income tax payable	699,531	764,125
Accrued sales and use tax payable	1,303,977	955,961
Customer deposits	582,189	507,967
Other liabilities	57,480	93,167
Total current liabilities	5,363,927	5,853,887
Long-term liabilities		
Deferred tax liability	1,113,415	805,816
Long-term debt, less current portion	2,600,807	2,218,307
Total liabilities	9,078,149	8,878,010
Shareholders' equity		
Preferred Stock, Series A: $1 par value; 500,000 shares		
authorized, 0 shares issued and outstanding at	-	-
June 30, 2012 and September 30, 2011		
Preferred Stock, Series B: $1 par value; 500,000 shares		
authorized, 0 shares issued and outstanding at	-	-
June 30, 2012 and September 30, 2011		
Common stock, $1 par value: 500,000 shares authorized;		
150,000 shares issued and outstanding		
in 2012 and 2011, respectively	150,000	150,000
Capital surplus	84,500	84,500
Retained earnings	7,022,493	5,629,451
Total shareholders' equity	7,256,993	5,863,951
Total liabilities and shareholders' equity	$ 16,335,142	$ 14,741,961

The accompanying notes are an integral part of these financial statements.

Lee-Var, Inc. dba Palmer of Texas
Statements of Income
Nine Months Ended June 30, 2012 and 2011

	2012 (Unaudited)	2011 (Unaudited)
Net sales	$ 25,350,091	$ 19,612,019
Cost of sales	21,000,382	14,742,791
Gross profit	4,349,709	4,869,228
Selling, general and administrative expenses	2,145,731	1,850,957
Operating income	2,203,978	3,018,271
Other income (expense)		
Other income	89,930	2,027
Interest income	-	138
Interest expense	(106,399)	(111,385)
Total other expense	(16,469)	(109,220)
Income before income taxes	2,187,509	2,909,051
Provision for income taxes	794,467	1,026,931
Net income	$ 1,393,042	$ 1,882,120

The accompanying notes are an integral part of these financial statements.

Lee-Var, Inc. dba Palmer of Texas
Statements of Cash Flows
Nine Months Ended June 30, 2012 and 2011

	2012 (Unaudited)	2011 (Unaudited)
Cash flows from operating activities		
Net income from operations	$ 1,393,042	$ 1,882,120
Adjustments to reconcile net income		
to cash provided by operating activities:		
Depreciation	567,298	423,734
Provision for bad debts	582,870	425,000
Deferred taxes	518,152	221,193
Loss (Gain) on sale of property, plant and equipment	75,088	(32,603)
Net change in:		
Accounts receivable	(2,380,420)	(1,885,404)
Inventory	173,775	(1,904,473)
Prepaid expenses	(13,011)	(40,567)
Accounts payable	127,639	402,446
Accrued liabilities	(1,082,714)	(435,870)
Federal income tax payable	(64,594)	554,269
Accrued sales and use tax payable	348,016	307,904
Customer deposits	74,222	444,872
Other liabilities	(35,687)	5,918
Cash provided by operating activities	283,676	368,539
Cash flows from investing activities		
Purchases of property, plant and equipment	(1,530,978)	(1,217,258)
Proceeds from sale of equipment	-	56,500
Cash used in investing activities	(1,530,978)	(1,160,758)
Cash flows from financing activities		
Proceeds from long-term debt	1,050,889	832,526
Payments to reduce long-term debt	(525,231)	(637,879)
Cash provided by financing activities	525,658	194,647
Net change in cash and cash equivalents	(721,644)	(597,572)
Cash and cash equivalents at beginning of period	817,573	701,843
Cash and cash equivalents at end of period	$ 95,929	$ 104,271

The accompanying notes are an integral part of these financial statements.

Lee-Var, Inc. dba Palmer of Texas
Statements of Shareholders' Equity (Unaudited)
Nine Months Ended June 30, 2012

	Preferred Stock Series A	Preferred Stock Series B	Common Stock	Capital Surplus	Retained Earnings	Total Shareholders' Equity
Balance at September 30, 2011	$ -	$ -	$ 150,000	$ 84,500	$ 5,629,451	$ 5,863,951
Net income	-	-	-	-	1,393,042	1,393,042
Balance at June 30, 2012	$ -	$ -	$ 150,000	$ 84,500	$ 7,022,493	$ 7,256,993

The acccompanying notes are an integral part of these financial statements.

NOTE 1: Summary of Significant Accounting Policies

Nature of Operations

Lee-Var, Inc., doing business as Palmer of Texas (the Company), founded in 1989 from the purchase of the assets of a predecessor company, Andrews Fiberglass, is a manufacturer of fiberglass and steel tanks for the oil and gas, waste water treatment and municipal water industries. The Company is based in Andrews, Texas. Additionally, in early 2011, the company opened a second, smaller production facility in Orange, Texas to produce specialized fiberglass tanks to meet a specific customer's needs.

Basis of Presentation

The accompanying unaudited condensed financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions in Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included as required by Regulation S-X, Rule 10-01. Operating results for the nine-month period ended June 30, 2012, are not necessarily indicative of the results that may be expected for the year ending September 30, 2012. For further information, refer to the Company's annual financial statements and notes thereto for the period ended September 30, 2011.

Basis of Accounting

The accounting and reporting policies of the Company conform with U.S. generally accepted accounting principles. Accounting principles followed by the Company and the methods of applying those principles, which materially affect the determination of financial position, results of operations and cash flows are summarized below.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for bad debts and inventory reserves. Actual results could differ from those estimates.

Significant Group Concentrations of Credit Risk

The Company's activities are with customers located primarily in Texas and New Mexico. All transactions are denominated in United States dollars. The Company's operations are primarily dependent on the level of activity in the petroleum industry in the West Texas region. As such, local economic cycles may have an impact on the collectability of customer accounts. The Company considers this contingency when evaluating the allowance for doubtful accounts.

The Company places its cash and cash equivalents with quality financial institutions, which at times may exceed federally insured limits. The Company has not experienced any losses on such accounts.

As of June 30, 2012 four customers accounted for 64.6% of the Company's accounts receivable. As of September 30, 2011, four customers accounted for approximately 50.6% of the Company's accounts receivable. During the nine months ended June 30, 2012 one customer accounted for 13.5% of the Company's sales. During the nine months ended June 30, 2011, four customers accounted for approximately 51.0% of the Company's sales.

NOTE 1: Summary of Significant Accounting Policies – continued

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Company maintains cash balances at financial institutions with strong credit ratings.

Accounts Receivable and Related Allowances

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 receivables are due from companies located throughout the United States. The Company provides an allowance for doubtful collections and for disputed claims and quality issues. The allowance is based upon a review of outstanding receivables, historical collection information and existing economic conditions. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require a pledge of collateral. Receivables are usually due within 30 to 45 days. Delinquent receivables are written off based on individual credit evaluations and specific circumstances of the customer.

Activity in the allowance for doubtful accounts was as follows:

	June 30, 2012 (Unaudited)	September 30, 2011 (Audited)
Balance at beginning of period	$ 138,130	$ 131,000
Provision for bad debts, net	582,870	7,130
Balance at end of period	$ 721,000	$ 138,130

Inventory

Inventory is stated at the lower of cost or market value less allowance for inventory obsolescence, using the first-in, first-out (FIFO) method. The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between cost of inventory and the estimated market value based upon assumptions about future demand and current market conditions. As of June 30, 2012 and September 30, 2011, inventory adjustments for obsolescence and market reserves were insignificant.

NOTE 1: Summary of Significant Accounting Policies – continued

Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated using the straight-line method over their estimated useful lives. Land improvements and buildings are depreciated over a range of 15 to 40 years, and machinery, fixtures and equipment are depreciated over a range of three to seven years.

Revenue Recognition

Revenues are recognized when the following conditions are met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. Generally, these criteria are met at the time product is delivered to their destination or services are complete. Provisions are made upon sale for estimated product returns. Revenue recognition criteria are the same for all product lines.

Cost of Sales

Cost of sales includes the cost of inventory sold during the period, including costs for manufacturing, inbound freight, receiving, inspection, warehousing, and internal transfers less vendor rebates. Costs associated with shipping and handling products are included in cost of sales. Purchasing costs are included in cost of sales.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for the nine months ended June 30, 2012 and 2011 amounted to $17,187 and $26,324, respectively. Advertising costs are included in selling, general and administrative expenses.

Fair Value of Financial Instruments

The carrying amounts of financial instruments including cash, accounts receivable, and accounts payable, approximated fair value as of June 30, 2012 and September 30, 2011.

Preferred stock

The Company has authorized 500,000 shares each of Preferred Series A stock and Preferred Series B stock, both with a par value of $1.00, each preferred share is convertible into .1656 common shares, are not entitled to voting rights and there are none outstanding.

Common Stock

The Company has authorized 500,000 shares of common stock with a par value of $1.00 for which there are 150,000 shares outstanding as of June 30, 2012 and September 30, 2011.

NOTE 1: Summary of Significant Accounting Policies – continued

Income Taxes

On January 1, 2009, the Company adopted the recent accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

The Company's income tax expense consists of the following components: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rate and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more-likely-than-not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any.

A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not some portion or all of a deferred tax asset will not be realized.

Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest accrued on and penalties related to unrecognized tax benefits in tax expense. During the nine months ended June 30, 2012 the Company recognized no interest and penalties. The Company has no unrecognized tax benefits at June 30, 2012 and September 30, 2011.

The Company files income tax returns in the U.S. federal jurisdiction. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2007.

In May of 2006, the State of Texas implemented a new tax on taxable margin, effective for years ended after December 31, 2006. For the Company, taxable margin is revenue less cost of goods sold. The margin tax was insignificant for the nine months ended June 30, 2012 and for the nine months ended June 30, 2011.

NOTE 1: Summary of Significant Accounting Policies – continued

Sales and Use Taxes

Sales and use taxes collected for various states are regulated as a liability to the respective state and not affect income or expense and are included in selling, general and administrative expenses. The liability as of June 30, 2012 and 2011 was $1,303,977 and $779,653, respectively.

NOTE 2: Inventory

Inventory consisted of the following:

	June 30, 2012 (Unaudited)	September 30, 2011 (Audited)
Raw materials	$ 835,218	$ 1,125,629
Work-in-process	1,375,006	849,539
Finished goods	2,462,857	2,871,688
Total	$ 4,673,081	$ 4,846,856

NOTE 3: Accrued Liabilities

Accrued liabilities consist of the following:

	June 30, 2012 (Unaudited)	September 30, 2011 (Audited)
Interest	$ 3,086	$ 3,618
Payroll	232,628	109,915
Bonuses	-	1,190,200
Other taxes	45,000	59,695
Total	$ 280,714	$ 1,363,428

NOTE 4: Property, Plant and Equipment

Property, plant and equipment consist of the following:

	June 30, 2012 (Unaudited)	September 30, 2011 (Audited)
Land	$ 31,116	$ 31,116
Buildings	2,454,226	2,111,599
Machinery and equipment	4,688,271	4,849,903
Construction in progress	1,103,510	-
	8,277,123	6,992,618
Less accumulated depreciation	(3,522,216)	(3,126,303)
	$ 4,754,907	$ 3,866,315

Depreciation expense for the nine months ended June 30, 2012 and 2011 was $567,298 and $423,734, respectively.

NOTE 5: Related Party Transactions

During 2010, the Company entered into business transactions with Vessel Components which distributes a variety of products utilized by the tank and vessel industry. Vessel Components is owned by a relative of a shareholder of the Company. Purchases from Vessel Components for the nine months ended June 30, 2012 and 2011 totaled approximately $121,490 and $40,881, respectively.

Palmer Manufacturing and Tank Company (Palmer Mfg.) is a manufacturer of fiberglass and steel tanks and is located in Garden City, Kansas. Palmer Mfg. is owned by a relative of a shareholder of the Company. The Company primarily sells tanks to and purchases tanks from Palmer Mfg. Tank sales to Palmer Mfg. totaled approximately $1,054,050 and $206,245 for the nine months ended June 30, 2012 and 2011, respectively. Purchases from Palmer Mfg. totaled approximately $79,550 and $315,870 for the nine months ended June 30, 2012 and 2011, respectively. As of June 30, 2012 and September 30, 2011, the Company owed Palmer Mfg. $35,404 and $22,740, respectively, for purchases made during the respective years.

NOTE 6: Commitments and Contingent Liabilities

Litigation and Claims

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's financial statements.

NOTE 6: Commitments and Contingent Liabilities – continued

Product Performance

Estimated warranty costs and additional service actions are accrued for at the time the product is sold to the customer. Included in the warranty cost accruals are costs for basic warranty coverage on products sold. Estimates for warranty costs are made based primarily on historical warranty claim experience. The required product warranty reserve amount was insignificant as of June 30, 2012 and September 30, 2011.

Other Off-Balance-Sheet Arrangements

The Company has no other off-balance-sheet arrangements not disclosed in the financial statements or transactions with unconsolidated special purpose entities that would expose the Company to liability that is not reflected on the face of the financial statements.

State Taxes

The Company has determined it may be liable for state income tax and state use and sales tax in jurisdictions outside of the State of Texas. The financial statements include an estimated liability for state income taxes as of June 30, 2012 and September 30, 2011 of $45,000 and $44,620, included in the caption "Accrued liabilities".

In addition, the financial statements include an estimated liability for state sales and use tax as of June 30, 2012 of $1,170,273 and as of September 30, 2011 of $840,273, included in the caption "State use and sales tax payable".

Commitments under Operating Leases

During 2011, the Company entered into various operating leases for certain machinery and equipment. Rental expense for the nine months ended June 30, 2012 and 2011 amounted to $80,955 and $53,970, respectively. Future minimum lease commitments under noncancelable lease agreements are:

2013	$	107,940
2014		107,940
2015		53,970
Thereafter		-
	$	269,850

NOTE 7: Long-term Debt

Long-term notes payable at June 30, 2012 and September 30, 2011, consists of the following:

	June 30, 2012 (Unaudited)	September 30, 2011 (Audited)
Note payable - bearing interest at 5.00%: monthly principal and interest payments of $15,389 due on demand or September 17, 2015; secured by inventory, accounts receivable and property, plant and equipment	$ 497,589	$ 620,065
Note payable - bearing interest at 5.00%: monthly principal and interest payments of $12,794 due on demand or September 23, 2015; secured by real estate	1,398,896	1,478,978
Note payable - bearing interest at 5.00%: monthly principal and interest payments of $4,900 due on demand or November 22, 2015; secured by equipment	181,950	219,238
Note payable - bearing interest at 5.00%: monthly principal and interest payments of $3,882 due on demand or February 7, 2016; secured by equipment	153,635	183,162
Note payable - bearing interest at 6.79%: monthly principal and interest payments of $1,039 through August 23, 2013; secured by a vehicle	-	10,946
Note payable - bearing interest at 6.59%: monthly principal and interest payments of $892 through November 11, 2013; secured by a vehicle	11,338	19,547
Note payable - bearing interest at 4.59%: monthly principal and interest payments of $563 through November 14, 2013; secured by a vehicle	8,679	13,355
Note payable - bearing interest at 4.54%: monthly principal and interest payments of $1,242 through August 19, 2014; secured by a vehicle	29,555	39,553
Note payable - bearing interest at 4.59%: monthly principal and interest payments of $1,380 through December 25, 2012; secured by a vehicle	-	18,748

NOTE 7: Long-term Debt - continued

	June 30, 2012 (Unaudited)	September 30, 2011 (Audited)
Note payable - bearing interest at 6.99%: monthly principal and interest payments of $875 through February 26, 2013; secured by a vehicle	$ 2,896	$ 11,498
Note payable - bearing interest at 0.90%: monthly principal and interest payments of $1,914 through June 9, 2014; secured by a vehicle	43,624	60,493
Note payable - bearing interest at 3.25%: monthly principal and interest payments of $9,264 through May 30, 2017; secured by equipment	497,671	-
Note payable - bearing interest at 4.00%: monthly principal and interest payments of $3,212 through February 30, 2022; secured by real estate	306,989	-
Note payable - bearing interest at 0.90%: monthly principal and interest payments of $2,039 through April 25, 2015; secured by a vehicle	68,419	-
Line of credit - bearing interest at 3.25%: $1.0 mm borrowing base; expires July 17, 2015	-	-
	3,201,241	2,675,583
Less: current maturities	(600,434)	(457,276)
Long-term debt	$ 2,600,807	$ 2,218,307

At June 30, 2012, the schedule of maturities of notes payable is as follows:

2013	$ 600,434
2014	547,224
2015	510,111
2016	285,699
2017	228,280
Thereafter	1,029,493
	$ 3,201,241

NOTE 8: Employee Benefit Plan

The Company has a 401(k) plan whereby employees with one year of service are offered a 50% matching contribution up to 6% (3% match) of the employee's salary. Contributions to the plan during the nine months ended June 30, 2012 and 2011 amounted to $43,860 and $35,990, respectively.

NOTE 9: Income Taxes

The provision for federal income taxes consists of current and deferred taxes and differs from amounts that would be calculated by applying federal statutory rates to income before taxes due to the effect of the domestic production activity deduction and nondeductible items such as entertainment limitations, as well as the effect of the provision for state income taxes.

The provision for income taxes consists of the following:

	Nine Months Ended June 30,	
	2012 (Unaudited)	2011 (Unaudited)
Current	$ 231,315	$ 775,738
Deferred	518,152	221,193
State	45,000	30,000
Total provision	$ 794,467	$ 1,026,931

The following is a reconciliation of the effective income tax rate with the federal statutory income tax rate for the years ended:

	Nine Months Ended June 30,			
	2012 (Unaudited)		2011 (Unaudited)	
Income tax expense at federal statutory rate	$ 743,753	34%	$ 989,077	34%
Impact of state taxes	45,000	2%	30,000	1%
Permanent differences including domestic production activity deduction and nondeductible items	5,714	0%	7,854	0%
	$ 794,467	36%	$ 1,026,931	35%

NOTE 9: Income Taxes – continued

Deferred income tax assets and liabilities have been recognized for the following temporary differences in tax and financial accounting for:

	June 30, 2012 (Unaudited)	September 30, 2011 (Audited)
Current deferred tax assets:		
Allowance for doubtful accounts	$ 44,540	$ 44,540
Accrued liabilities	75,140	285,693
Total current deferred tax assets	119,680	330,233
Noncurrent deferred tax liabilities:		
Depreciable assets	1,113,415	805,816
Total noncurrent deferred tax liabilities	1,113,415	805,816
Net deferred tax liability	$ (993,735)	$ (475,583)

NOTE 10: Supplementary Cash Flow Information

The following is a summary of supplemental cash flow information:

	Nine Months Ended June 30, 2012 (Unaudited)	Nine Months Ended June 30, 2011 (Unaudited)
Interest paid	$ 106,931	$ 145,994
Income taxes paid	871,945	524,044

NOTE 11: Subsequent Events

Synalloy Corporation (Synalloy) entered into a letter of intent (LOI) dated April 27, 2012 with the Company to acquire 100% of the outstanding stock of the Company for $25,575,000 in cash and subject to working capital and fixed assets adjustments at closing. The adjustments at closing increased the purchase price at closing to $28,054,467. The closing price is based on further adjustments after closing based on working capital, maintenance capital expenditures over the 18-month period following closing, and the actual cost of a production expansion capital project underway at the time of closing. On August 21, 2012, Synalloy completed the announced purchase of all of the outstanding shares of capital stock of the Company.

The Company has evaluated all subsequent events through November 5, 2012, the date the financial statements were available to be issued.

SYNALLOY CORPORATION
UNAUDITED PRO FORMA FINANCIAL INFORMATION

INTRODUCTION

On August 21, 2012, Synalloy Corporation and subsidiaries (the “Company”) completed the purchase of all of the outstanding shares of capital stock of Lee-Var, Inc., a Texas corporation doing business as Palmer of Texas (“Palmer”). Palmer is a manufacturer of liquid storage solutions and separation equipment for the petroleum, municipal water, wastewater, chemical and food industries.

The unaudited pro forma condensed combined consolidated balance sheet as of June 30, 2012 combines the historical consolidated balance sheet of the Company and the historical consolidated balance sheet of Palmer to illustrate the estimated effect of the acquisition on the Company’s financial statements as if it had occurred on June 30, 2012. The unaudited pro forma condensed combined consolidated statements of operations combines the historical consolidated statements of operations of the Company for the six months ended June 30, 2012 and July 2, 2011 and the year ended December 31, 2011 with the historical statements of operations of Palmer for the six months ended June 30, 2012 and 2011 and for the fiscal year ended September 30, 2011. The unaudited pro forma condensed combined consolidated financial statements are based on certain estimates and assumptions made with respect to the combined operations of the Company and Palmer, which we believe are reasonable. The unaudited pro forma condensed combined consolidated statements of operations are presented for illustrative purposes only and do not purport to be indicative of the results of operations of the Company or Palmer that actually would have been achieved had the acquisition of Palmer been completed on the assumed dates, or to project the Company’s results of operations for any future date or period. The unaudited pro forma condensed combined consolidated statements of operations give pro forma effect to the acquisition as if it had occurred on the first day of the financial period presented.

The transaction is being accounted for using the acquisition method of accounting for business combinations in accordance with generally accepted accounting principles in the United States. Under this method, the total consideration transferred to consummate the acquisition is being allocated to the identifiable tangible and intangible assets acquired and liabilities assumed based on their respective fair values as of the closing date of the acquisition. The acquisition method of accounting requires extensive use of estimates and judgments to allocate the consideration transferred to the identifiable tangible and intangible assets acquired and liabilities assumed. Accordingly, the allocation of the consideration transferred in the unaudited pro forma condensed combined consolidated financial statements is preliminary and will be adjusted upon completion of the final valuation of the assets acquired and liabilities assumed. Such adjustments could be significant. The final valuation is expected to be completed as soon as practicable but no later than 12 months after the closing date of the acquisition, and is expected to result in the identification of additional intangible assets. The unaudited condensed combined consolidated pro forma statements of operations do not include the costs that the Company may incur to integrate Palmer, and these costs may be material.

The historical consolidated financial statements of the Company have been adjusted in the unaudited pro forma condensed combined consolidated financial statements to give effect to pro forma events that are (i) directly attributable to the acquisition, (ii) factually supportable, and (iii) expected to continually impact the combined results of the Company and Palmer. The unaudited pro forma condensed combined consolidated financial statements should be read in conjunction with the accompanying notes to the unaudited pro forma condensed combined consolidated financial statements. In addition, the condensed combined consolidated financial statements were derived from, and should be read in conjunction with, the information for the six months ended July 30, 2012 and July 2, 2011 included in the Company’s quarterly report on Form 10-Q for the quarter ended June 30, 2012 and the annual report on Form 10-K for the year ended December 31, 2011.

The historical condensed combined financial information regarding Palmer that is included in this report has been prepared by, and is the responsibility of the Company. In addition, we are in the process of reviewing Palmer’s financial statement classifications for conformity with the Company’s classifications. As a result of this review, it may be necessary to make additional reclassifications to the consolidated information on a prospective basis.

The statements contained in these notes that are not historical facts are forward-looking statements that involve risks and uncertainties. We wish to caution the reader that these forward-looking statements, such as our expectations for future sales results or future expense changes compared with previous periods, are only predictions. These forward-looking statements may be generally identified by the use of forward-looking words and phrases such as “will,” “intends,” “may,” “believes,” “anticipates,” “should” and “expects,” and are based on our current expectations or beliefs concerning future events that involve risks and uncertainties. Actual events or results may differ materially as a result of risks and uncertainties as described in “Item 1A. Risk Factors” in the Company’s Quarterly Report on Form 10-Q for the six months ended June 30, 2012 and the annual report on Form 10-K for the year ended December 31, 2011, other risks referenced in our Securities and Exchange Commission filings, or other unanticipated risks. We disclaim any obligation to update publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

Synalloy Corporation and Subsidiaries
Unaudited Pro Forma Condensed Combined Consolidated Balance Sheet

	Synalloy June 30, 2012	Palmer June 30, 2012	Pro Forma Adjustments		Pro Forma Total
Assets					
Current assets					
Cash and cash equivalents	$ 121,923	$ 95,929	$ -		$ 217,852
Accounts receivable, less allowance					
for doubtful accounts	29,533,598	6,592,414	-		36,126,012
Inventories					
Raw materials	15,352,715	1,143,328	-		16,496,043
Work-in-process	13,088,841	1,339,640	-		14,428,481
Finished goods	18,511,360	2,347,866	-		20,859,226
Total inventories	46,952,916	4,830,834	-		51,783,750
Deferred income taxes	2,565,077	119,680	-		2,684,757
Indemnification asset	-	-	1,235,893	(16)	1,235,893
Prepaid expenses and other current assets	2,328,586	99,131	300,000	(1)	2,727,717
Total current assets	81,502,100	11,737,988	1,535,893		94,775,981
Cash value of life insurance	2,546,660	-	-		2,546,660
Property, plant & equipment, net	18,592,822	4,754,907	2,659,870	(2)	26,007,599
Goodwill	2,354,730	-	24,421,628	(4)	26,776,358
Deferred charges, net and other non-current assets	105,099	-	-		105,099
Total assets	$ 105,101,411	$ 16,492,895	$28,617,391		$150,211,697
Liabilities and shareholders' equity					
Current liabilities					
Accounts payable	$ 16,049,627	$ 1,831,477	$ -		$ 17,881,104
Accrued expenses	5,432,211	2,232,485	800,000	(15)	8,464,696
Federal income tax payable	-	987,935	-		987,935
Current portion of long-term debt	-	600,434	(576,468)	(7)	23,966
Current portion of contingent consideration	-	-	2,500,000	(8)	2,500,000
Current portion of environmental reserves	150,923	-	-		150,923
Total current liabilities	21,632,761	5,652,331	2,723,532		30,008,624
Long-term debt	8,863,640	2,600,807	22,500,000	(9)	37,997,702
			6,591,597	(10)	
			(2,558,342)	(7)	
Long-term contingent consideration	-	-	5,652,031	(8)	5,652,031
Environmental reserves	502,000	-	-		502,000
Deferred compensation	288,388	-	-		288,388
Deferred income taxes	2,557,662	1,113,415	834,915	(11)	4,505,992
Shareholders' equity					
Common stock	8,000,000	200,000	(200,000)	(12)	8,000,000
Preferred stock	-	200,000	(200,000)	(12)	-
Capital in excess of par value	1,196,502	-	-		1,196,502
Retained earnings	76,625,607	6,891,842	(6,891,842)	(12)	76,625,607
Less cost of common stock in treasury	(14,565,149)	(165,500)	165,500	(12)	(14,565,149)
Total shareholders' equity	71,256,960	7,126,342	(7,126,342)		71,256,960
Commitments and contingencies					
Total liabilities and shareholders' equity	$ 105,101,411	$ 16,492,895	$28,617,391		$150,211,697

See accompanying notes to unaudited proforma condensed combined consolidated financial statements.

Synalloy Corporation and Subsidiaries
Unaudited Pro Forma Condensed Combined Consolidated Statements of Operations

	For the Six Months Ended				
	Synalloy June 30, 2012	Palmer June 30, 2012	Pro Forma Adjustments		Pro Forma
Net sales	$ 94,250,210	$ 18,230,975	$ -		$ 112,481,185
Cost of goods sold	83,897,819	14,730,933	81,202	(3)	98,709,954
Gross profit	10,352,391	3,500,042	(81,202)		13,771,231
Selling and administrative expense	6,695,060	1,484,244	-		8,179,304
Operating income	3,657,331	2,015,798	(81,202)		5,591,927
Other (income) and expense					
Interest expense	92,023	73,808	(73,808)	(13)	655,301
			478,078	(5)	
			85,200	(8)	
Other, net	(135,148)	56,597	-		(78,551)
Income before income taxes	3,700,456	1,885,393	(570,672)		5,015,177
Provision for income taxes	1,273,000	704,575	(196,311)	(6)	1,781,264
Net income	$ 2,427,456	$ 1,180,818	$ (374,361)	(14)	$ 3,233,913
Net income per common share:					
Basic	$ 0.38				$ 0.51
Diluted	$ 0.38				$ 0.51
Weighted average shares outstanding:					
Basic	6,335,667				6,335,667
Dilutive effect from stock options and grants	51,043				51,043
Diluted	6,386,710				6,386,710

See accompanying notes to unaudited proforma condensed combined consolidated financial statements.

Synalloy Corporation and Subsidiaries
Unaudited Pro Forma Condensed Combined Consolidated Statements of Operations

	For the Six Months Ended				
	Synalloy July 2, 2011	Palmer June 30, 2011	Pro Forma Adjustments		Pro Forma
Net sales	$ 84,141,104	$ 14,859,181	$ -		$ 99,000,285
Cost of goods sold	71,463,995	10,770,140	81,202	(3)	82,315,337
Gross profit	12,677,109	4,089,041	(81,202)		16,684,948
Selling and administrative expense	6,043,386	1,230,712	-		7,274,098
Operating income	6,633,723	2,858,329	(81,202)		9,410,851
Other (income) and expense					
Interest expense	56,391	73,198	(73,198)	(13)	619,669
			478,078	(5)	
			85,200	(8)	
Other, net	(30)	(120,706)	-		(120,736)
Income before income taxes	6,577,362	2,905,837	(571,282)		8,911,917
Provision for income taxes	2,368,000	951,719	(205,662)	(6)	3,114,057
Net income	$ 4,209,362	$ 1,954,118	$ (365,620)	(14)	$ 5,797,860
Net income per common share:					
Basic	$ 0.67				$ 0.92
Diluted	$ 0.66				$ 0.91
Weighted average shares outstanding:					
Basic	6,303,420				6,303,420
Dilutive effect from stock options and grants	44,464				44,464
Diluted	6,347,884				6,347,884

See accompanying notes to unaudited proforma condensed combined consolidated financial statements.

Synalloy Corporation and Subsidiaries
Unaudited Pro Forma Condensed Combined Consolidated Statements of Operations

	For the Years Ended				
	Synalloy December 31, 2011	Palmer September 30, 2011	Pro Forma Adjustments		Pro Forma
Net sales	$ 170,575,298	$ 28,679,666	$ -		$ 199,254,964
Cost of goods sold	149,485,455	21,595,594	162,404	(3)	171,243,453
Gross profit	21,089,843	7,084,072	(162,404)		28,011,511
Selling and administrative expense	12,284,478	3,147,014	-		15,431,492
Operating income	8,805,365	3,937,058	(162,404)		12,580,019
Other (income) and expense					
Interest expense	140,784	146,439	(146,439)	(13)	1,267,340
			956,156	(5)	
			170,400	(8)	
Other, net	(85,579)	(68,450)	-		(154,029)
Income before income taxes	8,750,160	3,859,069	(1,142,521)		11,466,708
Provision for income taxes	2,953,000	1,379,946	(385,030)	(6)	3,947,916
Net income	$ 5,797,160	$ 2,479,123	$ (757,491)	(14)	$ 7,518,792
Net income per common share:					
Basic	$ 0.92				$ 1.19
Diluted	$ 0.91				$ 1.18
Weighted average shares outstanding:					
Basic	6,313,418				6,313,418
Dilutive effect from stock options and grants	48,670				48,670
Diluted	6,362,088				6,362,088

See accompanying notes to unaudited proforma condensed combined consolidated financial statements.

The purchase price for the acquisition was $25,575,000. The preliminary adjustment for working capital at closing increased the purchase price to $28,054,000. The closing price will be adjusted after closing based on actual working capital levels. In addition, the amount of maintenance capital expenditures over the 18-month period following closing, and the final cost of a production expansion capital project currently underway could also cause a purchase price adjustment. Currently, the Company does not expect to realize any material purchase price adjustments for these two items. The sellers will also have the ability to receive earn-out payments ranging from $2,500,000 to $10,500,000 if the business unit achieves targeted levels of EBITDA over a three year period following closing; and the Company will have the ability to claw-back portions of the purchase price over a two year period following closing if EBITDA falls below baseline levels.

A summary of sources and uses of proceeds for the acquisition is as follows:

Sources of Funds:		
Proceeds of revolving loan	$	6,591,597
Proceeds of term loan		22,500,000
Total sources of funds	$	29,091,597
Uses of Funds:		
Acquisition of Palmer common and preferred stock	$	25,575,000
Cash paid at closing for preliminary working capital adjustment		2,479,467
Cash paid to escrow agent for retention and termination of employment agreement for the Controller		450,000
Cash paid for portion of seller's investment banker		500,000
Other transaction costs		87,130
Total uses of funds	$	29,091,597

The purchase price for the Palmer acquisition was funded through an increase in the Company's current credit facility and a new term loan with the Company's bank.

The allocation of the consideration transferred to acquire Palmer is preliminary. We are in the process of evaluating Palmer's financial statement classifications for conformity with the Company's classifications. As a result of this review, it may be necessary to make additional reclassifications to the consolidated information of Palmer on a prospective basis.

The total consideration transferred is allocated to Palmer's net tangible and identifiable intangible assets based on their fair value as of August 21, 2012 for purposes of the pro forma condensed combined consolidated financial statements. These amounts are subject to change based on the results of the final valuations of assets acquired and liabilities assumed, which are expected to be completed within the 12 months following the acquisition. The excess of the consideration transferred over the net tangible and intangible identifiable assets is reflected as goodwill. The preliminary allocation of the total consideration paid to the fair value of the assets acquired and liabilities assumed as of August 21, 2012 is as follows:

Cash and cash equivalents	$ 1,389,054
Accounts receivable, net	5,789,745
Inventories, net	5,538,652
Prepaid expenses	1,611,804
Fixed assets, net	7,459,562
Goodwill	22,288,126
Contingent consideration	(8,152,031)
Other liabilities assumed	(6,833,315)
	$ 29,091,597

Pro Forma Adjustments and Assumptions

(1) Represents prepayment to escrow fund related to an employment agreement which requires a retention bonus be paid after one year of service after consummation of the transaction.

(2) Represents the estimated fair value adjustment to the carrying value of Palmer's property, plant, and equipment in purchase accounting.

(3) Represents adjustment to Palmer’s depreciation expense based on the fair value adjustments using estimated useful lives of property plant, and equipment following the straight-line method of depreciation for financial reporting purposes.

(4) Represents the excess of the amount paid for Palmer over the fair value of assets acquired and liabilities assumed (goodwill). This amount is subject to change based on the results of the final valuations of assets acquired and liabilities assumed, which are expected to be completed within the 12 months following the acquisition.

(5) Represents interest expense incurred on additional borrowings provided by a term note obtained in the amount of $22,500,000 and additional funding obtained on the Company’s revolving credit facility based on the Company’s borrowing rates at time of acquisition.

(6) Represents adjustment of income tax expense for effect of pre-tax purchase accounting adjustments.

(7) Represents repayment of Palmer long term debt, including current maturities, at time of acquisition.

(8) Represents recognition of contingent consideration recorded at estimated fair value based on the present value of the contingent consideration assumed to be paid based on the projected performance of Palmer over the three years after the acquisition. The present value was determined using the Company’s borrowing rate at time of acquisition. Adjustments to interest expense are made to the pro forma statements of income representing the amortization of the discount.

(9) Represents additional borrowings provided by a ten-year term note at consummation of acquisition.

(10) Represents a draw on the Company’s current line of credit at consummation of acquisition.

(11) Represents deferred tax liabilities related to acquired assets and liabilities with differing financial reporting and income tax basis.

(12) Represents elimination of Palmer’s historical shareholders' equity account balances in purchase accounting.

(13) Represents elimination of Palmer’s interest expense on notes payable of Palmer that are assumed to be repaid upon closing.

(14) Represents impact on net operations as a result of pro forma adjustments recognized.

(15) Represents direct acquisition costs that are expected to be incurred in connection with the acquisition.

(16) Represents recognition of indemnification asset for various contingent liabilities that have been recorded by Palmer and that are indemnified by the seller.

Commitments and Contingencies

Pursuant to the Stock Purchase Agreement, the Company entered into a three-year employment agreement with the current President of Palmer and a one-year employment agreement with the current Controller of Palmer. These amounts will be recognized as compensation expense over the periods of the agreements. Representative compensation expense for these executives is already included in the historical financial statements of Palmer.