

SYNALLOY CORPORATION

FORM 10-K FOR PERIOD ENDED DECEMBER 31, 2005

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

OR

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

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.)

Croft Industrial Park, P.O. Box 5627, Spartanburg, South Carolina 29304  
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act :	Name of each exchange on which registered
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None

None

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

Common Stock, \$1.00 Par Value  
(Title of Class)

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

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

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 X No \_\_

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

Larger accelerated Filer \_\_ Accelerated filer \_\_ Non-accelerated filer X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes \_\_ No X

Based on the closing price as of July 1, 2005, which was the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the common stock held by non-affiliates of the registrant was \$52.3 million. Based on the closing price of February 24, 2006, the aggregate market value of common stock held by non-affiliates of the registrant was \$66.4 million. The registrant did not have any non-voting common equity outstanding at either date.

The number of shares outstanding of the registrant's common stock as of February 24, 2006 was 6,109,989.

Documents Incorporated By Reference

Portions of the proxy statement for the annual shareholders' meeting are incorporated by reference into Part III.

## Forward-Looking Statements

This Annual Report on Form 10-K includes and incorporates by reference "forward-looking statements" within the meaning of the securities laws. All statements that are not historical facts are "forward looking statements." The words "estimate," "project," "intend," "expect," "believe," "anticipate," "plan" and similar expressions identify forward-looking statements. The forward-looking statements are subject to certain risks and uncertainties, including without limitation those identified below, which could cause actual results to differ materially from historical results or those anticipated. Readers are cautioned not to place undue reliance on these forward looking statements. The following factors could cause actual results to differ materially from historical results or those anticipated: adverse economic conditions, the impact of competitive products and pricing, product demand and acceptance risks, raw material and other increased costs, raw materials availability, customer delays or difficulties in the production of products, environmental issues, unavailability of debt financing on acceptable terms and exposure to increased market interest rate risk, inability to comply with covenants and ratios required by our debt financing arrangements and other risks detailed from time-to-time in Synalloy's Securities and Exchange Commission filings. Synalloy Corporation assumes no obligation to update any forward-looking information included in this Annual Report on Form 10-K.

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## PART I

### Item 1 Business

Synalloy Corporation, a Delaware corporation ("the Company"), was incorporated in 1958 as the successor to a chemical manufacturing business founded in 1945. Its charter is perpetual. The name was changed on July 31, 1967 from Blackman Uhler Industries, Inc. On June 3, 1988, the state of incorporation was changed from South Carolina to Delaware. The Company's executive offices are located at Croft Industrial Park, Spartanburg, South Carolina.

The Company's business is divided into two segments, the Metals Segment and the Specialty Chemicals Segment. The Metals Segment, operating as Bristol Metals, L.P. ("Bristol"), manufactures pipe and piping systems from stainless steel and other alloys for the chemical, petrochemical, pulp and paper, mining, power generation including nuclear, waste water treatment, liquid natural gas, brewery, food processing, petroleum, pharmaceutical and other industries. The Specialty Chemicals Segment is comprised of three operating companies: Blackman Uhler Chemical Company ("BU Specialties"), Spartanburg, South Carolina; Organic Pigments ("OP"), recently relocated to Spartanburg, South Carolina; and Manufacturers Chemicals, L. P. ("MC"), Cleveland, Tennessee and Dalton, Georgia. The Segment produces specialty chemicals, pigments and dyes for the textile, carpet, chemical, paper, metals, photographic, pharmaceutical, agricultural, fiber, paint, automotive, petroleum, cosmetics and other industries.

### General

**Metals Segment**-This Segment is comprised of a wholly-owned subsidiary, Synalloy Metals, Inc. which owns 100 percent of Bristol Metals, L.P., located in Bristol, Tennessee.

Bristol manufactures welded pipe, primarily from stainless steel, but also from other corrosion-resistant metals. Pipe is produced in sizes from one-half inch to 112 inches in diameter and wall thickness up to one inch. Sixteen-inch and smaller pipe is made on equipment that forms and welds the pipe in a continuous process. Pipe larger than sixteen inches is formed on presses or rolls and welded on batch welding equipment. Pipe is normally produced in standard 20-foot lengths. However, Bristol has unusual capabilities in the production of long length pipe without circumferential welds. This can reduce installation cost for the customer. Lengths up to 60 feet can be produced in sizes up to sixteen inches in diameter. In larger sizes Bristol has a unique ability among domestic producers to make 48-foot lengths in sizes up to 36 inches. During 2004 Bristol added the ability to x-ray pipe in real time mode. This new technology was incorporated with updated material handling equipment to double the efficiency of x-raying pipe. In 2005, Bristol also expanded its capabilities for forming large pipe on its existing batch equipment giving Bristol the capability to produce 36-inch diameter pipe in 48-foot lengths and with increased wall thickness of up to one inch. Also included in the expansion was the addition of a shear that has the capacity of shearing stainless steel plate up to one-inch thick. Bristol completed an expansion in the first quarter of 2006 that will allow the manufacture of pipe up to 42 inches utilizing more readily available raw materials at lower costs along with automated hydro-testing equipment for pipe up to 72 inches.

A significant amount of the pipe produced is further processed into piping systems that conform to engineered drawings furnished by the customers. This allows the customer to take advantage of the high quality and efficiency of Bristol's fabrication shop instead of performing all of the welding on the construction site. The pipe fabricating shop can make one and one-half diameter cold bends on one-half inch through eight-inch stainless pipe with thicknesses up through schedule 40. Most of the piping systems are produced from pipe manufactured by Bristol.

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Bristol also has the capability of producing carbon and chrome piping systems from pipe purchased from outside suppliers since Bristol does not manufacture carbon or chrome pipe. Carbon and chrome pipe fabrication enhances the stainless fabrication business by allowing Bristol to quote inquiries utilizing any of these three material types. Bristol can also produce pressure vessels and reactors, tanks and other processing equipment.

In order to establish stronger business relationships, only a few raw material suppliers are used. Five suppliers furnish more than two-thirds of total dollar purchases of raw materials. However, raw materials are readily available from a number of different sources and the Company anticipates no difficulties in obtaining its requirements.

This Segment's products are used principally by customers requiring materials that are corrosion-resistant or suitable for high-purity processes. The largest users are the chemical, petrochemical and pulp and paper industries with some other important industry users being mining, power generation including nuclear, waste water treatment, liquid natural gas ("LNG"), brewery, food processing, petroleum, and pharmaceutical.

**Specialty Chemicals Segment-** This Segment includes three operating companies: Blackman Uhler Chemical Company, a division of the Company; Manufacturers Soap and Chemical Company, which owns 100 percent of Manufacturers Chemicals, L.P.; and Organic-Pigments Corporation. Manufacturers Soap and Chemical Company and OP are wholly-owned subsidiaries of the Company. BU Specialties and OP operate out of a plant in Spartanburg, South Carolina which is fully licensed for chemical manufacture and maintains a permitted waste treatment system. MC is located in Cleveland, Tennessee and Dalton, Georgia and is fully licensed for chemical manufacture. The Segment produces specialty chemicals, pigments and dyes for the textile, carpet, chemical, paper, metals, photographic, pharmaceutical, agricultural, fiber, paint, automotive, petroleum, cosmetics and other industries.

MC, purchased by the Company in 1996, produces over 500 specialty formulations and intermediates for use in a wide variety of applications and industries. MC's primary product lines focus on the areas of defoamers, surfactants and lubricating agents. Over 20 years ago, MC began diversifying its marketing efforts and expanding beyond traditional textile chemical markets. These three fundamental product lines find their way into a large number of manufacturing businesses. Over the years, the customer list has grown to include end users and chemical companies that supply paper, metal working, surface coatings, water treatment, mining and janitorial applications. MC's strategy has been to focus on industries and markets that have good prospects for sustainability in the U.S. in light of global trends. MC's marketing strategy relies on sales to end users through its own sales force, but it also sells chemical intermediates to other chemical companies and distributors. It also has close working relationships with a significant number of major chemical companies that outsource their production for regional manufacture and distribution to companies like MC. MC has been ISO registered since 1995.

MC has utilized acquisitions to help further expand its markets. An acquisition in 2000 enabled the Company to enter into the sulfation of fats and oils. These products are used in a wide variety of applications and represent a renewable resource, animal and vegetable derivatives, as alternatives to more expensive and non-renewable petroleum derivatives. In 2001 MC acquired the assets of a Dalton, Georgia based company that serves the carpet and rug markets and also focuses on processing aids for wire drawing. MC Dalton blends and sells specialty dyestuffs and resells heavy chemicals and specialty chemicals, manufactured in MC's Cleveland plant, to its markets out of its leased warehousing facility. The Dalton site also contains a shade matching laboratory and sales offices for the group.

BU Specialties' business activities involve contract production and toll manufacturing for a number of domestic and international chemical companies. It also produces a small number of finished products and intermediates that are marketed by MC. This location has also focused on markets that are believed to be long-term outlets for its production and capacity. BU Specialties carries out high temperature condensation like MC; but also hydrogenates, methylates, distills, sulfates, epoxidizes, <page 3>

grinds and spray dries chemicals to its customers' specifications. The location also is registered for FIFRA regulated agricultural products and it hammermills, dry blends and has excellent control for exothermic reactions. Both the MC and BU Specialties sites have extensive chemical storage and blending capabilities. BU Specialties has produced products that are used in oil refining, automotive applications, cosmetics, agriculture and the paper industry. Like MC, it is focusing primarily on raw materials and product lines that will rely on renewable vegetable sourced chemicals for future growth and expansions of its business.

During the first quarter of 2006, OP's operations were relocated to Spartanburg from Greensboro, North Carolina. OP's production equipment, laboratories, sales office and warehousing were relocated into available areas of the Spartanburg plant, and the Greensboro plant site will be sold and the profit is expected to cover the cost of relocation. Going forward, the improved utilization of facilities in Spartanburg and the ability for BU and OP to share certain services will bring economies to both business units. OP sells aqueous pigment dispersions that have traditionally been used by the textile industry. While certain textile business both domestic and offshore continue to contribute a significant portion of OP's revenues, it, too, is continuing to diversify into stable markets that are believed to be sustainable in the future. These include applications for printing inks, graphic arts, paints, industrial coatings, flexographic printing, plastic and agriculture. The dispersions are produced from organic intermediates and inorganic chemicals, sourced domestically, as well as from Asia and Europe. Redundant sources exist for most of the Company's pigments bases. OP is known for its higher solid and finer particle size dispersions that are especially suited for non-textile applications.

The Specialty Chemicals Segment maintains seven laboratories for applied research and quality control which are staffed by 25 employees.

Most raw materials used by the Segment are generally available from numerous independent suppliers while some raw material

needs are met by a sole supplier or only a few suppliers. However, the Company anticipates no difficulties in obtaining its requirements.

Please see Note P to the Consolidated Financial Statements for financial information about the Company's Segments.

### **Sales and Distribution**

**Metals Segment-** The Metals Segment utilizes separate sales organizations for its different product groups. Stainless steel pipe is sold nationwide under the Brismet trade name through authorized stocking distributors at warehouse locations throughout the country. In addition, large quantity orders are shipped directly from Bristol's plant to end-user customers. Producing sales and providing service to the distributors and end-user customers are the Vice President of Sales, two outside sales employees, five independent manufacturers' representatives and eight inside sales employees. The Metals Segment had one domestic customer (Hughes Supply, Inc.) that accounted for approximately 11 percent, 20 percent and 19 percent of the Metals Segment's revenues in 2005, 2004 and 2003, respectively, and 13 percent of consolidated revenues in 2004. Loss of this customer's revenues would have a material adverse effect on both the Metals Segment and the Company.

Piping systems are sold nationwide under the Bristol Piping Systems trade name by three outside sales employees. They are under the direction of the President of Bristol who spends a substantial amount of his time in sales and service to customers. Piping systems are marketed to engineering firms and construction companies or directly to project owners. Orders are normally received as a result of competitive bids submitted in response to inquiries and bid proposals.

**Specialty Chemicals Segment-** Specialty chemicals are sold directly to various industries nationwide by ten full-time outside sales employees and five manufacturers' representatives. In the fourth quarter

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of 2005, the Segment hired an employee to manage the sales and manufacturing operations of BU Specialties bringing over 30 years of experience in the chemical industry. In addition, the President and market development manager of MC devote a substantial part of their time to sales. The Specialty Chemicals Segment had one domestic customer that accounted for approximately 12 percent of the Specialty Chemicals Segment's revenues in 2005, and less than ten percent for 2004 and 2003, respectively. Loss of this customer's revenues would have a material adverse effect on the Segment.

### **Competition**

**Metals Segment-** Welded stainless steel pipe is the largest sales volume product of the Metals Segment. Although information is not publicly available regarding the sales of most other producers of this product, management believes that the Company is one of the largest domestic producers of such pipe. This commodity product is highly competitive with eight known domestic producers and imports from many different countries. The largest sales volume among the specialized products comes from fabricating stainless, nickel alloys and chrome alloys piping systems. Management believes the Company is one of the largest producers of such systems. There is also significant competition in the piping systems markets with nine known domestic suppliers with similar capabilities as Bristol, along with many other smaller suppliers.

**Specialty Chemicals Segment-** The Company is the sole producer of certain specialty chemicals manufactured for other companies under processing agreements and also produces proprietary specialty chemicals. The Company's sales of specialty products are insignificant compared to the overall market for specialty chemicals. The market for most of the products is highly competitive and many competitors have substantially greater resources than does the Company. The market for pigments and dyes is highly competitive and the Company has less than ten percent of the market for its products.

### **Environmental Matters**

Environmental expenditures that relate to an existing condition caused by past operations and that do not contribute to future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or cleanups are probable and the costs of these assessments and/or cleanups can be reasonably estimated. See Note G to Consolidated Financial Statements for further discussion.

### **Research and Development Activities**

The Company spent approximately \$566,000 in 2005, \$551,000 in 2004 and \$457,000 in 2003 on research and development activities in its Specialty Chemicals Segment. Nine individuals, all of whom are graduate chemists, are engaged primarily in research and development of new products and processes, the improvement of existing products and processes, and the development of new applications for existing products.

### **Seasonal Nature of the Business**

The annual requirements of certain specialty chemicals are produced over a period of a few months as requested by the customers. Accordingly, the sales of these products may vary significantly from one quarter to another.

### **Backlogs**

The Specialty Chemicals Segment operates primarily on the basis of delivering products soon after orders are received. Accordingly, backlogs are not a factor in these businesses. The same applies to commodity pipe sales in the Metals Segment.

However, backlogs are important in the piping systems products because they are produced only after orders are received, generally as the result of competitive bidding. Order backlogs for these products were \$20,100,000 at the end of 2005, all of <page 6>

which should be completed in 2006, and \$11,500,000 and \$6,700,000 at the 2004 and 2003 respective year ends.

### **Employee Relations**

As of December 31, 2005, the Company had 434 employees. The Company considers relations with employees to be satisfactory. The number of employees of the Company represented by unions, all located at the Bristol, Tennessee facility, is 246. They are represented by two locals affiliated with the AFL-CIO and one local affiliated with the Teamsters. Collective bargaining contracts will expire in February 2009, December 2009 and March 2010.

### **Financial Information About Geographic Areas**

Information about revenues derived from domestic and foreign customers is set forth in Note P to the Consolidated Financial Statements.

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

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

**Cyclical Demand.** The cyclical nature of the industries in which our customers operate causes demand for our products to be cyclical, creating uncertainty regarding future profitability. Various changes in general economic conditions affect the industries in which our customers operate. These changes include decreases in the rate of consumption or use of our customers' products due to economic downturns. Other factors causing fluctuation in our customers' positions are changes in market demand, capital spending, lower overall pricing due to domestic and international overcapacity, lower priced imports, currency fluctuations, and increases in use or decreases in prices of substitute materials. As a result of these factors, our profitability has been and may in the future be subject to significant fluctuation.

**Product Pricing and Raw Material Costs.** From time-to-time, intense competition and excess manufacturing capacity in the commodity stainless steel industry have resulted in reduced prices, excluding raw material surcharges, for many of our stainless steel products sold by the Metals Segment. These factors have had and may have an adverse impact on our revenues, operating results and financial condition. Although inflationary trends in recent years have been moderate, during the same period stainless steel raw material costs, including surcharges on stainless steel, have been volatile. While we are able to mitigate some of the adverse impact of rising raw material costs, such as passing through surcharges to customers, rapid increases in raw material costs may adversely affect our results of operations. Surcharges on stainless steel are also subject to rapid declines which can result in similar declines in selling prices causing a possible marketability problem on the related inventory as well as negatively impacting revenues and profitability. While there has been ample availability of raw materials, there continues to be a significant consolidation of stainless steel suppliers throughout the world which could have an impact on the cost and availability of stainless steel in the future. The ability to implement price increases is dependent on market conditions, economic factors, raw material costs, including surcharges on stainless steel, and availability, competitive factors, operating costs and other factors, some of which are beyond our control. In addition, to the extent that we have quoted prices to customers and accepted customer orders for products prior to purchasing necessary raw materials, or have existing contracts, we may be unable to raise the price of products to cover all or part of the increased cost of the raw materials.

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The Specialty Chemicals Segment uses significant quantities of a variety of specialty and commodity chemicals in its manufacturing processes which are subject to price and availability fluctuations. Any significant variations in the cost and availability of our specialty and commodity materials may negatively affect our business, financial condition or results of operations. The raw materials we use are generally available from numerous independent suppliers. However, some of our raw material needs are met by a sole supplier or only a few suppliers. If any supplier that we rely on for raw materials ceases or limits production, we may incur significant additional costs, including capital costs, in order to find alternate, reliable raw material suppliers. We may also experience significant production delays while locating new supply sources. Purchase prices and availability of these critical raw materials are subject to volatility. Some of the raw materials used by this Segment are derived from petrochemical-based feedstocks, such as crude oil and natural gas, which have been subject to historical periods of rapid and significant movements in price. These fluctuations in price could be aggravated by factors beyond our control such as political instability, and supply and demand factors, including OPEC production quotas and increased global demand for petroleum-based products. At any given time we may be unable to obtain an adequate supply of these critical raw materials on a timely basis, on price and other terms acceptable, or at all. If suppliers increase the price of critical raw materials, we may not have alternative sources of supply. We selectively pass changes in the prices of raw materials to our customers from time-to-time. However, we cannot always do so, and any limitation on our ability to pass through any price increases could affect our financial performance.

We rely upon third parties for our supply of energy resources consumed in the manufacture of our products in both of our

Segments. The prices for and availability of electricity, natural gas, oil and other energy resources are subject to volatile market conditions. These market conditions often are affected by political and economic factors beyond our control. Disruptions in the supply of energy resources could temporarily impair the ability to manufacture products for customers. Further, increases in energy costs that cannot be passed on to customers, or changes in costs relative to energy costs paid by competitors, has and may continue to adversely affect our profitability.

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

**Environmental Issues.** The applicability of numerous environmental laws to our manufacturing facilities could cause us to incur material costs and liabilities. We are subject to federal, state, and local environmental, safety and health laws and regulations concerning, among other things, emissions to the air, discharges to land and water and the generation, handling, treatment and disposal of hazardous waste and other materials. Under certain environmental laws, we can be held strictly liable for hazardous substance contamination of any real property we have ever owned, operated or used as a disposal site. We are also required to maintain various environmental permits and licenses, many of

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which require periodic modification and renewal. Our operations entail the risk of violations of those laws and regulations, and we cannot assure you that we have been or will be at all times in compliance with all of these requirements. In addition, these requirements and their enforcement may become more stringent in the future. Although we cannot predict the ultimate cost of compliance with any such requirements, the costs could be material. Non-compliance could subject us to material liabilities, such as government fines, third-party lawsuits or the suspension of non-compliant operations. We also may be required to make significant site or operational modifications at substantial cost. Future developments also could restrict or eliminate the use of or require us to make modifications to our products, which could have a significant negative impact on our results of operations and cash flows. At any given time, we are involved in claims, litigation, administrative proceedings and investigations of various types involving potential environmental liabilities, including cleanup costs associated with hazardous waste disposal sites at our facilities. We cannot assure you that the resolution of these environmental matters will not have a material adverse effect on our results of operations or cash flows. The ultimate costs and timing of environmental liabilities are difficult to predict. Liability under environmental laws relating to contaminated sites can be imposed retroactively and on a joint and several basis. We could incur significant costs, including cleanup costs, civil or criminal fines and sanctions and third-party claims, as a result of past or future violations of, or liabilities under, environmental laws. For additional information related to environmental matters, see Note G to the Consolidated Financial Statements.

**Facilities Operations.** We are dependent upon the continued safe operation of our production facilities. In our Specialty Chemicals Segment, these production facilities are subject to hazards associated with the manufacture, handling, storage and transportation of chemical materials and products, including leaks and ruptures, explosions, fires, inclement weather and natural disasters, unscheduled downtime and environmental hazards which could result in liability for workplace injuries and fatalities. In addition, some of our production facilities are highly specialized, which limits our ability to shift production to other facilities in the event of an incident at a particular facility. If a production facility, or a critical portion of a production facility, were temporarily shut down, we likely would incur higher costs for alternate sources of supply for our products. We cannot assure you that we will not experience these types of incidents in the future or that these incidents will not result in production delays or otherwise have a material adverse effect on our business, financial condition or results of operations.

**Collective Bargaining Agreements.** Certain of our employees in the Metals Segment are covered by collective bargaining agreements, and the failure to renew these agreements could result in labor disruptions and increased labor costs. We have 246 employees represented by unions at the Bristol, Tennessee facility, or 57 percent of the total employees of the Company. They are represented by two locals affiliated with the AFL-CIO and one local affiliated with the Teamsters. Collective bargaining contracts will expire in February 2009, December 2009 and March 2010. Although we believe that our present labor relations are satisfactory, our failure to renew these agreements on reasonable terms as the current agreements expire could result in labor disruptions and increased labor costs, which could adversely affect our financial performance.

**Financial Risks.** The limits imposed on us by the restrictive covenants contained in our credit facilities could prevent us from obtaining adequate working capital, making acquisitions or capital improvements, or cause us to lose access to our facilities. Our existing credit facilities contain restrictive covenants that limit our ability to, among other things, borrow money or guarantee the debts of others, use assets as security in other transactions, make investments or other restricted payments or distributions,

change our business or enter into new lines of business, and sell or acquire assets or merge with or into other companies. In addition, our credit facilities require us to meet financial ratios which could limit our ability to plan for or react to market conditions or meet extraordinary capital needs and could otherwise restrict our financing activities. Our ability to comply with the covenants and other terms of our credit facilities

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will depend on our future operating performance. If we fail to comply with such covenants and terms, we will be in default and the maturity of the related debt could be accelerated and become immediately due and payable. We may be required to obtain waivers from our lender in order to maintain compliance under our credit facilities, including waivers with respect to our compliance with certain financial covenants. If we are unable to obtain any necessary waivers and the debt under our credit facilities is accelerated, our financial condition would be adversely affected.

We may not have access to capital in the future. We may need new or additional financing in the future to expand our business or refinance existing indebtedness. If we are unable to access capital on satisfactory terms and conditions, we may not be able to expand our business or meet our payment requirements under our existing credit facilities. Our ability to obtain new or additional financing will depend on a variety of factors, many of which are beyond our control. We may not be able to obtain new or additional financing because we may have substantial debt or because we may not have sufficient cash flow to service or repay our existing or future debt. In addition, depending on market conditions and our financial performance, equity financing may not be available on satisfactory terms or at all.

**Insurance.** We have maintained various forms of insurance, including insurance covering claims related to our properties and risks associated with our operations. Our existing property and liability insurance coverages contain exclusions and limitations on coverage. From time-to-time, in connection with renewals of insurance, we have experienced additional exclusions and limitations on coverage, larger self-insured retentions and deductibles and higher premiums, primarily from our Specialty Chemicals operations. As a result, in the future our insurance coverage may not cover claims to the extent that it has in the past and the costs that we incur to procure insurance may increase significantly, either of which could have an adverse effect on our results of operations.

**Product Development.** We believe that we must continue to enhance our existing products and to develop and manufacture new products with improved capabilities in order to continue to be a market leader. We also believe that we must continue to make improvements in our productivity in order to maintain our competitive position. When we invest in new technologies, processes, or production capabilities, we face risks related to construction delays, cost over-runs and unanticipated technical difficulties. Our inability to anticipate, respond to or utilize changing technologies could have a material adverse effect on our business and our consolidated results of operations.

**Acquisitions and Dispositions.** We have historically utilized acquisitions and dispositions in an effort to strategically position our businesses and improve our ability to compete. We plan to continue to do this by seeking specialty niches, acquiring businesses complementary to existing strengths and continually evaluating the performance and strategic fit of our existing business units. We consider acquisition, joint ventures, and other business combination opportunities as well as possible business unit dispositions. From time-to-time, management holds discussions with management of other companies to explore such opportunities. As a result, the relative makeup of the businesses comprising our Company is subject to change. Acquisitions, joint ventures, and other business combinations involve various inherent risks, such as: assessing accurately the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition or other transaction candidates; the potential loss of key personnel of an acquired business; our ability to achieve identified financial and operating synergies anticipated to result from an acquisition or other transaction; and unanticipated changes in business and economic conditions affecting an acquisition or other transaction.

**Internal Control.** Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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## Item 1B Unresolved Staff Comments

Not applicable.

## Item 2 Properties

The Company operates the major plants and facilities listed below, all of which are in adequate condition for their current usage. All facilities throughout the Company are adequately insured. The buildings are of various types of construction including brick, steel, concrete, concrete block and sheet metal. All have adequate transportation facilities for both raw materials and finished products. The Company owns all of these plants and facilities, except the dye blending and warehouse facilities located in Dalton, Ga.

<u>Location</u>	<u>Principal Operations</u>	<u>Building Square Feet</u>	<u>Land Acres</u>
Spartanburg, SC	Corporate headquarters; Chemical manufacturing and warehouse facilities	211,000	60.9

Cleveland, TN	Chemical manufacturing	90,000	8.6
Greensboro, NC	Chemical manufacturing (1)	57,000	3.7
Bristol, TN	Manufacturing of stainless steel pipe and stainless steel piping systems	218,000	73.1
Dalton, GA	Dye blending and warehouse facilities (2)	32,000	2.0
Augusta, GA	Chemical manufacturing(3)	52,500	46.0

(1) Plant closed in March 2006 and currently held for sale.

(2) Leased facility.

(3) Plant closed in 2001.

### Item 3 Legal Proceedings

For a discussion of legal proceedings, see Notes G and M to the Consolidated Financial Statements.

### Item 4 Submission of Matters to a Vote of Security Holders

No matters were submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders through the solicitation of proxies or otherwise.

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## PART II

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

The Company had 935 common shareholders of record at December 31, 2005. The Company's common stock trades on the NASDAQ National Market System of The NASDAQ Stock Market and changed its trading symbol to SYNL effective October 6, 2003. In 2001, the Company's Board of Directors voted to suspend cash dividends, and on December 13, 2005, the Company entered into a new credit agreement which allows the payment of dividends replacing the prior facility which prohibited their payment. The prices shown below are the high and low sales prices for the common stock for each full quarterly period in the last two fiscal years as quoted on The NASDAQ National Market System.

Quarter	2005		2004	
	High	Low	High	Low
1	\$ 10.57	\$ 9.10	\$ 8.69	\$ 6.52
2	12.34	9.43	10.62	6.70
3	11.64	9.27	10.75	9.25
4	11.25	9.20	10.75	9.40

The information required by Item 201(d) of Regulation S-K is set forth under Part III, Item 12 of this Form 10-K. Pursuant to the compensation arrangement with directors discussed under Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" in this Form 10-K, on April 28, 2005, the Company issued to each of its directors, except Ralph Matera, 2,195 shares of its common stock (an aggregate of 10,975 shares). On January 23, 2006, the Company issued 549 shares to Ralph Matera as compensation for his service as a director for the fourth quarter of 2005. Issuance of these shares was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 because no public offering was involved. During the fiscal year ended December 31, 2005, the Registrant issued shares of common stock to the following classes of persons upon the exercise of options issued pursuant to the Registrant's 1998 Stock Option Plan. Issuance of these shares was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 because the issuance did not involve a public offering.

<u>Date Issued</u>	<u>Class of Purchasers</u>	<u>Number of Shares Issued</u>	<u>Aggregate Exercise Price</u>
2/9/2005	Officers and Employees	7,200	\$ 41,918
2/28/2005	Officers and Employees	16,366	\$ 99,996
4/1/2005	Officers and Employees	3,200	\$ 14,880
5/16/2005	Officers and Employees	32,732	\$ 199,993
5/23/2005	Officers and Employees	3,100	\$ 19,065

6/6/2005	Officers and Employees	4,400	\$ 25,724
6/9/2005	Officers and Employees	1,600	\$ 7,440
6/17/2005	Officers and Employees	2,400	\$ 11,160
7/20/2005	Officers and Employees	1,600	\$ 7,440
8/2/2005	Officers and Employees	16,366	\$ 99,996
8/23/2005	Officers and Employees	42,736	\$ 243,345
10/26/2005	Officers and Employees	6,150	\$ 40,223
		-----	-----
		137,850	\$ 811,180
		=====	=====

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## Item 6 Selected Financial Data

(Dollar amounts in thousands except for per share data)

### Selected Financial Data and Other Financial Information

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Operations</b>					
Net sales	\$ 128,927	\$ 99,839	\$ 80,408	\$ 74,351	\$ 76,986
Gross profit	16,781	13,976	8,389	6,174	8,461
Selling, general & administrative expense	10,369	9,432	8,177	8,001	7,975
Asset impairment & environmental costs	-	-	490	481	-
Operating income (loss)	6,412	4,544	(278)	(2,308)	486
Net income (loss) continuing operations	5,147	2,274	(580)	(1,633)	(17)
Net loss discontinued operations	(51)	(1,100)	(840)	(2,975)	(307)
Net income (loss)	5,096	1,174	(1,421)	(4,843)	(318)
<b>Financial Position</b>					
Total assets	70,982	71,202	64,925	59,966	69,759
Working capital	28,664	35,088	28,706	20,060	21,141
Long-term debt, less current portion	8,091	21,205	18,761	10,000	10,000
Shareholders' equity	39,296	33,930	32,556	33,874	38,949
<b>Financial Ratios</b>					
Current ratio	2.5	3.8	3.5	2.5	2.2
Gross profit to net sales	13%	14%	10%	8%	11%
Long-term debt to capital	17%	38%	37%	23%	20%
Return on average assets	7%	3%	-	-	-
Return on average equity	14%	7%	-	-	-
<b>Per Share Data (income/(loss) - diluted)</b>					
Net income (loss) continuing operations	\$ .84	\$ .37	\$ (.10)	\$ (.27)	\$ -
Net loss discontinued operations	(.01)	(.18)	(.14)	(.50)	(.05)
Net income (loss)	.83	.19	(.24)	(.81)	(.05)

Dividends declared and paid	-	-	-	-	.15
Book value	6.43	5.64	5.44	5.68	6.53
<b>Other Data</b>					
Depreciation and amortization	2,862	3,068	2,976	2,981	2,824
Capital expenditures	3,246	2,313	1,325	2,035	6,280
Employees at year end	434	442	470	406	472
Shareholders of record at year end	935	1,009	1,039	1,082	1,120
Average shares outstanding - diluted	6,139	6,142	5,997	5,964	5,965
<b>Stock Price</b>					
Price range of Common Stock					
High	\$ 12.34	\$ 10.75	\$ 8.54	\$ 5.05	\$ 7.65
Low	9.10	6.52	3.96	1.69	2.95
Close	10.46	9.90	6.92	4.13	3.60

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

### Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments based on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of the Company's consolidated financial statements.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of any of the customers of the Company were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

The Company writes down its inventory for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and current market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

As noted in Note G to the Consolidated Financial Statements, the Company has accrued \$715,000 in environmental remediation costs which, in management's best estimate, will satisfy anticipated costs of known remediation requirements as outlined in Note G. As a result of the evolving nature of the environmental regulations, the difficulty in estimating the extent and remedy of environmental contamination, and the availability and application of technology, the estimated costs for future environmental compliance and remediation are subject to uncertainties and it is not possible to predict the amount or timing of future costs of environmental matters which may subsequently be determined. Subject to the difficulty in estimating future environmental costs, the Company believes that the likelihood of material losses in excess of the amounts recorded is remote. However, any changes, including regulatory changes, may require the Company to record additional remediation reserves.

As noted in Notes B and O to the Consolidated Financial Statements, the Company has recorded asset impairment charges under SFAS 144 in 2004 and 2003 including a \$581,000 charge in 2004 as part of the loss recognized for discontinued operations. Based on assessments performed in 2005 on the continuing assets of the Company, which indicated no write-downs were deemed necessary, the Company believes that it is unlikely that these types of impairment charges will continue to occur. However, if business conditions at any of the plant sites were to deteriorate to an extent where cash flows and other impairment measurements indicate values for the related long-lived assets are less than the carrying values of those assets, additional impairment charges may be necessary.

### Liquidity and Capital Resources

Cash flows provided by operations during 2005 totaled \$15,425,000, \$11,443,000 provided by continuing operations and \$3,983,000 provided by discontinued operations. This compares to cash flows provided by operations in 2004 totaling \$620,000,

\$4,397,000 provided by discontinued operations offset by \$3,776,000 used in continuing operations. As a result, cash flows from 2005

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continuing operations increased \$14,379,000 from the 2004 amount. Inventories declined \$1,868,000 in 2005 after increasing \$7,836,000 in 2004. Throughout 2004, the Metals Segment experienced raw material cost increases, primarily in the form of surcharges on stainless steel purchases and had on hand a higher than normal amount of inventory units at year end causing the significant increase in 2004. The increases in raw material costs continued through the first six months of 2005, then stabilized over the last six months. In addition, the Segment completed a planned reduction in 2005 of inventory units to a more acceptable level which resulted in the net reduction in inventory dollars at 2005 year end. Accounts receivable increased \$7,825,000 in 2005 compared to increasing \$3,238,000 in 2004. The increases came primarily from the significant improvement in sales experienced in both 2005, up 29 percent, and 2004, up 24 percent, over prior year amounts, as both operating Segments responded to rising raw material and operating costs with higher selling prices, coupled to a lesser extent by selling more unit volumes. Accounts payable increased \$3,105,000 in 2005 compared to an increase of \$399,000 in 2004. The 2005 increase came primarily from increases in the costs of raw materials discussed above combined with the timing of receipt and payment of stainless steel raw materials by the Metals Segment in 2005 compared to 2004. Cash flows were also generated by the receipt of \$4,483,000 from the anti-dumping settlement of which \$1,866,000 was paid out in January 2006, discussed in the Results of Operations below. Accrued income taxes of \$1,721,000 accrued against 2005 earnings increased \$1,711,000 in 2005 which the Company expects to pay in the first quarter of 2006. Finally, cash flows were positively impacted by net income from continuing operations of \$8,009,000 before depreciation and amortization expense of \$2,862,000 compared to \$5,342,000 generated in 2004. The cash flows provided by discontinued operations were derived from declines in accounts receivable and inventories offset by a decrease in accounts payable totaling \$2,862,000, \$3,287,000 and \$1,131,000, respectively. The cash flows were generated from the liquidation of the net assets related to the sale of the Company's dye business at the end of 2004 as discussed in the Discontinued Operations discussion below. The net effect of the items described above was to increase current liabilities by \$6,724,000 which also caused working capital for 2005 to decrease by \$6,424,000 to \$28,664,000 from the amount in 2004, of which \$4,034,000 of the decrease came from discontinued operations. The current ratio for the year ended December 31, 2005, also declined to 2.5:1 from the year-end ratio of 3.8:1 in 2004. Based on the payment dates of many of the liabilities described above, the Company expects to utilize its revolving line of credit during the first quarter of 2006 to provide funds for payment of the liabilities which should bring the working capital level and current ratio more in line with historical levels while increasing the amount of long-term debt outstanding.

The Company utilized the cash flows generated in 2005 to pay down its debt by \$12,648,000 and fund capital expenditures of \$3,246,000. The Company expects that cash flows from 2006 operations and available borrowings will be sufficient to make debt payments and fund estimated capital expenditures of \$3,600,000 and normal operating requirements. On December 13, 2005, the Company entered into a Credit Agreement with a lender to provide a \$27,000,000 line of credit expiring on December 31, 2010, and refinanced the Company's existing bank indebtedness. The Agreement provides for a revolving line of credit of \$20,000,000, which includes a \$5,000,000 sub-limit for swing-line loans requiring additional pre-approval by the bank, and a five-year \$7,000,000 term loan requiring equal quarterly payments of \$117,000 with a balloon payment at the expiration date. Borrowings under the revolving 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. As of December 31, 2005, the amount available for borrowing was \$15,000,000 of which \$1,557,000 was borrowed leaving \$13,443,000 of availability. Borrowings under the Credit Agreement are collateralized by substantially all of the assets of the Company. At December 31, 2005, the Company was in compliance with its debt covenants which include, among others, maintaining certain EBITDA, fixed charge and tangible net worth amounts.

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## **Results of Operations**

### **Comparison of 2005 to 2004**

The Company generated net income from continuing operations of \$5,147,000, or \$.84 per share, on a 29 percent sales increase to \$128,927,000. This compares to net income from continuing operations of \$2,274,000, or \$.37 per share, on a 24 percent sales increase to \$99,839,000 in 2004. For the fourth quarter of 2005, the Company had net income from continuing operations of \$2,081,000, or \$.34 per share, on a 45 percent increase in sales to \$35,285,000, compared to net income for the fourth quarter of 2004 of \$714,000, or \$.12 per share, on a 12 percent increase in sales to \$24,308,000. The Company recorded a net loss from discontinued operations of \$51,000, or \$.01 per share, for both the year and first six months of 2005, compared to net losses of \$1,100,000, or \$.18 per share, and \$673,000, or \$.11 per share, for the year and fourth quarter of 2004, respectively. As a result, the Company had net income of \$5,096,000, or \$.83 per share, compared to net income of \$1,174,000, or \$.19 per share, for 2004 and net income of \$2,081,000, or \$.34 per share, for the fourth quarter of 2005 compared to net income of \$40,000, or \$.01 per share, for the fourth quarter of 2004.

Consolidated gross profits increased by \$2,805,000 in 2005 compared to 2004, however as a percent of sales they declined one percent to 13 percent of sales in 2005 compared to 2004. Substantially all of the increase in dollars came from the Metals Segment and the one percent percentage decline came from the Specialties Chemicals Segment as discussed in the Segment comparisons below. Consolidated selling, general and administrative expense for 2005 increased \$937,000 to \$10,369,000 compared to 2004, but declined as a percent of sales to eight percent in 2005 compared to nine percent in 2004. The dollar increase came primarily from a combination of profit incentives paid in the Metals Segment, increased general insurance expense, and an increase in unallocated corporate expenses and the recording of environmental charges discussed in Comparison of Corporate Expenses

below.

Consolidated operating results for 2005 were significantly impacted by several transactions that were recorded during the fourth quarter. In December of 2005, the Company, along with several other domestic stainless steel pipe producers, received funds from the settlement of an anti-dumping duty order against a foreign producer and importer of stainless steel pipe issued under the Continued Dumping and Subsidy Offset Act. The order covered the period from June 22, 1992 to November 30, 1994. As a result the Company recorded a gain of \$2,542,000. The Company's OP subsidiary has an \$840,000 note receivable from an affiliated company in which OP owns 45 percent. The affiliated company has as its primary asset a minority investment in a Chinese pigment plant under a joint venture agreement that expires in 2008 from which OP purchases some of its raw materials. The joint venture had been profitable since 1998, but is expected to report an operating loss for 2005 and has indicated that market and operating conditions are not expected to improve and it is anticipating incurring losses going forward. Based on the current and anticipated operating losses of the joint venture and other factors the Company was able to ascertain, the likelihood that the affiliated company will be able to repay the note receivable is unlikely. The receivable was written off at December 31, 2005 and the \$840,000 loss was included in other expense. Included in selling and administrative expense is a \$300,000 environmental accrual recorded at year end to provide for remediation of ground contamination at the Company's Augusta, Georgia plant which was closed in 2001. Reference should be made to Notes B and G to the Consolidated Financial Statements.

### Comparison of 2004 to 2003

The Company generated net earnings from continuing operations of \$2,274,000, or \$.37 per share, on a 24 percent sales increase to \$99,839,000 in 2004. This compares to a loss from continuing operations of \$580,000, or \$.10 per share, in 2003. For the fourth quarter of 2004, the Company had

earnings from continuing operations of \$714,000, or \$.12 per share, compared to a loss from continuing operations of \$508,000, or \$.08 per share, on a 12 percent increase in sales to \$24,308,000. The Company recorded losses from discontinued operations of \$1,100,000, or \$.18 per share, and \$673,000, or \$.11 per share, for the year and fourth quarter of 2004, respectively, compared to net losses of \$840,000, or \$.14 per share, and \$764,000, or \$.13 per share for the same periods of 2003. As a result, the Company earned \$1,174,000, or \$.19 per share, for 2004 and \$40,000, or \$.01 per share, for the fourth quarter of 2004 compared to a loss in 2003 of \$1,421,000, or \$.24 per share, and a loss of \$1,272,000, or \$.21 per share, for the fourth quarter of 2003.

Consolidated gross profits improved to 14 percent of sales in 2004 compared to ten percent experienced in 2003 coming primarily from the Metals Segment as discussed in the Metals Segment 2004 to 2003 comparisons below. Consolidated selling, general and administrative expense for 2004 increased \$1,255,000 to \$9,432,000 compared to 2003, but declined as a percent of sales to nine percent in 2004 from ten percent in 2003. The dollar increase came primarily from a combination of profit incentives paid in the Metals Segment and the recording of environmental charges in corporate expenses discussed in the Comparison of Corporate Expenses for 2004 to 2003 below.

**Metals Segment--** The following table summarizes operating results and backlogs for the three years indicated. Reference should be made to Note P to the Consolidated Financial Statements.

(Amount in thousands)	2005		2004		2003	
	Amount	%	Amount	%	Amount	%
Net Sales	\$ 84,051	100.0%	\$ 62,565	100.0%	\$ 48,674	100.0%
Cost of goods sold	72,742	86.5%	53,950	86.2%	44,086	90.6%
Gross profit	11,309	13.5%	8,615	13.8%	4,588	9.4%
Selling and administrative expense	4,494	5.3%	4,038	6.5%	3,285	6.7%
Operating income (loss)	\$ 6,815	8.1%	\$ 4,577	7.3%	\$ 1,303	2.7%
Year-end backlogs - Piping systems	\$ 20,100		\$ 11,500		\$ 6,700	

### Comparison of 2005 to 2004 - Metals Segment

The Metals Segment accomplished noteworthy sales growth of 34 percent for the year and 51 percent for the fourth quarter of 2005 compared to a year earlier. The increases resulted from a combination of 33 percent and three percent higher average selling prices and one percent and 49 percent higher unit volumes for the year and fourth quarter, respectively. Gross profit for the Segment improved \$2,694,000, or 31 percent, and remained basically unchanged at 13.5 percent of sales for 2005 compared to 13.8 percent in 2004. In the fourth quarter of 2005 compared to 2004, gross profit increased \$216,000 or nine percent, but decreased 4.5 percent of sales to 11.3 percent from the fourth quarter of 2004. During the first six months of 2005, surcharges paid on stainless steel raw materials increased steadily and the Segment was able to increase selling prices to pass on the

increased costs. Because of the steadily increasing raw material costs and selling prices experienced throughout 2004 and the first half of 2005, the Segment generated higher profits from selling lower cost inventories. However, because raw material costs and selling prices stabilized in the second half of 2005, the profits realized from this source in the third and fourth quarters of 2005 were substantially less than profits

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realized in 2004 as well as the first two quarters of 2005. The significant increase in unit volume experienced in the fourth quarter came primarily from commodity pipe sales as management focused on improving its market share of commodity pipe. This change in product mix to a higher level of commodity pipe also contributed to the lower margins experienced in the fourth quarter of 2005. Sales of higher margin specialty alloy pipe improved steadily throughout 2005 as unit volumes increased over the same quarter of the prior year for six consecutive quarters starting in the third quarter of 2004. In addition, piping systems benefited from its strong backlog as sales and profitability increased each quarter in 2005 compared to the preceding quarter.

Selling and administrative expense increased \$456,000, or 11 percent in 2005 when compared to 2004, but declined to five percent of sales in 2005 compared to seven percent of sales in 2004. The increase in dollars came primarily from increases in profit based incentives, sales commissions from increased sales, and an increase in general insurance expense. As a result of all of the factors listed above, the Segment experienced significant sales and profit improvement for the year compared to 2004, as the Segment achieved a 49 percent increase in operating income for 2005 and a seven percent increase in the fourth quarter compared to the same periods in 2004.

### Comparison of 2004 to 2003 - Metals Segment

Dollar sales increased 29 percent for the year and 12 percent for the fourth quarter of 2004 from the same periods of 2003. The increase for 2004 resulted from 42 percent higher average selling prices partially offset by seven percent lower unit volumes. The increase for the fourth quarter of 2004 resulted from 77 percent higher average selling prices offset by 36 percent lower unit volumes. Surcharges paid on stainless steel raw materials increased throughout the year increasing from an average of about \$.38 per pound in December 2003 to an average of about \$.78 per pound in December 2004. The Segment was able to pass through most of these cost increases, which accounted for most of the increase in selling prices, and benefited throughout 2004 from selling price increases implemented to offset the continued increases in surcharges included in raw material costs. Because of the steadily increasing raw material and selling prices experienced throughout 2004, the Segment generated higher profits from selling lower cost inventories, which contributed to the significant gross profit improvement experienced for the year and fourth quarter of 2004 compared to the same periods of 2003. The most noteworthy accomplishment in the Segment's pipe business in 2004 was a 72 percent increase in special alloy sales which rose to 21 percent of pipe sales. As of 2004, this was the highest level ever achieved and was the result of the Segment's focus on developing more non-commodity pipe business where profit margins are higher. Although the piping systems business had a loss for 2004, after experiencing three consecutive quarters of losses in 2004, piping systems generated an operating profit for the fourth quarter. The fourth quarter was the first one in 2004 where customers' scheduling requirements allowed piping systems to get a sufficient amount of work into the shop to enable the operation to operate profitably for the quarter. Piping systems' backlog ended the year at \$11,500,000, compared to a \$6,700,000 backlog at the end of 2003.

Selling and administrative expense increased \$753,000, or 23 percent in 2004 when compared to 2003, but remained at seven percent of sales. The increase in dollars came primarily from increases in profit based incentives, sales commissions from increased sales, and bad debt expense. The Company increased its reserves for bad debts to offset exposure from the higher level of accounts receivable consistent with the increase in sales activity experienced through 2004.

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**Specialty Chemicals Segment--** The following tables summarize operating results for the three years indicated. Reference should be made to Note P to the Consolidated Financial Statements.

(Amount in thousands)	2005		2004		2003	
	Amount	%	Amount	%	Amount	%
Net Sales	\$ 44,876	100.0%	\$ 37,274	100.0%	\$ 31,734	100.0%
Cost of goods sold	39,403	87.8%	31,913	85.6%	27,932	88.0%
Gross profit	5,473	12.2%	5,361	14.4%	3,802	12.0%
Selling and administrative Expense	3,834	8.5%	3,822	10.3%	3,910	12.3%
Long-lived asset impairment cost	-	-	-	-	490	1.5%
Operating income (loss)	\$ 1,639	3.7%	\$ 1,539	4.1%	\$ (598)	(1.8%)

## **Comparison of 2005 to 2004- Specialty Chemicals Segment**

The Specialty Chemicals Segment produced strong sales growth of 20 percent and 33 percent for the year and fourth quarter of 2005, respectively. Gross profit for the Segment improved \$112,000, or two percent, but decreased as a percent of sales 2.2 percent to 12.2 percent from 2004's percentage. In the fourth quarter of 2005 compared to 2004, gross profit increased \$191,000 or 20 percent, and decreased as a percent of sales 1.2 percent to 10.3 percent from the fourth quarter of 2004. The Segment experienced favorable business conditions throughout 2005 as demand for its products remained strong. The profit improvement for the year did not keep pace with the sales growth because of increased raw material and operating costs coming primarily from the increase in crude oil prices negatively impacting oil-based raw material costs and utility and transportation costs. Although the Segment implemented selling price increases throughout the year, it was unable to increase prices consistent with the increases in manufacturing costs which caused an erosion of gross profits. Also impacting profitability was the effect of changes in product mix and expenses, including contract tolling, at the Spartanburg plant related to new products and upgrading of the staff in expectation of higher production levels in 2006. The Spartanburg location lost a high margin tolling contract in 2005 that also hurt profitability at the plant. Although the Segment was able to add several new contracts in Spartanburg during the fourth quarter of 2005, they were not placed in production long enough to offset the lost profits.

Selling and administrative expense remained relatively flat in 2005 compared to 2004, and declined as a percent of sales to nine percent in 2005 compared to ten percent in 2004 resulting from management's efforts to maintain an even level of sales and administrative expense to offset the higher manufacturing costs the Segment is experiencing. Management was pleased with the overall performance of the Segment, considering the negative impact of steadily rising raw material and operating costs experienced throughout 2005, as operating income increased slightly to \$1,639,000 and \$265,000 for the year and fourth quarter of 2005, respectively, compared to \$1,539,000 and \$134,000 for the same periods of 2004.

## **Comparison of 2004 to 2003- Specialty Chemicals Segment**

Sales were up \$5,540,000, or 17 percent, gross profits increased \$1,559,000, or 41 percent, and

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operating income was \$1,539,000 compared to a loss of \$598,000 in 2004 compared to 2003, respectively. Favorable market conditions for most of the Segments' products and new product development at the Spartanburg location accounted for the increase in sales. The 41 percent increase in gross profits in 2004 compared to 2003 resulted from improved profitability at all three of the chemical plants, and from a \$481,000 inventory charge in 2003 at the Greensboro plant discussed below. Unlike 2003, the Segment was able to pass some of the higher operating costs during 2004, especially energy costs, to its customers which allowed the Segment to generate additional margin contribution from the increased sales volume. For the fourth quarter of 2004, sales were up \$830,000, or 11 percent and gross profits increased \$610,000, or 167 percent compared to 2003. Fourth quarter operating income was \$146,000 compared to a loss of \$1,120,000 in the fourth quarter of 2003. The modest level of profitability in the fourth quarter of 2004 was caused primarily by poor results at the Spartanburg plant because of the low level of contract campaigns. This location has often had volatility in its production levels quarter to quarter because of the customers' scheduling requirements. Included in operating income in the fourth quarter of 2003 were a \$481,000 inventory charge and a \$490,000 impairment loss. The Segment's pigment business located in Greensboro, North Carolina, experienced a significant downturn in textile business during the last six months of 2003 incurring losses during that period. Although the non-textile portion of the pigment business was growing, it was not expanding fast enough to offset the declining textile business. The reduced volume did not produce sufficient contribution margin to offset operating costs causing the losses. As a result of lost business, mainly from customers closing their operations, the location accumulated excessive inventories with few or no customers available to systematically sell off and or blend off the inventory. As a result, a \$481,000 inventory charge was recorded in the fourth quarter of 2003. Also during the fourth quarter of 2003, the Company completed an impairment assessment on the plant and equipment located at Greensboro and based on the results of the assessment, recorded a \$490,000 impairment loss. See Note B to the Consolidated Financial Statements.

Selling and administrative expense declined \$88,000 in 2004 compared to 2003, and declined as a percent of sales to ten percent in 2004 compared to 12 percent in 2003. The decline came primarily from reduced bad debt expense at OP caused by the need to increase bad debt reserves in 2003 to account for several customer bankruptcies.

For information related to environmental matters, see Note G to the Consolidated Financial Statements.

## **Discontinued Operations**

On July 23, 2003 the Company purchased certain assets of Rite Industries. These assets along with Synalloy's existing textile dye business were placed in a newly formed subsidiary of the Company called Blackman Uhler, LLC (BU Colors) of which 75 percent was owned by the Company. The acquisition provided a new customer base in the paper and other non-textile industries. Total cost of the acquisition was \$200,000 and the Company funded the acquisition with available cash. As a result of the continuing downward trends in the textile industry and poor financial performance of the textile dye business, the Company decided at the end of the fourth quarter of 2003 to divest the liquid dye portion of its dye business servicing the textile industry, and began downsizing the remaining dye business. In the fourth quarter of 2003, a \$290,000 inventory charge was recorded to cost of goods sold to write down inventories related to the liquid dye product lines. On March 25, 2004, the Company entered into an agreement to sell the liquid dye business composed of vat, sulfur, liquid disperse and liquid reactive dyes with annual sales of approximately \$4,500,000 for approximately its net book value, and several customers and related products of the remaining textile dye business were rationalized. Business conditions in the remaining dye business were poor throughout 2004, especially in the first six months, as BU Colors experienced operating losses in every quarter of 2004. In the third quarter of 2004, the Company decided to attempt to sell the remaining dye business and on December 28, 2004, entered into a purchase agreement to sell the dye business. The

terms included the sale of the inventory of BU Colors along with certain equipment and other property associated with the business being sold, and the licensing of certain intellectual property, for a purchase price of approximately \$4,872,000 of which \$4,022,000 was paid at closing, and the balance of \$850,000 was to be paid over time based on the operations of the purchaser. On January 17, 2006, the Company and the purchaser amended the purchase agreement replacing the periodic purchase price payments for a one-time payment of \$400,000 which was received on January 18, 2006, and was reclassified to a current note receivable in the financial statements at December 31, 2005. As a result of the sale of the dye business in 2004, the Company has discontinued the operations of BU Colors and has presented the financial information of BU Colors as discontinued operations, including restating 2003. In December of 2004, the Company completed an impairment assessment in accordance with FAS No. 144, on the plant and equipment located at the Spartanburg facility related to the BU Colors operations. As a result, the Company recognized an impairment loss of \$581,000 from the write down of plant and equipment. Reference should be made to Notes B and O to the Consolidated Financial Statements.

#### **Unallocated Income and Expense**

Reference should be made to Note P to the Consolidated Financial Statements for the schedule that includes these items.

#### **Comparison of 2005 to 2004 - Corporate**

Corporate expense increased \$470,000, or 30 percent, to \$2,042,000 for 2005 compared to 2004. The increase resulted primarily from environmental expenses of \$719,000, compared to \$572,000 in 2004, which includes accruing environmental remediation costs of \$311,000 at the Spartanburg facility and \$300,000 at the Augusta facility, closed in 2001. Reference should be made to Note G to the Consolidated Financial Statements. Also contributing to the increase were increased professional fees and general insurance expenses. Interest expense in 2005 decreased \$147,000 in 2005 from 2004 from decreases in borrowings offset by increases in the prime interest rate under the lines of credit with a lender.

#### **Comparison of 2004 to 2003 - Corporate**

Corporate expense increased \$589,000, or 60 percent, to \$1,572,000 for 2004 compared to 2003. The increase resulted primarily from the addition of environmental expenses of \$572,000 to accrue for \$372,000 of environmental remediation costs in the fourth quarter of 2004 at the Spartanburg facility and from the recording of a \$200,000 environmental charge in the second quarter of 2004 to reflect the settlement with the Environmental Protection Agency of the Company's obligation as a Potentially Responsible Party in the clean up of a waste disposal site. Reference should be made to Note G to the Consolidated Financial Statements. Interest expense in 2004 increased \$131,000 in 2004 from 2003 from increases in borrowings and the prime interest rate under the lines of credit with a lender.

#### **Current Conditions and Outlook**

In the Metals Segment, piping systems' backlog continues at an excellent level, totaling \$20,100,000 at the end of 2005 which is up 75 percent over the year earlier backlog of \$11,500,000 and is expected to be completed in 2006. A significant amount of the increase came from an LNG project to be completed over the first half of 2006. Piping systems' backlog should continue to provide a level of sales for piping systems to operate profitably over the next several quarters. Specialty alloy sales continue to be strong and management remains optimistic about the current conditions that exist in the specialty alloy markets. The Segment has been successful in penetrating new markets, such as projects in the LNG and waste water industries, where management believes there is significant growth potential. If piping systems can continue to generate sufficient volume through its operations, and demand for commodity and special alloy piping continue at their current levels, management believes this Segment will continue to operate profitably.

In the Specialty Chemicals Segment, management is focusing on increasing sales volumes at the Spartanburg location and is anticipating adding new products throughout 2006. Included in this effort is a new line of fire retardant chemicals. Sales order activity for fire retardant products has increased steadily over 2005 to a variety of customers. Applications for this new line of chemicals include mattresses, furniture and home appliances, which are subject to Federal fire retardant regulations that will be implemented on July 1, 2007. Regulations already exist in California requiring mattress manufacturers to utilize fire retardant products that conform to the new regulations in their production process beginning on January 1, 2005. Qualifications of the Segment's products continue to have good success in each of the applications. In addition, these products offer a cost effective and safer alternative than certain compounds used in products currently servicing these industries. Based on the positive test results these products continue to achieve, management expects the demand for fire retardant products to continue to increase and grow into significant volumes by the end of 2006. The Segment moved OP's operations from Greensboro, NC to Spartanburg in the first quarter of 2006. The Greensboro plant has been closed and the Company has entered into a contract to sell the property which is expected to close in April of 2006. Management is not expecting to record any loss from the move as the anticipated profit from the sale of the property is expected to cover the cost of the move. Consolidating the two operations will provide operating efficiencies including lower operating costs, and coupled with the expected proprietary product growth, should reduce the Spartanburg plant's dependence on contract processing and reduce the volatility of its operating results. Assuming that management is successful in developing new business opportunities, including the proprietary products in its Spartanburg location, and that no significant downturn in the general economy occurs, management expects this Segment to continue its growth.

Excellent cash flow of \$14,585,000 from operating activities and discontinued operations made it possible to finance the increased level of business activity while reducing debt by \$12,648,000 during 2005. The Company ended the year in a very strong financial position, with debt equal to only 17 percent of capitalization (debt plus equity). The Company is well positioned to finance the growth that management is focused on achieving.

#### **Item 7a Quantitative and Qualitative Disclosures About Market Risks**

The Company is exposed to market risks from adverse changes in interest rates. In this regard, changes in U. S. interest rates affect the interest earned on the Company's cash and cash equivalents as well as interest paid on its indebtedness. Except as described below, the Company does not engage in speculative or leveraged transactions, nor does it hold or issue financial instruments for trading purposes. The Company is exposed to changes in interest rates primarily as a result of its borrowing activities used to maintain liquidity and fund business operations.

Fair value of the Company's debt obligations, which approximated the recorded value, consisted of:

At December 31, 2005

\$ 8,557,000 under a \$27,000,000 line of credit expiring December 31, 2010 with a variable interest rate of 5.79 percent.

At January 1, 2005

\$21,205,000 under a \$23,000,000 line of credit expiring July 25, 2006 with an average variable interest rate of 4.95 percent.

The Company is a party to derivative instruments that are designated and qualify as hedges under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" and related pronouncements. Cash flow and fair value hedges are hedges that eliminate the risk of changes in the fair values of assets, liabilities and certain types of firm

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commitments. The Company's objective in using these instruments is to protect its earnings and cash flows from interest rate risks on its long-term indebtedness and fluctuations in the fair value of commodities used in the Company's stainless steel raw materials. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking the hedge transactions. In this documentation, the Company specifically identifies the asset, liability and non-cancelable commitment that has been designated as a hedged item and states how the hedging instrument is expected to hedge the risks related to that item. The Company formally measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis. The Company discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; when the derivative expires; when it is probable that the forecasted transaction will not occur; when a hedged firm commitment no longer meets the definition of a firm commitment; or when management determines that designation of the derivative as a hedge instrument is no longer appropriate.

Cash flow hedges are hedges that use simple derivatives to offset the variability of expected future cash flows. Variability can appear in floating rate liabilities and can arise from changes in interest rates. The Company uses an interest rate swap in which it pays a fixed rate of interest while receiving a variable rate of interest to change the cash flow profile of its variable-rate borrowing to match a fixed rate profile. The Company then designates this swap as a cash flow hedge of the associated variable-rate borrowing. As discussed in Note E to the Consolidated Financial Statements, the Company entered into a long-term debt agreement with its bank and pays interest based on a variable interest rate. To mitigate the variability of the interest rate risk, the Company entered into a hedge contract in February of 2006 with the bank, coupled with a third party who will pay a variable rate of interest (an "interest rate swap"). The interest rate swap is for \$4,500,000 with a fixed interest rate of 5.27 percent, and runs from March 1, 2006 to December 31, 2010, which equates to the final payment amount and due date of the term loan. The Company has designated this swap as a cash flow hedge of the associated variable-rate borrowing. If, as expected, the derivative is perfectly effective in offsetting variable interest in the borrowing, changes in its fair value will be recorded in a separate component in equity, and then released to earnings contemporaneously with the earnings effects of the term loan.

In the ordinary course of business, the Company's income and cash flows may be affected by fluctuations in the price of nickel which is a component of stainless steel raw materials used in its production of stainless steel pipe. The Company is subject to raw material surcharges on the nickel component from its stainless steel suppliers. For certain non-cancelable fixed price sales contracts having delivery dates in the future, the Company is not able to obtain fixed price purchase commitments to cover the nickel surcharge component of the stainless steel raw material requirements of the sales contract creating a cost exposure from fluctuations in the nickel surcharges. Where such exposure exists, the Company considers the use of cash settled commodity price swaps with durations approximately equal to the expected delivery dates of the applicable raw materials to hedge the price of its nickel requirements. The Company designates these instruments as fair value hedges and the resulting changes in their fair value are recorded as inventory costs. Subsequent gains and losses are recognized into cost of products sold in the same period as the underlying physical transaction. While these hedging activities may protect the Company against higher nickel prices, they may also prevent realizing possible lower raw material costs in the event that the market price of nickel falls below the price stated in a forward sale or futures contract. There were no outstanding hedging contracts at December 31, 2005.

## Item 8 Financial Statements and Supplementary Data

The Company's consolidated financial statements, related notes, report of management and report of the independent auditors follow on subsequent pages of this report.

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### Consolidated Statements of Operations

Years ended December 31, 2005, January 1, 2005 and January 3, 2004

	2005	2004	2003
<b>Net sales</b>	<b>\$128,926,790</b>	\$ 99,839,004	\$ 80,407,856
Cost of sales	<b>112,145,371</b>	85,862,952	72,018,585
Gross profit	<b>16,781,419</b>	13,976,052	8,389,271
Selling, general and administrative expense	<b>10,369,188</b>	9,431,583	8,177,000
Long-lived asset impairment costs (Note B)	-	-	490,000
Operating income (loss)	<b>6,412,231</b>	4,544,469	(277,729)
Other (income) and expense			
Gain on trade case settlement (Note B)	<b>(2,541,950)</b>	-	-
Loss on write-off of note receivable (Note B)	<b>840,000</b>	-	-
Interest expense	<b>919,812</b>	1,067,089	936,490
Other, net	<b>(83,995)</b>	(52)	(339,839)
Income (loss) from continuing operations before income taxes	<b>7,278,364</b>	3,477,432	(874,380)
Provision for (benefit from) income taxes	<b>2,131,000</b>	1,203,000	(294,000)
Net income (loss) from continuing operations	<b>5,147,364</b>	2,274,432	(580,380)
Loss from discontinued operations	<b>(73,413)</b>	(1,671,314)	(1,276,268)
Benefit from income taxes	<b>(22,000)</b>	(571,000)	(436,000)
Net loss from discontinued operations (Note O)	<b>(51,413)</b>	(1,100,314)	(840,268)
<b>Net income (loss)</b>	<b>\$ 5,095,951</b>	\$ 1,174,118	\$(1,420,648)
<b>Net income (loss) per basic common share:</b>			
Net income (loss) from continuing operations	<b>\$ .85</b>	\$.38	\$(.10)
Net loss from discontinued operations	<b>(\$ .01)</b>	(\$ .18)	(\$ .14)
<b>Net income (loss)</b>	<b>\$ .84</b>	\$.20	\$(.24)
<b>Net income (loss) per diluted common share:</b>			
Net income (loss) from continuing operations	<b>\$ .84</b>	\$.37	\$(.10)
Net loss from discontinued operations	<b>(\$ .01)</b>	(\$ .18)	(\$ .14)
<b>Net income (loss)</b>	<b>\$ .83</b>	\$.19	\$(.24)

See accompanying notes to consolidated financial statements.

### Consolidated Balance Sheets

December 31, 2005 and January 1, 2005

	2005	2004
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 2,379	\$ 292,350
Accounts receivable, less allowance for doubtful accounts of \$1,039,000 and \$678,000, respectively	21,862,852	14,471,257
Inventories		
Raw materials	10,366,091	12,502,420
Work-in-process	8,560,707	5,823,339
Finished goods	5,555,529	8,024,373
Total inventories	24,482,327	26,350,132
Deferred income taxes (Note K)	1,219,000	933,000
Prepaid expenses and other current assets (Note O)	427,728	263,913
Current assets of discontinued operations (Note O)	-	5,383,372
Total current assets	47,994,286	47,694,024
Cash value of life insurance	2,639,514	2,554,099
Property, plant and equipment, net (Note C)	18,697,760	18,228,863
Deferred charges, net and other assets (Note D)	1,650,622	2,725,363
<b>Total assets</b>	<b>\$ 70,982,182</b>	<b>\$ 71,202,349</b>

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December 31, 2005 and January 1, 2005

	2005	2004
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Current portion of long-term debt (Note E)	\$ 466,667	\$ -
Accounts payable	11,191,861	8,086,458
Accrued expenses (Note F)	5,846,899	2,243,101
Current portion of environmental reserves (Note G)	104,199	916,754
Income taxes	1,720,702	10,609
Current liabilities of discontinued operations (Note O)	-	1,349,316
Total current liabilities	19,330,328	12,606,238
Long-term debt (Note E)	8,090,554	21,205,066
Environmental reserves (Note G)	611,000	204,000
Deferred compensation (Note H)	541,962	542,217
Deferred income taxes (Note K)	3,112,000	2,715,000
Shareholders' equity (Notes I and J)		
Common stock, par value \$1 per share - authorized 12,000,000 shares; issued 8,000,000 shares	8,000,000	8,000,000
Retained earnings	47,329,620	42,553,345

	<b>55,329,620</b>	50,553,345
Less cost of common stock in treasury: 1,892,160 and 1,980,436 shares, respectively	<b>16,033,282</b>	16,623,517
	<b>39,296,338</b>	33,929,828
<b>Total shareholders' equity</b>	<b>\$ 70,982,182</b>	\$ 71,202,349

See accompanying notes to consolidated financial statements.

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### Consolidated Statements of Shareholders' Equity

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Cost of Common Stock in Treasury	Total
Balance at December 28, 2002	\$ 8,000,000	\$ 9,491	\$ 42,952,216	\$(17,087,361)	\$ 33,874,346
Net loss			(1,420,648)		(1,420,648)
Issuance of common stock from the treasury		(9,491)	(97,731)	209,846	102,624
Balance at January 3, 2004	8,000,000	-	41,433,837	(16,877,515)	32,556,322
Net income			1,174,118		1,174,118
Issuance of common stock from the treasury		5,292		119,697	124,989
Stock options exercised		(5,292)	(54,610)	134,301	74,399
Balance at January 1, 2005	8,000,000	-	42,553,345	(16,623,517)	33,929,828
<b>Net income</b>			<b>5,095,951</b>		<b>5,095,951</b>
<b>Issuance of common stock from the treasury</b>		<b>32,774</b>		<b>92,231</b>	<b>125,005</b>
<b>Stock options exercised</b>		<b>(32,774)</b>	<b>(319,676)</b>	<b>498,004</b>	<b>145,554</b>
<b>Balance at December 31, 2005</b>	<b>\$ 8,000,000</b>	<b>\$ -</b>	<b>\$ 47,329,620</b>	<b>\$(16,033,282)</b>	<b>\$ 39,296,338</b>

See accompanying notes to consolidated financial statements.

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### Consolidated Statements of Cash Flows

Years ended December 31, 2005, January 1, 2005 and January 3, 2004

	<u>2005</u>	<u>2004</u>	<u>2003</u>
		(Revised)	(Revised)
		(See Note A)	(See Note A)
<b>Operating activities</b>			
Net income (loss) from continuing operations	<b>\$ 5,147,364</b>	\$ 2,274,432	\$ (580,380)
Adjustments to reconcile net income (loss) to net cash provided by (used in) continuing operating activities:			
Depreciation expense	<b>2,675,321</b>	2,565,948	2,596,171

Amortization of deferred charges	<b>186,602</b>	501,724	380,016
Deferred income taxes	<b>111,000</b>	573,000	(745,000)
Provision for losses on accounts receivable	<b>511,771</b>	610,525	189,010
Provision for write-down of note receivable	<b>840,000</b>	-	-
Provision for write-down of inventories	-	-	481,000
Provision for write-down of property, plant and Equipment	-	-	490,000
Loss (gain) on sale of property, plant and equipment	<b>96,720</b>	9,607	(1,756)
Cash value of life insurance	<b>(85,415)</b>	(86,642)	(86,158)
Environmental reserves	<b>(405,555)</b>	276,251	(739,647)
Issuance of treasury stock for director fees	<b>125,005</b>	124,989	102,624
Changes in operating assets and liabilities:			
Accounts receivable	<b>(7,825,011)</b>	(3,237,757)	(1,727,492)
Inventories	<b>1,867,805</b>	(7,836,262)	(2,649,840)
Other assets and liabilities	<b>(222,286)</b>	(36,430)	(696,691)
Accounts payable	<b>3,105,403</b>	398,623	1,003,232
Accrued expenses	<b>3,603,798</b>	75,057	664,245
Income taxes payable	<b>1,710,093</b>	10,609	2,597,696
	-----	-----	-----
Net cash provided by (used in) continuing operating activities	<b>11,442,615</b>	(3,776,326)	1,277,030
Net cash provided by (used in) discontinued operating activities	<b>3,982,643</b>	4,396,707	(5,048,467)
	-----	-----	-----
<b>Net cash provided by (used in) operating activities</b>	<b>15,425,258</b>	620,381	(3,771,437)
<b>Investing activities</b>			
Purchases of property, plant and equipment	<b>(3,245,588)</b>	(2,313,219)	(1,324,656)
Proceeds from sale of property, plant and equipment	<b>4,650</b>	10,887	11,862
Decrease (increase) in notes receivable	<b>28,000</b>	(428,000)	346,690
	-----	-----	-----
Net cash used in continuing operations investing activities	<b>(3,212,938)</b>	(2,730,332)	(966,104)
Net cash used in discontinued operations investing activities	-	(116,859)	(208,332)
	-----	-----	-----
<b>Net cash used in investing activities</b>	<b>(3,212,938)</b>	<b>(2,847,191)</b>	<b>(1,174,436)</b>

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**Financing activities**

Net (payments on) proceeds from revolving lines of credit	(8,647,845)	2,443,651	898,327
Proceeds from stock options exercised	145,554	74,399	-
	-----	-----	-----
Net cash (used in) provided by continuing operations			
financing activities	(8,502,291)	2,518,050	898,327
Net cash (used in) provided by discontinued operations			
financing activities	(4,000,000)	-	4,000,000
	-----	-----	-----
<b>Net cash (used in) provided by financing activities</b>	<b>(12,502,291)</b>	<b>2,518,050</b>	<b>4,898,327</b>
	-----	-----	-----
(Decrease) increase in cash and cash equivalents	(289,971)	291,240	(47,546)
Cash and cash equivalents at beginning of year	292,350	1,110	48,656
	-----	-----	-----
<b>Cash and cash equivalents at end of period</b>	<b>\$ 2,379</b>	<b>\$ 292,350</b>	<b>\$ 1,110</b>
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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## Notes to Consolidated Financial Statements

### Note A Summary of Significant Accounting Policies

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

**Reclassification.** For comparative purposes, certain amounts in the 2004 and 2003 financial statements have been reclassified to conform with the 2005 presentation.

**Revision of the 2004 and 2003 Cash Flow Statements.** In 2005 the Company has separately disclosed the operating, investing and financing portions of the cash flows attributable to its discontinued operations, which in prior periods were reported on a combined basis as a single amount. The cash flow statements for 2004 and 2003 have been revised to conform to the 2005 presentation.

**Use of Estimates.** The preparation of the financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Accounting Period.** The Company's fiscal year is the 52- or 53-week period ending the Saturday nearest to December 31. Fiscal year 2005 ended on December 31, 2005, fiscal year 2004 ended on January 1, 2005, and fiscal year 2003 ended on January 3, 2004. The 2005 and 2004 fiscal years included 52 weeks and 2003 fiscal year included 53 weeks.

**Revenue Recognition.** Revenue from product sales is recognized at the time ownership of goods transfers to the customer and the earnings process is complete. Shipping costs of approximately \$1,881,000, \$1,443,000 and \$1,617,000 in 2005, 2004 and 2003, respectively, are recorded as a reduction of sales.

**Inventories.** Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method. The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and current market conditions.

**Long-Lived Assets.** Property, plant and equipment are stated at cost. Depreciation is provided on the straight-line method over the estimated useful life of the assets. Land improvements and buildings are depreciated over a range of ten to 40 years, and machinery, fixtures and equipment are depreciated over a range of three to 20 years.

The costs of software licenses are amortized over five years using the straight-line method. Debt expenses are amortized over the period of the underlying debt agreement using the straight-line method.

Intangibles arising from acquisitions represent the excess of cost over fair value of net assets of businesses acquired. Goodwill and indefinite lived intangible assets are not amortized but are reviewed annually for impairment. Other intangible assets that are not deemed to have an indefinite life are amortized over their useful lives.

The Company continually reviews the recoverability of the carrying value of long-lived assets. The Company also reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. When the future undiscounted cash flows of the operation to which the assets relate do not exceed the carrying value of the asset, the assets are written down to fair value.

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**Cash Equivalents.** The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Concentrations of Credit Risk.** Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of trade accounts receivable and cash surrender value of life insurance.

Accounts receivable from the sale of products are recorded at net realizable value and the Company grants credit to customers on an unsecured basis. Substantially all of the Company's accounts receivable are due from companies located throughout the United States. The Company provides an allowance for doubtful collections that 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 collateral. Receivables are generally due within 30 to 45 days. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

The cash surrender value of life insurance is the contractual amount on policies maintained with one insurance company. The Company performs a periodic evaluation of the relative credit standing of this company as it relates to the insurance industry.

**Research and Development Expense.** The Company incurred research and development expense of approximately \$566,000, \$551,000 and \$457,000 in 2005, 2004 and 2003, respectively.

**Fair Value of Financial Instruments.** The carrying amounts reported in the balance sheet for cash and cash equivalents, trade accounts receivable, cash surrender value of life insurance, investments and borrowings under the Company's line of credit approximates their fair value.

**Stock Options.** The Company accounts for stock options under Accounting Principles Board Opinion 25 (APB 25), "Accounting for Stock Issued to Employees," and Statement of Financial Accounting Standards No. 148 (SFAS No. 148), "Accounting for Stock-Based Compensation Transition and Disclosure" which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. (See Note J)

In December 2004, the Financial Accounting Standards Board enacted Statement of Financial Accounting Standards 123-revised 2004 ("SFAS 123R"), "Share-Based Payment" which replaces SFAS 123 and supersedes APB 25. SFAS 123R requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in the consolidated statements of operations. The accounting provisions of SFAS 123R are effective for reporting periods beginning after June 15, 2005. For transition, upon adoption on January 1, 2006, SFAS 123R will require the Company to expense the unvested portion of options, reducing net earnings by approximately \$49,000 in 2006 and by a similar amount over the next three years. SFAS 123R also will require changing the classification of certain tax benefits from options deductions to financing rather than operating cash flows and the effects of these future tax deductions on net earnings will depend on several variables.

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## **Note B Special Items**

*Other Income and Expense:* In 2003, the Company in conjunction with a group of domestic stainless steel pipe producers (the "Domestic Producers") filed a claim with the U.S. Bureau of Customs and Border Protection pursuant to Federal regulations requesting the distribution of antidumping duties levied against a foreign producer and importer (the "Importer") of stainless steel pipe under the Continued Dumping and Subsidiary Offset Act ("CDSOA") for the time period June 22, 1992 through November 30, 1994. The Domestic Producers entered into an agreement with the Importer to facilitate a settlement of the claim which called for the Domestic Producers to retain 63 percent of monies to be paid by the Importer owed under the CDSOA in return for the Importer ending years of litigation and expeditiously paying the duties and interest to Customs. In December of 2005, the Company received a distribution of its share of funds totaling \$4,483,000 of which \$2,542,000 was recorded as a gain in other income, and \$1,866,000 was recorded as a current liability in accrued expenses, including \$1,584,000 which was paid to the Importer in January 2006 under the terms of the agreement. In December 2005, Congress repealed the CDSOA program, effective with imports entered after October 1, 2007. (See Note F)

As a part of the acquisition of OP in 1998, the Company obtained an \$840,000 note receivable from an affiliated company in which OP owns 45 percent. The affiliated company has as its primary asset a minority investment in a Chinese pigment plant under a joint venture agreement that expires in 2008 from which OP purchases some of its raw materials. The joint venture had been profitable

since 1998, but is expected to report an operating loss for 2005 and has indicated that market and operating conditions are not expected to improve and it is anticipating incurring losses going forward. Based on the current and anticipated operating losses of the joint venture and other factors the Company was able to ascertain, the likelihood that the affiliated company will be able to repay the note receivable is unlikely. The receivable was written off at December 31, 2005 and the \$840,000 loss was included in other expense.

*Accounting for the Impairment of Long-Lived Assets.* During the fourth quarter of 2003, the Company completed an impairment assessment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), on the plant and equipment located at Greensboro, North Carolina. Pigment sales to the textile industry out of the Greensboro plant declined steadily through the year, especially in the last six months of 2003 and as a result the plant had become underutilized generating operating losses over the last six months of 2003, primarily because of deteriorating market conditions in the textile industry. After completing an analysis of the business at the site and exploring other options that were available, it became apparent that the facility could not adequately recover the fixed costs related to the facility under current business conditions. This resulted in the recording of a \$490,000 impairment loss in the fourth quarter of 2003 on the plant and equipment. The impairment loss was calculated based on the excess of the carrying amount of the long-lived assets over their fair value. Management utilized its best estimate to determine fair values including market conditions, experience in acquiring and disposing of similar plant and equipment, and estimates of future cash flows, to test for recoverability of the long-lived assets.

In 2002 the Company completed an impairment assessment on the plant and equipment located at Spartanburg, South Carolina. The Spartanburg plant was substantially underutilized and generating operating losses, primarily because of deteriorating market conditions. The Company began experiencing certain indications that the operations at this site were deteriorating further, including the unexpected loss of anticipated dye business, increases in pricing pressure from competitors, and reductions in expected revenues in the specialty chemical tolling business. As a result, the Company revised its business plans and projections to better reflect what management believed were current market conditions. After completing an analysis of the business at the site and exploring other options that were available, it became apparent that the facility could not adequately recover the fixed costs related to the facility under current business conditions. This resulted in the recording of an impairment loss on the plant and equipment in 2002, calculated as described above. The impairment assessments

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at Spartanburg were updated for the 2004 and 2003 year-ends which resulted in the recording of additional write-downs of \$581,000 in 2004 and \$191,000 in 2003 against plant and equipment utilized by discontinued operations. (See Note O) The impairment assessments at both facilities have been updated through the 2005 year-end and no additional write-downs were deemed necessary at either the Greensboro location or the continuing operations at the Spartanburg location.

*Other Special Charges.* As discussed above, the Specialty Chemicals Segment's pigment business, located in Greensboro, North Carolina, experienced a significant downturn in textile business during the last six months of 2003. As a result of lost business, mainly from customers closing their operations, the location accumulated excessive inventories with few or no customers available to systematically sell or blend off the inventory. As a result a \$481,000 inventory charge was recorded to cost of goods sold in the fourth quarter of 2003.

### Note C Property, Plant and Equipment

Property, plant and equipment consist of the following:

	2005	2004
	-----	-----
Land	\$ 406,868	\$ 406,868
Land improvements	951,934	949,378
Buildings	11,109,234	11,119,115
Machinery, fixtures and equipment	43,922,988	42,132,203
Construction-in-progress	1,653,309	1,153,699
	-----	-----
	58,044,333	55,761,263
Less accumulated depreciation	39,346,573	37,532,400
	-----	-----
Total property, plant & equipment	\$18,697,760	\$18,228,863
	=====	=====

### Note D Deferred Charges and Other Assets

Deferred charges and other assets consist of the following:

	2005	2004
	-----	-----

Deferred charges		
Goodwill	\$ 1,354,730	\$ 1,354,730
Product license agreements	150,000	150,000
Debt expense	184,000	913,285
	-----	-----
	1,688,730	2,418,015
Less accumulated amortization	57,500	955,785
	-----	-----
Total deferred charges, net	1,631,230	1,462,230
Notes receivable	-	1,216,000
Other	19,392	47,133
	-----	-----
Total deferred charges, net and other assets	\$ 1,650,622	\$ 2,725,363
	=====	=====

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#### Note E Long-term Debt

	2005	2004
	-----	-----
\$ 15,000,000 Revolving line of credit	\$ 1,557,221	\$ -
\$ 7,000,000 Term loan	7,000,000	-
\$ 23,000,000 Revolving line of credit	-	21,205,066
	-----	-----
	8,557,221	21,205,066
Less current portion of term loan	466,667	-
	-----	-----
	\$ 8,090,554	\$ 21,205,066
	=====	=====

On December 13, 2005, the Company entered into a Credit Agreement with a lender to provide a \$27,000,000 line of credit expiring on December 31, 2010, and refinanced the Company's existing bank indebtedness. The Credit Agreement provides for a revolving line of credit of \$20,000,000, which includes a \$5,000,000 sub-limit for swing-line loans requiring additional pre-approval by the bank, and a five-year \$7,000,000 term loan requiring equal quarterly payments of \$117,000 with a balloon payment at the expiration date. Current interest rates are LIBOR plus 1.50 percent, and can vary based on EBITDA performance from LIBOR plus 1.50 percent to LIBOR plus 3.00 percent. The rate at December 31, 2005 was 5.79 percent. Borrowings under the revolving 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 Credit Agreement. As of December 31, 2005, the amount available for borrowing was \$15,000,000 of which \$1,557,000 was borrowed leaving \$13,443,000 of availability.

Borrowings under the Credit Agreement are collateralized by substantially all of the assets of the Company. At December 31, 2005, the Company was in compliance with its debt covenants which include, among others, maintaining certain EBITDA, fixed charge and tangible net worth amounts.

Average borrowings outstanding during fiscal 2005, 2004 and 2003 were \$12,659,000, \$19,338,000 and \$14,923,000 with weighted average interest rates of 5.84 percent, 4.17 percent and 3.82 percent, respectively. The Company made interest payments of \$873,000 in 2005, \$798,000 in 2004, and \$747,000 in 2003. The amount of long-term debt maturities for the next five years is as follows: 2006 - \$466,667; 2007 - \$466,667; 2008 - \$466,667; 2009 - \$466,667; and 2010 - \$6,223,886.

On February 23, 2006, the Company entered into an interest rate swap contract with its bank for \$4,500,000 at a fixed interest rate of 5.27 percent. The contract runs from March 1, 2006 to December 31, 2010, which equates to the final payment amount and due date of the term loan. (See Note R)

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#### Note F Accrued Expenses

Accrued expenses consist of the following:

	2005	2004
	-----	-----
Amounts owed under duty payment agreement (Note B)	\$ 1,866,207	\$ -
Salaries, wages and commissions	1,247,502	948,110
Advances from customers	1,254,404	467,727

Insurance	524,029	121,737
Interest	40,871	111,189
Benefit plans	176,341	135,681
Taxes, other than income taxes	225,291	205,318
Professional fees	181,320	75,758
Other accrued items	330,934	177,581
	-----	-----
Total accrued expenses	\$ 5,846,899	\$ 2,243,101
	=====	=====

### Note G Environmental Compliance Costs

At December 31, 2005, the Company has accrued \$715,000 in remediation costs which, in management's best estimate, will satisfy anticipated costs of known remediation requirements as outlined below. Expenditures related to costs currently accrued are not discounted to their present values and are expected to be made over the next three to four years. As a result of the evolving nature of the environmental regulations, the difficulty in estimating the extent and remedy of environmental contamination, and the availability and application of technology, the estimated costs for future environmental compliance and remediation are subject to uncertainties and it is not possible to predict the amount or timing of future costs of environmental matters which may subsequently be determined. Subject to the difficulty in estimating future environmental costs, the Company believes that the likelihood of material losses in excess of the amounts recorded is remote.

Prior to 1987, the Company utilized certain products at its chemical facilities that are currently classified as hazardous material. Testing of the groundwater in the areas of the treatment impoundments at these facilities disclosed the presence of certain contaminants. In addition, several solid waste management units ("SWMUs") at the plant sites have been identified. In 1998 the Company completed an RCRA Facility Investigation at its Spartanburg plant site, and based on the results, completed a Corrective Measures Study in 2000. A Corrective Measures Plan specifying remediation procedures to be performed was submitted in 2000 and the Company received regulatory approval. During 2005, a remediation project was completed to clean up two of the three remaining SWMUs on the Spartanburg plant site at a cost of approximately \$530,000 which was accrued at January 1, 2005. The Company is in the process of completing an analysis of the remaining SWMU and has accrued \$311,000 to provide for completion of this project.

At the Augusta plant site, the Company submitted a Risk Assessment and Corrective Measures Plan for regulatory approval. A Closure and Post-Closure Care Plan was submitted and approved in 2001 for the closure of the surface impoundment. The Company completed the surface impoundment during 2002. During the fourth quarter of 2005, the Company completed a preliminary analysis based on the risk assessment of the surface contamination at the site, and accrued \$300,000 in the fourth quarter for additional estimated future remedial and cleanup costs.

The Company has identified and evaluated two SWMUs at its plant in Bristol, Tennessee that revealed residual groundwater contamination. An Interim Corrective Measures Plan was submitted for regulatory approval in 2000 to address the final area of contamination identified which was approved in March of

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2005. The Company has \$72,000 accrued at December 31, 2005, to provide for estimated future remedial and cleanup costs.

The Company had been designated, along with others, as a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act, or comparable state statutes, at two waste disposal sites. The Company settled its obligations at both of the sites paying \$97,000 and \$196,000 in the first quarter of 2005 both of which were accrued at January 1, 2005.

The Company does not anticipate any insurance recoveries to offset the environmental remediation costs it has incurred. Due to the uncertainty regarding court and regulatory decisions, and possible future legislation or rulings regarding the environment, many insurers will not cover environmental impairment risks, particularly in the chemical industry. Hence, the Company has been unable to obtain this coverage at an affordable price.

### Note H Deferred Compensation

The Company has deferred compensation agreements with certain former officers providing for payments for ten years in the event of pre-retirement death or the longer of ten years or life beginning at age 65. The present value of such vested future payments, \$542,000 at December 31, 2005, has been accrued.

### Note I Shareholders' Rights

The Company has a Shareholders' Rights Plan (the "Plan") which expires in March 2009. Under the terms of the Plan, the Company declared a dividend distribution of one right for each outstanding share to holders of record at the close of business on

March 26, 1999. Each Right entitles holders to purchase 2/10 of one share of Common Stock at a price of \$25.00 per share. Initially, the Rights are not exercisable and will automatically trade with the Common Stock. Each right becomes exercisable only after a person or group acquires more than 15 percent of the Company's Common Stock, or announces a tender or exchange offer for more than 15 percent of the stock. At that time, each right holder, other than the acquiring person or group, may use the Right to purchase \$25.00 worth of the Company's Common Stock at one-half of the then market price.

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## Note J Stock Options

A summary of activity in the Company's stock option plans is as follows:

	Weighted Average Exercise Price	Outstanding	Available
At December 28, 2002	\$ 8.52	603,250	205,750
Granted	\$ 6.12	97,000	(97,000)
Exercised	\$ -	-	
Cancelled		(50,250)	50,250
Expired		(55,500)	-
At January 3, 2004	\$ 8.06	594,500	159,000
Granted	\$ -	-	-
Exercised	\$ 4.65	(16,000)	
Cancelled		(32,500)	32,500
Expired		(41,000)	(18,500)
At January 1, 2005	\$ 7.93	505,000	173,000
Granted	\$ 9.96	80,000	(80,000)
Exercised	\$ 5.89	(137,850)	
Cancelled		(106,100)	106,100
Expired		(9,500)	-
At December 31, 2005	\$ 9.64	331,550	199,100

The following table summarizes information about stock options outstanding at December 31, 2005:

Range of Exercise Prices	Outstanding Stock Options			Exercisable Stock Options	
	Shares	Weighted Average Exercise Price	Remaining Contractual Life in Years	Shares	Weighted Average Exercise Price
\$ 18.88	14,500	\$ 18.88	0.32	14,500	\$ 18.88
\$ 15.13	71,000	\$ 15.13	1.32	71,000	\$ 15.13
\$ 13.63	4,500	\$ 13.63	2.32	4,500	\$ 13.63
\$ 7.28 to \$ 7.75	74,750	\$ 7.70	3.39	74,750	\$ 7.70
\$ 6.75	4,500	\$ 6.75	4.38	4,500	\$ 6.75
\$ 5.01	6,000	\$ 5.01	5.32	6,000	\$ 5.01
\$ 4.65	76,300	\$ 4.65	6.31	76,300	\$ 4.65
\$ 9.96	80,000	\$ 9.96	9.09	24,144	\$ 9.96
	331,550			275,694	

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The Company has three stock option plans. It grants to non-employee directors, officers and key employees options to purchase common stock of the Company under the 1998 Plan. Options were granted through January 28, 1998 under the 1988 Plan, and under the 1994 Plan, options were granted through April 29, 2004. Options may be granted through April 30, 2008 under the 1998 Plan at a price not less than the fair value on the date of grant. Under the 1988 and 1998 Plans, options may be exercised beginning one year after date of grant at a rate of 20 percent annually on a cumulative basis. Under the 1994 Non-Employee

Directors' Plan, options may be exercised at the date of grant. On December 20, 2005, the Board of Directors of the Company passed a resolution to accelerate the vesting schedules of substantially all outstanding unvested options issued to officers and key employees effective as of the date of the resolution. The Company has determined that the modification to accelerate vesting will not require recognition of compensation cost in its financial statements for the year ended December 31, 2005 under the provisions of APB 25. As a result, 40,000 options with an exercise price of \$4.65 became fully vested, 20,000 that would have fully vested on April 25, 2006, and 20,000 that would have fully vested on April 25, 2007, and 24,144 options with an exercise price of \$9.96 became fully vested, 16,000 that would have fully vested on February 3, 2006, 3,598 that would have fully vested on February 3, 2007, and 4,546 that would have vested at 2,000 per year on February 3, 2008 and 2009 and 546 in 2010. At the 2005 and 2004 respective year ends, 275,694 and 318,200 shares of the options outstanding were fully exercisable.

The Company has elected to apply the provisions of APB 25 in the computation of compensation expense. Under APB No. 25's intrinsic value method, compensation expense is determined by computing the excess of the market price of the shares over the exercise price on the measurement date. For the Company's options, the intrinsic value on the measurement date (or grant date) is zero, and no compensation expense is recognized. SFAS 123R requires the Company to disclose pro forma net income and income per share as if a fair value based accounting method had been used in the computation of compensation expense. The fair value of the options computed under SFAS 123R would be recognized over the vesting period of the options. The fair value for the Company's options granted subsequent to December 31, 1994 was estimated at the time the options were granted using the Black-Scholes option pricing model. There were no options granted in 2004. The following weighted-average assumptions were used for 2005 and 2003, respectively: risk-free interest rate of five percent; volatility factors of the expected market price of the Company's Common Shares of .659 and .676; an expected life of the option of seven years. The dividend yield used in the calculation was zero percent for 2005 and 2003. The weighted average fair values on the date of grant were \$6.77 in 2005 and \$4.22 in 2003. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its options. The effects of applying SFAS 123R may not be representative of the effects on reported net income in future years.

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For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The following is the pro forma information for 2005, 2004 and 2003:

	2005	2004	2003
	-----	-----	-----
Net income (loss) reported	\$ 5,095,951	\$ 1,174,118	\$(1,420,648)
Compensation expense, net of tax	(305,192)	(138,566)	(127,066)
	-----	-----	-----
Pro forma net income (loss)	\$ 4,790,759	\$ 1,035,552	\$(1,547,714)
	=====	=====	=====
Basic income (loss) per share	\$ 0.84	\$ 0.20	\$ (0.24)
Compensation expense, net of tax	(0.05)	(0.03)	(0.02)
	-----	-----	-----
Pro forma basic income (loss) per share	\$ 0.79	\$ 0.17	\$ (0.26)
	=====	=====	=====
Diluted income (loss) per share	\$ 0.83	\$ 0.19	\$ (0.24)
Compensation expense, net of tax	(0.05)	(0.02)	(0.02)
	-----	-----	-----
Pro forma diluted income (loss) per share	\$ 0.78	\$ 0.17	\$ (0.26)
	=====	=====	=====

## Note K Income Taxes

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

(Amount in thousands)	2005	2004
	-----	-----
Deferred tax assets:		
Inventory valuation reserves	\$ 890	\$ 772
Allowance for doubtful accounts	395	224
Deferred compensation	206	206
Inventory capitalization	367	318

Environmental reserves	260	108
Net operating loss carryforwards	-	11
	-----	-----
Total deferred tax assets	2,118	1,639
Deferred tax liabilities:		
Tax over book depreciation	2,977	2,037
Prepaid expenses	553	511
Other	481	873
	-----	-----
Total deferred tax liabilities	4,011	3,421
	-----	-----
Net deferred tax liabilities	\$(1,893)	\$(1,782)
	=====	=====

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Significant components of the provision for and (benefits from) income taxes for continuing operations are as follows:

(Amount in thousands)	2005	2004	2003
	-----	-----	-----
Current:			
Federal	\$ 1,696	\$ 1,443	\$ -
State	335	45	-
	-----	-----	-----
Total current	2,031	1,488	-
Deferred:			
Federal	84	(233)	(294)
State	16	(52)	-
	-----	-----	-----
Total deferred	100	(285)	(294)
	-----	-----	-----
Total	\$ 2,131	\$ 1,203	\$ (294)
	=====	=====	=====

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

(Amounts in thousands)	2005		2004		2003	
	Amount	%	Amount	%	Amount	%
	-----	-----	-----	-----	-----	-----
Tax at US statutory rates	\$ 2,475	34.0%	\$ 1,182	34.0%	\$ (297)	34.0%
State income taxes, net of Federal tax benefit	221	3.0%	45	1.3%	(12)	1.4%
Changes in contingent tax reserves	(501)	(6.8%)	-	-	-	-
Other, net	(64)	(0.9%)	(24)	(0.7%)	15	(1.8%)
	-----	-----	-----	-----	-----	-----
Total	\$ 2,131	29.3%	\$ 1,203	34.6%	\$ (294)	33.6%
	=====	=====	=====	=====	=====	=====

Income tax payments of approximately \$301,000, \$72,000 and \$71,000 were made in 2005, 2004 and 2003, respectively. The Company has South Carolina state net operating loss carryforwards of approximately \$31,200,000 which expire between the years 2017 to 2025. Since the likelihood of recognizing these carryforwards is remote, they have been fully reserved in the financial statements.

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**Note L Benefit Plans and Collective Bargaining Agreements**

The Company has a 401(k) Employee Stock Ownership Plan covering all non-union employees. Employees may contribute to the Plan up to 100 percent of their salary with a maximum of \$14,000 for 2005. Contributions by the employees are invested in one or more funds at the direction of the employee; however, employee contributions cannot be invested in Company stock. Contributions by the Company are made in cash and then used by the Plan Trustee to purchase Synalloy stock. The Company contributes on behalf of each participant who is eligible a matching contribution equal to a percentage which is determined each year by the Board of Directors. For 2005 the maximum was four percent. The matching contribution is allocated weekly. Matching contributions of approximately \$321,000, \$348,000 and \$331,000 were made for 2005, 2004 and 2003, respectively. The Company may also make a discretionary contribution, which shall be distributed to all eligible participants regardless of whether they contribute to the Plan. No discretionary contributions were made to the Plan in 2005, 2004 and 2003. The Company also contributes to union-sponsored defined contribution retirement plans. Contributions relating to these plans were approximately \$515,000, \$333,000, and \$276,000 for 2005, 2004 and 2003, respectively.

The Company has three collective bargaining agreements at its Bristol, Tennessee facility. The number of employees of the Company represented by these unions is 246, or 57 percent. They are represented by two locals affiliated with the AFL-CIO and one local affiliated with the Teamsters. Collective bargaining contracts will expire in February 2009, December 2009 and March 2010.

#### Note M Contingencies

The Company is from time-to-time subject to various claims, other possible legal actions for product liability and other damages, and other matters arising out of the normal conduct of the Company's business. Other than the environmental contingencies discussed in Note G, management believes that based on present information, the likelihood that liability, if any exists, is remote.

#### Note N Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share from continuing operations:

	2005 -----	2004 -----	2003 -----
Numerator:			
Net income (loss) from continuing operations	\$ 5,147,364	\$ 2,274,432	\$ (580,380)
Denominator:			
Denominator for basic earnings per share - weighted average shares	6,068,324	6,007,365	5,976,905
Effect of dilutive securities:			
Employee stock options	70,775	134,302	20,225
	-----	-----	-----
Denominator for diluted earnings per share	6,139,099	6,141,667	5,997,130
Basic income (loss) per share	\$ .85	\$ .38	\$ (.10)
	=====	=====	=====
Diluted income (loss) per share	\$ .84	\$ .37	\$ (.10)
	=====	=====	=====

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The diluted earnings per share calculation excludes the effect of potentially dilutive shares when the inclusion of those shares in the calculation would have an anti-dilutive effect. The Company had 260,775, 370,698, and 574,275 weighted average shares of common stock which were not included in the diluted earnings per share calculation as their effect was anti-dilutive in 2005, 2004 and 2003, respectively.

#### Note O Discontinued Operations

On July 23, 2003 the Company purchased certain assets of Rite Industries. These assets along with Synalloy's existing textile dye business were placed in a newly formed subsidiary of the Company called Blackman Uhler, LLC (BU Colors) of which 75 percent was owned by the Company. The acquisition provided a new customer base in the paper and other non-textile industries. Total cost of the acquisition was \$200,000 and the Company funded the acquisition with available cash. As a result of the continuing downward trends in the textile industry and poor financial performance of the textile dye business, the Company decided at the end of the fourth quarter of 2003 to divest the liquid dye portion of its dye business servicing the textile industry, and began downsizing the remaining dye business. In the fourth quarter of 2003, a \$290,000 inventory charge was recorded to cost of goods sold to write down inventories related to the liquid dye product lines. On March 25, 2004, the Company entered into an agreement to sell the liquid dye business composed of vat, sulfur, liquid disperse and liquid reactive dyes with annual sales of approximately \$4,500,000 for approximately its net book value, and several customers and related products of the remaining textile dye business were

rationalized. Business conditions in the remaining dye business were poor throughout 2004, especially in the first six months, as BU Colors experienced operating losses in every quarter of 2004. In the third quarter of 2004, the Company decided to attempt to sell the remaining dye business and on December 28, 2004, entered into a purchase agreement to sell the dye business. The transaction closed on January 31, 2005. The terms included the sale of the inventory of BU Colors along with certain equipment and other property associated with the business being sold, and the licensing of certain intellectual property, for a purchase price of approximately \$4,872,000 of which \$4,022,000 was paid at closing, and the balance of \$850,000 was to be paid over time based on the operations of the purchaser. On January 17, 2006, the Company and the purchaser amended the purchase agreement replacing the periodic purchase price payments for a one-time payment of \$400,000 which was received on January 18, 2006, and was reclassified to a current note receivable in the financial statements at December 31, 2005.

As a result of the sale of the dye business in 2004, the Company has discontinued the operations of BU Colors and has presented the financial information of BU Colors as discontinued operations, including restating 2003. In December of 2004, the Company completed an impairment assessment in accordance with FAS No. 144, on the plant and equipment located at the Spartanburg facility related to the BU Colors operations. As a result, the Company recognized an impairment loss of \$581,000 from the writedown of plant and equipment (See Note B) Financials of the discontinued operations for 2005, 2004 and 2003 are as follows:

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### Balance Sheets of Discontinued Operations

December 31, 2005 and January 1, 2005

	2005	2004
	-----	-----
<b>Assets</b>		
Current assets		
Accounts receivable, net	\$ -	\$ 2,057,910
Inventories	-	3,286,837
Other current assets	-	38,625
	-----	-----
Total current assets	-	5,383,372
Other assets	-	-
	-----	-----
	=====	=====
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 5,383,372</b>
	=====	=====
<b>Liabilities</b>		
Current Liabilities		
Accounts payable	\$ -	\$ 1,130,677
Accrued expenses	-	218,639
	-----	-----
Total current liabilities	-	1,349,316
Due to Synalloy Corporation	-	4,034,056
	-----	-----
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ 5,383,372</b>
	=====	=====

	2005	2004	2003
	-----	-----	-----
Net sales	\$ 1,585,803	\$ 21,979,133	\$ 18,400,585
Cost of sales	1,273,988	18,989,359	15,721,867
	-----	-----	-----
Gross profit (loss)	311,815	2,989,774	2,678,718
Selling, general and administrative expense	347,361	3,827,007	3,954,785
	-----	-----	-----
Operating loss	(35,546)	(837,233)	(1,276,067)
Long-lived asset impairment costs (Note B)	-	581,024	190,850
Interest expense, net	37,867	253,057	59,351
Minority interest	-	-	(250,000)
	-----	-----	-----
Loss from discontinued operations	\$ (73,413)	\$(1,671,314)	\$(1,276,268)
	=====	=====	=====

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### Note P Industry Segments

The Company operates in two principal industry segments: metals and specialty chemicals. The Company identifies such segments based on products and services. The Metals Segment consists of Bristol Metals, a wholly-owned subsidiary. The Chemicals Segment consists of Blackman Uhler Chemical Company, a division of the Company, Manufacturers Soap and Chemical and OP, wholly-owned subsidiaries of the Company. In 2003, the Company operated in three industry segments including the two segments discussed above and the Colors Segment. The Colors Segment consisted of OP and Blackman Uhler, LLC (BU Colors) of which 75 percent was owned by the Company. The Colors Segment manufactured dyes, pigments and auxiliaries. As a result of the sale of the Color Segment's dye business, discussed in Note O, and movement of the management responsibilities of OP into the Specialty Chemicals Segment in the second quarter of 2004, the financial reporting of OP has been included within the Specialty Chemicals Segment for 2005 and 2004, BU Colors has been reclassified into discontinued operations, and 2003 amounts in the segment table below have been restated to account for the discontinued operations and reflect the change in OP reporting.

The Specialty Chemicals Segment manufactures a wide variety of specialty chemicals, pigments and dyes for the textile, carpet, chemical, paper, metals, photographic, pharmaceutical, agricultural, fiber, paint, automotive, petroleum, cosmetics and other industries. The Metals Segment manufactures welded stainless steel pipe and highly specialized products, most of which are custom-produced to individual orders, required for corrosive and high-purity processes used principally by the chemical, petrochemical, pulp and paper, waste water treatment and LNG industries. Products include piping systems, fittings, tanks, pressure vessels and a variety of other components.

Operating profit is total revenue less operating expenses, excluding interest expense and income taxes of the continuing operations. Identifiable assets, all of which are located in the United States, are those assets used in operations by each Segment. Centralized data processing and accounting expenses are allocated to the two Segments based upon estimates of their percentage of usage. Unallocated corporate expenses include environmental charges of \$821,000, \$698,000 and \$50,000 for 2005, 2004 and 2003, respectively. (See Note G) Corporate assets consist principally of cash, certain investments, and property and equipment. The Metals Segment had one domestic customer (Hughes Supply, Inc.) that accounted for approximately 11 percent, 20 percent and 19 percent of the Metal Segment's revenues in 2005, 2004 and 2003, respectively, and 13 percent of consolidated revenues in 2004. Loss of this customer's revenues would have a material adverse effect on both the Metals Segment and the Company. The Specialty Chemicals Segment had one domestic customer that accounted for approximately 12 percent of the Specialty Chemicals Segment's revenues in 2005, and less than ten percent for 2004 and 2003, respectively. Loss of this customer's revenues would have a material adverse effect on the Specialty Chemicals Segment.

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### Segment Information:

Net sales			
Specialty Chemicals Segment	\$ 44,876	\$ 37,274	\$ 31,734
Metals Segment	84,051	62,565	48,674
	\$ 128,927	\$ 99,839	\$ 80,408
Operating income (loss)			
Specialty Chemicals Segment	\$ 1,639	\$ 1,539	\$ (598)
Metals Segment	6,815	4,577	1,303
	8,454	6,116	705
Less unallocated corporate expenses	2,042	1,572	983
Operating income (loss)	6,412	4,544	(278)
Other (income) and expense, net	(866)	1,067	596
Income (loss) from continuing operations	\$ 7,278	\$ 3,477	\$ (874)
Identifiable assets			
Specialty Chemicals Segment	\$ 24,309	\$ 21,890	
Metals Segment	40,816	37,804	
Corporate	5,857	6,125	
Continuing operations	70,982	65,819	
Discontinued operations	-	5,383	
	\$ 70,982	\$ 71,202	
Depreciation and amortization			
Specialty Chemicals Segment	\$ 997	\$ 971	\$ 1,000
Metals Segment	1,395	1,291	1,329
Corporate	470	806	647
	\$ 2,862	\$ 3,068	\$ 2,976
Capital expenditures			
Specialty Chemicals Segment	\$ 534	\$ 596	\$ 564
Metals Segment	2,635	1,703	697
Corporate	77	14	64
	\$ 3,246	\$ 2,313	\$ 1,325
Geographic sales			
United States	\$ 124,195	\$ 96,677	\$ 77,394
Elsewhere	4,732	3,162	3,014
	\$ 128,927	\$ 99,839	\$ 80,408

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### Note Q Quarterly Results (Unaudited)

The following is a summary of quarterly operations for 2005 and 2004:

(Amount in thousands)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2005</b>				
Net sales	\$ 32,734	\$ 30,829	\$ 30,079	\$ 35,285
Gross profit	5,138	4,261	3,502	3,880
Net income from continuing operations	1,497	1,043	525	2,081
Per common share				
Diluted	0.25	0.17	0.09	0.34
Basic	0.25	0.17	0.09	0.34
Net income	1,457	1,032	525	2,081
Per common share				
Diluted	0.24	0.17	0.09	0.34
Basic	0.24	0.17	0.09	0.34

<b>2004</b>				
Net sales	\$ 27,046	\$ 24,746	\$ 23,739	\$ 24,308
Gross profit	3,848	3,599	3,056	3,473
Net income from continuing operations	727	653	180	714
Per common share				
Diluted	0.12	0.11	0.03	0.12
Basic	0.12	0.11	0.03	0.12
Net income	664	441	29	40
Per common share				
Diluted	0.11	0.07	0.00	0.01
Basic	0.11	0.07	0.00	0.01

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## **NOTE R HEDGING TRANSACTIONS**

The Company is a party to derivative instruments that are designated and qualify as hedges under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" and related pronouncements. Cash flow and fair value hedges are hedges that eliminate the risk of changes in the fair values of assets, liabilities and certain types of firm commitments. The Company's objective in using these instruments is to protect its earnings and cash flows from interest rate risks on its long-term indebtedness and fluctuations in the fair value of commodities used in the Company's stainless steel raw materials. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking the hedge transactions. In this documentation, the Company specifically identifies the asset, liability and non-cancelable commitment that has been designated as a hedged item and states how the hedging instrument is expected to hedge the risks related to that item. The Company formally measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis. The Company discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; when the derivative expires; when it is probable that the forecasted transaction will not occur; when a hedged firm commitment no longer meets the definition of a firm commitment; or when management determines that designation of the derivative as a hedge instrument is no longer appropriate.

### **Interest Rate Swap**

Cash flow hedges are hedges that use simple derivatives to offset the variability of expected future cash flows. Variability can appear in floating rate liabilities and can arise from changes in interest rates. The Company uses an interest rate swap in which it pays a fixed rate of interest while receiving a variable rate of interest to change the cash flow profile of its variable-rate borrowing to match a fixed rate profile. The Company then designates this swap as a cash flow hedge of the associated variable-rate borrowing. As discussed in Note E, the Company entered into a long-term debt agreement with its bank and pays interest based on a variable interest rate. To mitigate the variability of the interest rate risk, the Company entered into a hedge contract in February of 2006 with the bank, coupled with a third party who will pay a variable rate of interest (an "interest rate swap"). The interest rate swap is for \$4,500,000 with a fixed interest rate of 5.27 percent, and runs from March 1, 2006 to December 31, 2010, which equates to the final payment amount and due date of the term loan. The Company has designated this swap as a cash flow hedge of the associated variable-rate borrowing. If, as expected, the derivative is perfectly effective in offsetting variable interest in the borrowing, changes in its fair value will be recorded in a separate component in equity, and then released to earnings contemporaneously with the earnings effects of the term loan.

### **Commodity Futures Contract**

In the ordinary course of business, the Company's income and cash flows may be affected by fluctuations in the price of nickel which is a component of stainless steel raw materials used in its production of stainless steel pipe. The Company is subject to raw material surcharges on the nickel component from its stainless steel suppliers. For certain non-cancelable fixed price sales contracts having delivery dates in the future; the Company is not able to obtain fixed price purchase commitments to cover the nickel surcharge component of the stainless steel raw material requirements of the sales contract creating a cost exposure from fluctuations in the nickel surcharges. Where such exposure exists, the Company considers the use of cash settled commodity price swaps with durations approximately equal to the expected delivery dates of the applicable raw materials to hedge the price of its nickel requirements. The Company designates these instruments as fair value hedges and the resulting changes in their fair value are recorded as inventory costs. Subsequent gains and losses are recognized into cost of products sold in the same period as the underlying physical transaction. While

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these hedging activities may protect the Company against higher nickel prices, they may also prevent realizing possible lower raw material costs in the event that the market price of nickel falls below the price stated in a forward sale or futures contract.

In May 2005, the Company entered into a derivative transaction to hedge the price of nickel, a component of stainless steel raw

materials. The futures contract covered approximately 100 metric tonnes of nickel and expired on December 1, 2005. The Company paid \$406,000 under the contract which was offset by the difference in the price paid for the nickel surcharge component of the raw materials being hedged, and therefore was added to the cost of the raw materials. There were no outstanding hedging contracts at December 31, 2005.

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### **Report of Management**

The accompanying financial statements have been prepared in conformity with U. S. generally accepted accounting principles and the financial statements for the years ended December 31, 2005, January 1, 2005 and January 3, 2004 have been audited by Dixon Hughes PLLC, Independent Auditors. Management of the Company assumes responsibility for the accuracy and reliability of the financial statements. In discharging such responsibility, management has established certain standards which are subject to continuous review and are monitored through the Company's financial management. The Board of Directors pursues its oversight role for the financial statements through its Audit Committee which consists of outside directors. The Audit Committee meets on a regular basis with representatives of management and Dixon Hughes PLLC.

### **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and

Shareholders of Synalloy Corporation

We have audited the accompanying consolidated balance sheets of Synalloy Corporation as of December 31, 2005 and January 1, 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position as of December 31, 2005 and January 1, 2005, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

/s/ Dixon Hughes PLLC

Charlotte, NC

March 17, 2006

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### **Item 9 Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

The Audit Committee of the Board of Directors of Synalloy Corporation (the "Company") approved the engagement of Dixon Hughes PLLC, the successor in the merger of its current independent auditors, Crisp Hughes Evans LLP, and the firm of Dixon Odom PLLC, as its independent auditors effective with the successful merger of the two firms. On March 1, 2004, the Audit Committee of the Board of Directors was notified that the merger of the two firms was completed and that the firm of Crisp Hughes Evans LLP ceased to exist. The Company engaged Crisp Hughes Evans LLP on December 2, 2003, as its new independent public accountants. Crisp Hughes Evans LLP did not audit the Company's consolidated financial statements and has not issued an opinion on the Company's consolidated financial statements. During the period from December 2, 2003 through the merger of Crisp Hughes Evans LLP with Dixon Odom PLLC, there were no disagreements between the Company and Crisp Hughes Evans LLP on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Crisp Hughes Evans LLP, would have caused it to make reference to the subject matter of the disagreements in connection with its report. During the Company's three most recent fiscal years and the subsequent interim periods prior to engaging Dixon Hughes, the Company did not consult Dixon Hughes regarding any of the matters required to be reported under Item 304(a) (2) of the SEC's Regulation S-K.

## Item 9A Controls and Procedures

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

No disclosure is currently required under 17 C.F.R. Section 228.308 (a) and (b). there has been no change in the registrant's internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

## Item 9B Other Information

Not applicable

## PART III

### Item 10 Directors and Executive Officers of the Registrant

Incorporated by reference to the information set forth under the captions "Election of Directors," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive proxy statement to be used in connection with its Annual Meeting of Shareholder to be held April 27, 2006 (the "Proxy Statement").

Audit Committee Financial Expert. The Company's Board of Directors has determined that the Company has at least one "audit committee financial expert," as that term is defined by Item 401(h) of Regulation S-K promulgated by the Securities and Exchange Commission, serving on its Audit Committee. Mr. Carroll D. Vinson meets the terms of the definition. Pursuant to the terms of Item 401(h) of Regulation S-K a person who is determined to be an "audit committee financial expert" will not be deemed an expert for any purpose as a result of being designated or identified as an "audit committee financial expert" pursuant to Item 401, and such designation or identification does not impose on such  
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person any duties, obligations or liability that are greater than the duties, obligations or liability imposed on such person as a member of the Audit Committee and Board of Directors in the absence of such designation or identification. Further, the designation or identification of a person as an "audit committee financial expert" pursuant to Item 401 does not affect the duties, obligations or liability of any other member of the Audit Committee or Board of Directors.

Audit Committee. The Company has a separately designated standing Audit Committee of the Board of Directors established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The members of the Audit Committee are Carroll D. Vinson, Murray H. Wright and Craig C. Bram.

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

### Item 11 Executive Compensation

Incorporated by reference to the information set forth under the caption "Remuneration of Directors and Officers" in the Proxy Statement.

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

Incorporated by reference to the information set forth under the captions "Beneficial Owners of More Than Five Percent of the Company's Common Stock" and "Security Ownership of Management" in the Proxy Statement.

Equity Compensation Plan Information. The following table sets forth aggregated information as of December 31, 2005 about all of the Company's equity compensation plans.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</u>	<u>Weighted average exercise price of outstanding options, warrants and rights (b)</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)(c))</u>
Equity compensation plans approved by security holders	331,550	\$9.64	499,100
Equity compensation plans not approved by security holders	—	—	—
Total	331,550	\$9.64	499,100
	=====	=====	=====

On February 3, 2005 the Board set the retainer fee for non-employee Directors for the 2005-06 year at an amount equivalent to \$25,000 paid in stock. On February 9, 2006, the Board of Directors determined that for the 12-month period beginning at the 2006 Annual Meeting of Shareholders, each non-employee Director elected to serve will receive an annual retainer of \$35,000, with

\$20,000 in cash, paid quarterly, and \$15,000 in restricted stock. The number of restricted shares will be determined by the average of the high and low stock price on the day prior to the Annual Meeting of Shareholders. The shares granted to the directors are not registered and are subject to forfeiture in whole or in part upon the occurrence of certain events. The above table does not reflect these shares issued to non-employee directors.

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### Item 13 Certain Relationships and Related Transactions

None

### Item 14 Principal Accountant Fees and Services

Incorporated by reference to the information set forth under the caption "Independent Public Accountants - Fees Paid to Independent Auditors" and "Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors" in the Proxy Statement.

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## PART IV

### Item 15 Exhibits and Financial Statement Schedules

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

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

Consolidated Statements of Operations at December 31, 2005, January 1, 2005 and January 3, 2004

Consolidated Balance Sheets for the years ended December 31, 2005 and January 1, 2005

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2005, January 1, 2005 and January 3, 2004

Consolidated Statements of Cash Flows for the years ended December 31, 2005, January 1, 2005 and January 3, 2004

Notes to Consolidated Financial Statements

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

Schedule II - Valuation and Qualifying Accounts for the years ended December 31, 2005, January 1, 2005 and January 3, 2004

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

3. Listing of Exhibits:

See "Exhibit Index"

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### Schedule II Valuation and Qualifying Accounts

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>
<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Charged to Cost and Expenses</u>	<u>Deductions Describe (1)</u>	<u>Balance at End of Period</u>
Year ended December 31, 2005				
Deducted from asset account:				
Allowance for doubtful accounts	\$ 678,000	\$ 512,000	\$ 151,000	\$ 1,039,000
Year ended January 1, 2005				
Deducted from asset account:				
Allowance for doubtful accounts	\$ 242,000	\$ 610,000	\$ 174,000	\$ 678,000
Year ended January 3, 2004				
Deducted from asset account:				
Allowance for doubtful accounts	\$ 536,000	\$ 189,000	\$ 483,000	\$ 242,000

(1) Allowances, uncollected accounts and credit balances written off against reserve, net of recoveries.

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### Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

By /s/ Ronald H. Braam  
Ronald H. Braam  
Chief Executive Officer

March 27, 2006  
Date

By /s/ Gregory M. Bowie  
Gregory M. Bowie  
Chief Financial Officer

March 27, 2006  
Date

### SYNALLOY CORPORATION

Registrant

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

By /s/ James G. Lane, Jr.  
James G. Lane, Jr.  
Chairman of the Board

March 27, 2006  
Date

By /s/ Sibyl N. Fishburn  
Sibyl N. Fishburn  
Director

March 27, 2006  
Date

By /s/ Carroll D. Vinson  
Carroll D. Vinson  
Director

March 27, 2006  
Date

By /s/ Murray H. Wright  
Murray H. Wright  
Director

March 27, 2006  
Date

By /s/ Craig C. Bram  
Craig C. Bram  
Director

March 27, 2006  
Date

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### Index to Exhibits

Exhibit No.  
from  
Item 601 of  
Regulation  
S-B

#### Description

- |      |  |
|------|--|
| 3.1  | Restated Certificate of Incorporation of Registrant, as amended, incorporated by reference to Registrant's Form 10-Q for the period ended April 2, 2005  |
| 3.2  | Bylaws of Registrant, as amended, incorporated by reference to Registrant's Form 10-Q for the period ended March 31, 2001 (the "first quarter 2001 Form 10-Q")   |
| 4.1  | Form of Common Stock Certificate, incorporated by reference to the first quarter 2001 Form 10-Q  |
| 4.2  | Rights Agreement, dated as of February 4, 1999, as amended May 22, 2000, between registrant and American Stock Transfer and Trust Company, incorporated by reference to exhibits to Registrant's Form 8-K filed May 22, 2000 and Form 8-A filed March 29, 1999 |
| 10.1 | Synalloy Corporation 1988 Long-Term Incentive Stock Plan, incorporated by reference to the first quarter 2001 Form 10-Q  |
| 10.2 | Synalloy Corporation Restated 1994 Non-Employee Directors' Stock Option Plan, incorporated by reference to the first quarter 2001 Form 10-Q  |
| 10.3 | Synalloy Corporation 1998 Long-Term Incentive Stock Plan, incorporated by reference to the first quarter 2001 Form 10-Q  |
| 10.4 | Registrant's Subsidiary and Divisional Management Incentive Plan, as restated, effective January 2, 2006   |

- 10.5 Synalloy Corporation 2005 Stock Awards Plan, incorporated by reference to the Proxy Statement for the 2005 Annual Meeting of Shareholders
- 10.6 Credit Agreement, dated as of December 13, 2005, between Registrant and Carolina First Bank
- 10.7 Amended Salary Continuation Agreement, dated February 6, 2003, between Registrant and Ronald H. Braam, incorporated by reference to the Form 10-K for the year ended January 3, 2004
- 10.8 Employment Agreement, dated January 1, 2006, between Registrant and Ronald H. Braam
- 10.9 Agreement and General Release dated September 12, 2005, between Registrant and Ralph Matera, incorporated by reference to the Form 8-K filed September 14, 2005
- 10.10 Agreement between Registrant's Bristol Metals, L. P. subsidiary and the United Steelworkers of America Local 4586, dated December 9, 2004, incorporated by reference to the Form 10-K for the year ended January 1, 2005
- 10.11 Agreement between Registrant's Bristol Metals, L. P. subsidiary and the United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry of the United States and Canada Local Union No. 538, dated February 16, 2004
- 21 Subsidiaries of the Registrant
- 31 Rule 13a-14(a)/15d-14(a) Certifications of Chief Executive Officer and Chief Financial Officer
- 32 Certifications Pursuant to 18 U.S.C. Section 1350

**SYNALLOY CORPORATION  
DIVISIONAL MANAGEMENT INCENTIVE PLAN  
FOR THE CHEMICALS SEGMENT**

**INCENTIVE POOL**

A separate incentive pool will be established for 2006 and subsequent fiscal years for the Chemicals Segment. The incentive pool will equal ten percent (10%) of the fiscal year's Operating Income (as defined below) in excess of ten percent (10%) of average shareholders' equity. Return on equity will be an amount equal to ten percent (10%) of average equity at the beginning of each quarter of the fiscal year. As used in the Divisional Management Incentive Plan (the "Plan"), the term "Operating Income" shall mean the operating income as generally reflected in the Chemicals Segment's internal statement of earnings. It is intended that Operating Income shall be before the bonus compensation payable under this Plan and before income and expenses not resulting from normal operations, including but not limited to interest income and expense, gains and losses from the sale or other disposition of capital assets and environmental expenses related to preexisting conditions not resulting from recent operations. The Synalloy Corporation Board of Directors' Compensation & Long-Term Incentive Committee shall have sole discretion to determine which other items of income and expenses are included in and/or excluded from Operating Income and their determination shall be final, binding and conclusive upon the parties hereto.

**DESIGNATED PARTICIPANTS**

Designated Participants in this Plan will be limited to Officers and other key managers of the Specialty Chemicals Segment, comprised of Manufacturers Chemicals, L.P., Blackman Uhler Specialty Chemicals and Organic-Pigments Corp., who are designated by the Chief Executive Officer of Synalloy as employees who are responsible for and significantly influence profits.

**ALLOCATION OF INCENTIVE POOL**

A maximum of thirty percent (30%) of the incentive pool may be distributed to employees who are not Designated Participants in this Plan as recommended by the Chief Executive Officer of Synalloy and approved by the Compensation Committee of the Board of Directors. A minimum of sixty percent (60%) of the incentive pool will be paid to Designated Participants pro rata to their salaries. A minimum of ten percent (10%) and a maximum of forty percent (40%) of the incentive pool may be paid to Designated Participants in any proportion as recommended by the Chief Executive Officer of Synalloy and approved by the Compensation Committee of the Board of Directors.

**TIME OF PAYMENT**

Payments will be made within two and one-half months of the fiscal year-end subject to completion of the annual audit of financial statements for the fiscal year in which the incentive is earned.

**ADDITIONAL REQUIREMENTS FOR RECEIPT OF ANY PAYMENT UNDER THIS PLAN**

- a. Employed by the Specialty Chemicals Group at the year-end for which the incentive is earned unless termination of employment results from death, disability or retirement in which case payment will be prorated to cover time worked during the year.
- b. Also employed at the time of payment unless termination of employment results from involuntary termination, retirement, disability or death between year-end and payment date.
- c. Designated participants must have entered into an agreement acceptable to the Chief Executive Officer of Synalloy under which they agree not to compete with the Specialty Chemicals Group for a minimum period of one year after the termination of their employment.

**DURATION OF PLAN**

The Plan will remain in effect until modified or terminated by the Board of Directors of Synalloy Corporation. The Plan will not be changed for a fiscal year after the beginning of such year. Prior to the beginning of a fiscal year, the Board of Directors of Synalloy may modify or cancel this Plan at their sole discretion.

**SYNALLOY CORPORATION  
DIVISIONAL MANAGEMENT INCENTIVE PLAN  
FOR THE METALS SEGMENT**

**INCENTIVE POOL**

A separate incentive pool will be established for 2006 and subsequent fiscal years for the Metals Segment. The incentive pool will equal ten percent (10%) of the fiscal year's Operating Income (as defined below) in excess of ten percent (10%) of average shareholders' equity. Return on equity will be an amount equal to ten percent (10%) of average equity at the beginning of each

quarter of the fiscal year. As used in the Divisional Management Incentive Plan (the "Plan"), the term "Operating Income" shall mean the operating income as generally reflected in the Metals Segment's internal statement of earnings. It is intended that Operating Income shall be before the bonus compensation payable under this Plan and before income and expenses not resulting from normal operations, including but not limited to interest income and expense, gains and losses from the sale or other disposition of capital assets and environmental expenses related to preexisting conditions not resulting from recent operations. The Synalloy Corporation Board of Directors' Compensation & Long-Term Incentive Committee shall have sole discretion to determine which other items of income and expenses are included in and/or excluded from Operating Income and their determination shall be final, binding and conclusive upon the parties hereto.

### **DESIGNATED PARTICIPANTS**

Designated Participants in this Plan will be limited to Officers and other key managers of the Metals Segment, comprised of Bristol Metals, L. P. who are designated by the Chief Executive Officer of Synalloy as employees who are responsible for and significantly influence profits.

### **ALLOCATION OF INCENTIVE POOL**

A maximum of thirty percent (30%) of the incentive pool may be distributed to employees who are not Designated Participants in this Plan as recommended by the Chief Executive Officer of Synalloy and approved by the Compensation Committee of the Board of Directors. A minimum of sixty percent (60%) of the incentive pool will be paid to Designated Participants pro rata to their salaries. A minimum of ten percent (10%) and a maximum of forty percent (40%) of the incentive pool may be paid to Designated Participants in any proportion as recommended by the Chief Executive Officer of Synalloy and approved by the Compensation Committee of the Board of Directors.

### **TIME OF PAYMENT**

Payments will be made within two and one-half months of the fiscal year-end subject to completion of the annual audit of financial statements for the fiscal year in which the incentive is earned.

### **ADDITIONAL REQUIREMENTS FOR RECEIPT OF ANY PAYMENT UNDER THIS PLAN**

- a. Employed by the Metals Segment at the year-end for which the incentive is earned unless termination of employment results from death, disability or retirement in which case payment will be prorated to cover time worked during the year.
- b. Also employed at the time of payment unless termination of employment results from involuntary termination, retirement, disability or death between year-end and payment date.
- c. Designated participants must have entered into an agreement acceptable to the Chief Executive Officer of Synalloy under which they agree not to compete with the Metals Segment for a minimum period of one year after the termination of their employment.

### **DURATION OF PLAN**

The Plan will remain in effect until modified or terminated by the Board of Directors of Synalloy Corporation. The Plan will not be changed for a fiscal year after the beginning of such year. Prior to the beginning of a fiscal year, the Board of Directors of Synalloy may modify or cancel this Plan at their sole discretion.

Credit Agreement

Dated as of December 13, 2005

among

Synalloy Corporation,

together with

Each of the Designated Undersigned entities as Borrowers,

the Lenders from time to time parties hereto,

and

Carolina First bank,

as Agent

**Table of Contents**

Section Heading Page

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Section 1.1. Term Loan Commitments

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### **Credit Agreement**

This Credit Agreement is entered into effective as of December 13, 2005 by and among SYNALLOY CORPORATION, a Delaware corporation ("Synalloy"), EACH OF THE UNDERSIGNED ENTITIES (together with Synalloy, the "*Borrowers*"), the several financial institutions from time to time party to this Agreement, as Lenders, and CAROLINA FIRST BANK, as Agent as provided herein, and the Lenders from time to time parties hereto. All capitalized terms used herein without definition shall have the same meanings herein as such terms are defined in Section 5.1 hereof.

### **Preliminary Statement**

The Borrowers have requested, and the Lenders have agreed to extend, certain credit facilities on the terms and conditions of this Agreement.

Now, Therefore, in consideration of the mutual agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. The Credit Facilities.

*Section 1.1. Term Loan Commitments.* Subject to the terms and conditions hereof, each Lender, by its acceptance hereof, severally agrees to make a loan or loans (individually, a "Term Loan" and, collectively, for all the Lenders, the "Term Loans") in U.S. Dollars to the Borrowers from time to time in the amount of such Lender's Term Loan Commitment, on the Closing Date. Each Borrowing of Term Loans shall be made ratably by the Lenders in proportion to their respective Term Loan Percentages. All Term Loans shall bear interest at the Applicable Rate. No amount repaid or prepaid on any Term Loan may be borrowed again.

*Section 1.2. Revolving Credit Commitments.* Subject to the terms and conditions hereof, each Lender, by its acceptance hereof, severally agrees to make a loan or loans (individually a "Revolving Loan" and collectively the "Revolving Loans") in U.S. Dollars to the Borrowers from time to time on a revolving basis up to the amount of such Lender's Revolving Credit Commitment, subject to any reductions thereof pursuant to the terms hereof, before the Revolving Credit Termination Date. The sum of the aggregate principal amount of Revolving Loans, Swing Loans, and L/C Obligations at any time outstanding shall not exceed the lesser of (i) the aggregate Revolving Credit Commitments in effect at such time, and (ii) the Borrowing Base as determined based on the most recent Borrowing Base Certificate. Each Borrowing of Revolving Loans shall be made ratably by the Lenders in proportion to their respective Revolver Percentages. Each Borrowing of Revolving Loans bear interest at the Applicable Rate. Revolving Loans may be repaid and the principal amount thereof reborrowed before the Revolving Credit Termination Date, subject to the terms and conditions hereof.

If, at any time, the sum of (i) outstanding Revolving Loans plus (ii) Swing Loans plus (iii) L/C Obligations, exceeds the Borrowing Base, Borrowers shall promptly pay to Agent the amount of such excess.

*Section 1.3. Letters of Credit.* (a) *General Terms.* Subject to the terms and conditions hereof, as part of the Revolving Credit, the L/C Issuer shall issue standby letters of credit (each a "Letter of Credit") for the Borrowers' account in an aggregate undrawn face amount up to the L/C Sublimit. Each Letter of Credit shall be issued by the L/C Issuer, but each Lender shall be obligated to reimburse the L/C Issuer for such Lender's Revolver Percentage of the amount of each drawing thereunder and, accordingly, each Letter of Credit shall constitute usage of the Revolving Credit Commitment of each Lender pro rata in an amount equal to its Revolver Percentage of the L/C Obligations then outstanding.

(b) *Applications.* At any time before the Revolving Credit Termination Date, the L/C Issuer shall, at the request of the Borrowers, issue one or more Letters of Credit in U.S. Dollars, in a form satisfactory to the L/C Issuer, with expiration dates no later than the earlier of 12 months from the date of issuance (or which are cancelable not later than 12 months from the date of issuance and each renewal) or 30 days prior to the Revolving Credit Termination Date, in an aggregate face amount as set forth above, upon the receipt of an application duly executed by the Administrative Borrower for the relevant Letter of Credit in the form then customarily prescribed by the L/C Issuer for the Letter of Credit requested (each an "Application"). Notwithstanding anything contained in any Application to the contrary: (i) the Borrowers shall pay fees in connection with each Letter of Credit as set forth in Section 2.1 hereof, (ii) before the occurrence of a Default or an Event of Default, the L/C Issuer will not call for the funding by the Borrowers of any amount under a Letter of Credit before being presented with a drawing thereunder, and (iii) if the L/C Issuer is not timely reimbursed for the amount of any drawing under a Letter of Credit on the date such drawing is paid, the Borrowers' obligation to reimburse the L/C Issuer for the amount of such drawing shall bear interest (which the Borrowers hereby promise to pay) from and after the date such drawing is paid at a rate per annum equal to the sum of 2% plus the Applicable Rate from time to time in effect (computed on the basis of a year of 360 days, and the actual number of days elapsed). If the L/C Issuer issues any Letter of Credit with an expiration date that is automatically extended unless the L/C Issuer gives notice that the expiration date will not so extend beyond its then scheduled expiration date, unless the Required Lenders instruct the L/C Issuer otherwise, the L/C Issuer will give such notice of non-renewal before the time necessary to prevent such automatic extension if before such required notice date: (i) the expiration date of such Letter of Credit if so extended would be after the Revolving Credit Termination Date, (ii) the Revolving Credit Commitments have been terminated, or (iii) a Default or an Event of Default exists and the Agent, at the request or with the consent of the Required Lenders, has given the L/C Issuer instructions not to so permit the extension of the expiration date of such Letter of Credit. The L/C Issuer agrees to issue amendments to the Letter(s) of Credit increasing the amount, or extending the expiration date, thereof at the request of the Borrowers subject to the conditions of Section 7 hereof and the other terms of this Section 1.3.

(c) *The Reimbursement Obligations.* Subject to Section 1.3(b) hereof, the obligation of the Borrowers to reimburse the L/C Issuer for all drawings under a Letter of Credit (a "Reimbursement Obligation") shall be governed by the Application related to such Letter of Credit, except that reimbursement shall be made by no later than 12:00 Noon (Greenville, South Carolina time) on the date when each drawing is to be paid if the Administrative Borrower has been informed of such drawing by the L/C Issuer on or before 9:00 a.m. (Greenville, South Carolina time) on the date when such drawing is to be paid or, if notice of such drawing is given to the Administrative Borrower after 9:00 a.m. (Greenville, South Carolina time) on the date when such drawing is to be paid, by the end of such day, in immediately available funds at the Agent's principal office in Greenville, South Carolina or such other office as the Agent may designate in writing to the Administrative Borrower (who shall thereafter cause to be distributed to the L/C Issuer such amount(s) in like funds). If the Borrowers do not make any such reimbursement payment on the date due and the Participating Lenders fund their participations therein in the manner set forth in Section 1.3(d) below, then all payments thereafter received by the Agent in discharge of any of the relevant Reimbursement Obligations shall be distributed in accordance with Section 1.3(d) below.

(d) *The Participating Interests.* Each Lender (other than the Lender acting as L/C Issuer in issuing the relevant Letter of Credit), by its acceptance hereof, severally agrees to purchase from the L/C Issuer, and the L/C Issuer hereby agrees to sell to each such Lender (a "Participating Lender"), an undivided percentage participating interest (a "Participating Interest"), to the extent of its Revolver Percentage, in each Letter of Credit issued by, and each Reimbursement Obligation owed to, the L/C Issuer. Upon any failure by the Borrowers to pay any Reimbursement Obligation at the time required on the date the related drawing is to be paid, as set forth in Section 1.3(c) above, or if the L/C Issuer is required at any time to return to the Borrowers or to a trustee, receiver, liquidator, custodian or other Person any portion of any payment of any Reimbursement Obligation, each Participating Lender shall, not later than the Business Day it receives a certificate in the form of **Exhibit A** hereto from the L/C Issuer (with a copy to the Agent) to such effect, if such certificate is received before 1:00 p.m. (Greenville, South Carolina time), or not later than 1:00 p.m. (Greenville, South Carolina time) the following Business Day, if such certificate is received after such time, pay to the Agent for the account of the L/C Issuer an amount equal to such Participating Lender's Revolver Percentage of such

unpaid or recaptured Reimbursement Obligation together with interest on such amount accrued from the date the related payment was made by the L/C Issuer to the date of such payment by such Participating Lender at a rate per annum equal to: (i) from the date the related payment was made by the L/C Issuer to the date 2 Business Days after payment by such Participating Lender is due hereunder, the Federal Funds Rate for each such day and (ii) from the date 2 Business Days after the date such payment is due from such Participating Lender to the date such payment is made by such Participating Lender, the Applicable Rate in effect for each such day. Each such Participating Lender shall thereafter be entitled to receive its Revolver Percentage of each payment received in respect of the relevant Reimbursement Obligation and of interest paid thereon, with the L/C Issuer retaining its Revolver Percentage thereof as a Lender hereunder.

The several obligations of the Participating Lenders to the L/C Issuer under this Section 1.3 shall be absolute, irrevocable and unconditional under any and all circumstances whatsoever and shall not be subject to any set-off, counterclaim or defense to payment which any Participating Lender may have or have had against the Borrowers, the L/C Issuer, the Agent, any Lender or any other Person whatsoever. Without limiting the generality of the foregoing, such obligations shall not be affected by any Default or Event of Default or by any reduction or termination of any Commitment of any Lender, and each payment by a Participating Lender under this Section 1.3 shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) *Indemnification.* The Participating Lenders shall, to the extent of their respective Revolver Percentages, indemnify the L/C Issuer (to the extent not reimbursed by the Borrowers) against any cost, expense (including reasonable counsel fees and disbursements), claim, demand, action, loss or liability (except such as result from the L/C Issuer's gross negligence or willful misconduct) that the L/C Issuer may suffer or incur in connection with any Letter of Credit issued by it. The obligations of the Participating Lenders under this Section 1.3(e) and all other parts of this Section 1.3 shall survive termination of this Agreement and of all Applications, Letters of Credit, and all drafts and other documents presented in connection with drawings thereunder.

(f) *Manner of Requesting a Letter of Credit.* The Administrative Borrower shall provide at least three (3) Business Days' advance written notice to the Agent of each request for the issuance of a Letter of Credit, such notice in each case to be accompanied by an Application for such Letter of Credit properly completed and executed by the Administrative Borrower and, in the case of an extension or an increase in the amount of a Letter of Credit, a written request therefor, in a form acceptable to the Agent and the L/C Issuer, in each case, together with the fees called for by this Agreement. The Agent shall promptly notify the L/C Issuer of the Agent's receipt of each such notice and the L/C Issuer shall promptly notify the Agent and the Lenders of the issuance of the Letter of Credit so requested.

*Section 1.4. Applicable Interest Rates.* (a) *Loans.* Each Loan made or maintained by a Lender shall bear interest during each Interest Period it is outstanding (computed on the basis of a year of 360 days, and the actual days elapsed) on the unpaid principal amount thereof from the date such Loan is advanced, continued or converted until maturity (whether by acceleration or otherwise) at a rate per annum equal to the Applicable Rate from time to time in effect, payable (i) for any Borrowing having an Interest Period of 2, 3 or 6 months, on the last day of its Interest Period and at maturity (whether by acceleration or otherwise), or (ii) for any Borrowing having an Interest Period of 1 month, on the first (1<sup>st</sup>) day of each calendar month and at maturity (whether by acceleration or otherwise), except as such rate may be continued or converted pursuant to the terms hereof.

(b) *Rate Determinations.* The Agent shall determine each interest rate applicable to the Loans and the Reimbursement Obligations hereunder, and its determination thereof shall be conclusive and binding except in the case of manifest error.

*Section 1.5. Minimum Borrowing Amounts.* Unless the provisions of Section 1.14(f) are in effect, each Borrowing advanced, continued or converted under a Credit shall be in an amount equal to \$100,000 or such greater amount which is an integral multiple of \$100,000.

*Section 1.6. Manner of Borrowing Loans and Designating Applicable Interest Period.* (a) *Notice to the Agent.* The Administrative Borrower shall give notice to the Agent by no later than 10:00 a.m. (Greenville, South Carolina time) on the date the Borrowers request the Lenders to advance a Borrowing. The Loans included in each Borrowing shall bear interest initially at the Applicable Rate for the Interest Period specified in such notice of a new Borrowing. Thereafter, the Administrative Borrower may from time to time elect to change or continue the Interest Period applicable to each Borrowing or, subject to Section 1.5's minimum amount requirement for each outstanding Borrowing, a portion thereof, as follows: on the last day of the Interest Period applicable thereto, the Administrative Borrower may continue part or all of such Borrowing for the same Interest Periods or convert part or all to one or more new Interest Periods. The Administrative Borrower shall give all such notices requesting the advance, continuation or conversion of a Borrowing to the Agent by telephone or telecopy (which notice shall be irrevocable once given and, if by telephone, shall be promptly confirmed in writing), substantially in the form attached hereto as **Exhibit B** (Notice of Borrowing) or **Exhibit C** (Notice of Continuation/Conversion), as applicable, or in such other form acceptable to the Agent. Notice of the continuation of a Borrowing for an additional Interest Period or of the conversion of part or all of the Loans to new Interest Periods must be given by no later than 10:00 a.m. (Greenville, South Carolina time) at least 2 Business Days before the date of the requested continuation or conversion. All such notices concerning the advance, continuation or conversion of a Borrowing shall specify the date of the requested advance, continuation or conversion of a Borrowing (which shall be a Business Day), the amount of the requested Borrowing to be advanced, continued or converted, and, the Interest Period applicable thereto. The Borrowers agree that the Agent may rely on any such telephonic or telecopy notice given by any person the Agent in good faith believes is an Authorized Representative without the necessity of independent investigation and, in the event any such notice by telephone conflicts with any written confirmation, such telephonic notice shall govern if the Agent has acted in reasonable reliance thereon.

(b) *Notice to the Lenders.* The Agent shall give prompt telephonic or telecopy notice to each Lender of any notice from the Administrative Borrower received pursuant to Section 1.6(a) above.

(c) *Borrowers' Failure to Notify; Automatic Continuations and Conversions.* Any outstanding Borrowing shall automatically be continued for a Interest Period of 1 month on the last day of its then current Interest Period unless the Administrative Borrower has notified the Agent within the period required by Section 1.6(a) that the Borrowers intend to continue or convert such Borrowing, subject to Section 7.1 hereof, or such

Borrowing is prepaid in accordance with Section 1.9(a). In the event the Administrative Borrower fails to give notice pursuant to Section 1.6(a) above of a Borrowing equal to the amount of a Reimbursement Obligation and has not notified the Agent by 1:00 p.m. (Greenville, South Carolina time) on the day such Reimbursement Obligation becomes due that it intends to repay such Reimbursement Obligation through funds not borrowed under this Agreement, the Borrowers shall be deemed to have requested a Borrowing under the Revolving Credit (or, at the option of the Agent, under the Swing Line) on such day in the amount of the Reimbursement Obligation then due, which Borrowing shall be applied to pay the Reimbursement Obligation then due.

(d) *Disbursement of Loans.* Not later than 1:00 p.m. (Greenville, South Carolina time) on the date of any requested advance of a new Borrowing, subject to Section 7 hereof, each Lender shall make available its Loan comprising part of such Borrowing in funds immediately available at the principal office of the Agent in Greenville, South Carolina. The Agent shall make the proceeds of each new Borrowing available to the Borrowers at the Agent's principal office in Greenville, South Carolina.

(e) *Agent Reliance on Lender Funding.* Unless the Agent shall have been notified by a Lender prior to the date on which such Lender is scheduled to make payment to the Agent of the proceeds of a Loan (which notice shall be effective upon receipt) that such Lender does not intend to make such payment, the Agent may assume that such Lender has made such payment when due and the Agent may in reliance upon such assumption (but shall not be required to) make available to the Borrowers the proceeds of the Loan to be made by such Lender and, if any Lender has not in fact made such payment to the Agent, such Lender shall, on demand, pay to the Agent the amount made available to the Borrowers attributable to such Lender together with interest thereon in respect of each day during the period commencing on the date such amount was made available to the Borrowers and ending on (but excluding) the date such Lender pays such amount to the Agent at a rate per annum equal to: (i) from the date the related advance was made by the Agent to the date 2 Business Days after payment by such Lender is due hereunder, the Federal Funds Rate for each such day and (ii) from the date 2 Business Days after the date such payment is due from such Lender to the date such payment is made by such Lender, the Applicable Rate in effect for each such day, as the same may be adjusted from time to time.

*Section 1.7. Interest Periods.* As provided in Section 1.6(a) and 1.14 hereof, at the time of each request to advance, continue or convert a Borrowing, the Administrative Borrower shall select an Interest Period applicable to such Loans from among the available options. The term "*Interest Period*" means the period commencing on the date a Borrowing of Loans is advanced, continued or converted and ending 1, 2, 3 or 6 months thereafter; *provided, however,* that:

(a) any Interest Period for a Borrowing of Loans that otherwise would end after the Revolving Credit Termination Date shall end on the Revolving Credit Termination Date;

(b) no Interest Period with respect to any portion of the Loans shall extend beyond the Revolving Credit Termination Date;

(c) whenever the last day of any Interest Period would otherwise be a day that is not a Business Day, the last day of such Interest Period shall be extended to the next succeeding Business Day, provided that, if such extension would cause the last day of an Interest Period for a Borrowing to occur in the following calendar month, the last day of such Interest Period shall be the immediately preceding Business Day; and

(d) for purposes of determining an Interest Period for a Borrowing; a month means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month; *provided, however,* that if there is no numerically corresponding day in the month in which such an Interest Period is to end or if such an Interest Period begins on the last Business Day of a calendar month, then such Interest Period shall end on the last Business Day of the calendar month in which such Interest Period is to end.

*Provided however,* that the Interest Period for Swing Loans shall be a period of 1 month.

*Section 1.8. Maturity of Loans.* (a) *Scheduled Payments of Term Loans.* The Borrowers shall make principal payments on the Term Loans in installments on the last day of each December, March, June and September in each year, commencing with the fiscal quarter ending December 31, 2005, with the amount of each such principal installment to be equal to the amount set forth in column B below as shown opposite the relevant due date as set forth in column A below:

Column A Payment Date	Column B Scheduled Principal Payment on Term Loans
12/31/05	\$116,666.75
3/31/06	\$116,666.75
6/30/06	\$116,666.75
9/30/06	\$116,666.75
12/31/06	\$116,666.75
3/31/07	\$116,666.75

6/30/07	\$116,666.75
9/30/07	\$116,666.75
12/31/07	\$116,666.75
3/31/08	\$116,666.75
6/30/08	\$116,666.75
9/30/08	\$116,666.75
12/31/08	\$116,666.75
3/31/09	\$116,666.75
6/30/09	\$116,666.75
9/30/09	\$116,666.75
12/31/09	\$116,667.00
3/31/10	\$116,667.00
6/30/10	\$116,667.00
9/30/10	\$116,667.00

It being agreed that the final payment of all principal and interest not sooner paid on the Term Loans shall be due and payable on December 31, 2010, the final maturity thereof. Each such principal payment shall be applied to the Lenders holding the Term Loans pro rata based upon their Term Loan Percentages.

(b) *Revolving Loans and Swing Loans.* Each Revolving Loan and Swing Loan, both for principal and interest, shall mature and become due and payable by the Borrowers on the Revolving Credit Termination Date.

*Section 1.9. Prepayments.* (a) The Borrowers shall have the privilege of prepaying the Loans without premium or penalty (except as set forth in Section 1.12 below) and in whole or in part.

(b) The Agent will promptly advise each Lender of any notice of prepayment it receives from the Borrowers. Any amount of Revolving Loans and Swing Loans paid or prepaid before the Revolving Credit Termination Date may, subject to the terms and conditions of this Agreement, be borrowed, repaid and borrowed again. No amount of the Term Loans paid or prepaid may be reborrowed, and, in the case of any partial prepayment, such prepayment shall be applied to the remaining amortization payments on the Term Loans in the inverse order of maturities, on a pro rata basis.

*Section 1.10. Default Rate.* Notwithstanding anything to the contrary contained in Section 1.3 hereof, while any Event of Default exists or after acceleration, the Borrowers shall pay interest (after as well as before entry of judgment thereon to the extent permitted by law) on the principal amount of all Loans owing by it at a rate per annum equal to the sum of 2.0% plus the Applicable Rate from time to time in effect; *provided, however,* that in the absence of acceleration, any adjustments pursuant to this Section shall be made at the election of the Agent, acting at the request or with the consent of the Required Lenders, with written notice to the Borrowers. While any Event of Default exists or after acceleration, interest shall be paid on demand of the Agent at the request or with the consent of the Required Lenders.

*Section 1.11. The Notes.* (a) The Revolving Loans made to the Borrowers by a Lender shall be evidenced by a single promissory note of the Borrowers issued to such Lender in the form of **Exhibit D-1** hereto. Each such promissory note is hereinafter referred to as a "*Revolving Note*" and collectively such promissory notes are referred to as the "*Revolving Notes*."

(b) The Swing Loans made to the Borrowers by the Agent shall be evidenced by a single promissory note of the Borrowers issued to the Agent in the form of **Exhibit D-2** hereto. Such promissory note is hereinafter referred to as the "*Swing Note*."

(c) The Term Loan made to the Borrowers by Lender shall be evidenced by a single promissory note of the Borrowers issued to such Lender in the form of **Exhibit D-3** hereto. Each such promissory note is hereinafter referred to as a "*Term Note*" and collectively such promissory notes are referred to as the "*Term Notes*".

(d) Each Lender shall record on its books and records or on a schedule to its appropriate Note the amount of each Loan advanced, continued or converted by it, all payments of principal and interest and the principal balance from time to time outstanding thereon, the Interest Period and the interest rate applicable thereto. The record thereof, whether shown on such books and records of a Lender or on a schedule to the relevant Note, shall be *prima facie* evidence as to all such matters; *provided, however,* that the failure of any Lender to record any of the foregoing or any error in any such record shall not limit or otherwise affect the obligation of the Borrowers to repay all Loans made to it hereunder together with accrued interest thereon. At the request of any Lender and upon such Lender tendering to the Borrowers the appropriate Note to be

replaced, the Borrowers shall furnish a new Note to such Lender to replace any outstanding Note, and at such time the first notation appearing on a schedule on the reverse side of, or attached to, such Note shall set forth the aggregate unpaid principal amount of all Loans, if any, then outstanding thereon.

*Section 1.12. Funding Indemnity.* For any Loans for which the Applicable Rate is based upon an Interest Period exceeding 1 month, if any Lender shall incur any loss, cost or expense (including, without limitation, any loss of profit, and any loss, cost or expense incurred by reason of the liquidation or re-employment of deposits or other funds acquired by such Lender to fund or maintain any Loan or the relending or reinvesting of such deposits or amounts paid or prepaid to such Lender) as a result of:

- (a) any payment, prepayment or conversion of a Loan or on a date other than the last day of its Interest Period,
- (b) any failure by the Borrowers to make any payment of principal on any Loan when due (whether by acceleration or otherwise),  
or
- (c) any acceleration of the maturity of the Loans as a result of the occurrence of any Event of Default hereunder,

then, upon the demand of such Lender, the Borrowers shall pay to such Lender such amount as will reimburse such Lender for such loss, cost or expense. If any Lender makes such a claim for compensation, it shall provide to the Borrowers, with a copy to the Agent, a certificate setting forth the amount of such loss, cost or expense in reasonable detail and the amounts shown on such certificate shall be deemed *prime facie* correct.

*Section 1.13. [Reserved.]*

*Section 1.14. Swing Loans.* (a) *Generally.* Subject to the terms and conditions hereof, as part of the Revolving Credit, the Agent agrees to make loans to the Borrowers under the Swing Line (individually a "Swing Loan" and collectively the "Swing Loans") which shall not in the aggregate at any time outstanding exceed the Swing Line Sublimit. The Swing Loans may be availed of by the Borrowers from time to time and borrowings thereunder may be repaid and used again during the period ending on the Revolving Credit Termination Date.

(b) *Interest on Swing Loans;* Each Swing Loan shall bear interest until maturity (whether by acceleration or otherwise) at a rate per annum equal to the Applicable Rate from time to time in effect (computed on the basis of a year of 360 days, for the actual number of days elapsed). Interest on each Swing Loan shall be due and payable prior to such maturity on the last day of each Interest Period applicable thereto, and, unless each Lender funds its participation in a Swing Loan pursuant to Section 1.14(e), interest shall be payable solely for the account of Agent.

(c) *Requests for Swing Loans;* The Administrative Borrower shall give the Agent prior notice (which may be written or oral) no later than 12:00 Noon (Greenville, South Carolina time) on the date upon which Borrowers request that any Swing Loan be made, of the amount and date of such Swing Loan, and the Interest Period requested therefor. Such Swing Loan shall bear interest at the then Applicable Rate for Loans under the Revolving Credit as from time to time in effect. Subject to the terms and conditions hereof, the proceeds of such Swing Loan shall be made available to the Borrowers on the date so requested at the offices of the Agent in Greenville, South Carolina. Anything contained in the foregoing to the contrary notwithstanding (i) the obligation of the Agent to make Swing Loans shall be subject to all of the terms and conditions of this Agreement, and (ii) the Agent shall not be obligated to make more than one Swing Loan during any one day.

(d) *Refunding Loans;* In its sole and absolute discretion, the Agent may at any time, on behalf of the Borrowers (which hereby irrevocably authorizes the Agent to act on its behalf for such purpose) and with notice to the Borrowers, request each Lender to make a Revolving Loan in an amount equal to such Lender's Revolver Percentage of the amount of the Swing Loans outstanding on the date such notice is given. Unless an Event of Default described in Section 9.1(k) or 9.1(l) exists with respect to the Borrowers, regardless of the existence of any other Event of Default, each Lender shall make the proceeds of its requested Revolving Loan available to the Agent, in immediately available funds, at the Agent's principal office in Greenville, South Carolina, before 12:00 Noon (Greenville, South Carolina time) on the Business Day following the day such notice is given. The proceeds of such Borrowing of Revolving Loans shall be immediately applied to repay the outstanding Swing Loans.

(e) *Participations.* If any Lender refuses or otherwise fails to make a Revolving Loan when requested by the Agent pursuant to Section 1.13(d) above (because an Event of Default described in Section 9.1(k) or 9.1(l) exists with respect to the Borrowers or otherwise), such Lender will, by the time and in the manner such Revolving Loan was to have been funded to the Agent, purchase from the Agent an undivided participating interest in the outstanding Swing Loans in an amount equal to its Revolver Percentage of the aggregate principal amount of Swing Loans that were to have been repaid with such Revolving Loans. Each Lender that so purchases a participation in a Swing Loan shall thereafter be entitled to receive its Revolver Percentage of each payment of principal received on the Swing Loan and of interest received thereon accruing from the date such Lender funded to the Agent its participation in such Loan. The several obligations of the Lenders under this Section shall be absolute, irrevocable and unconditional under any and all circumstances whatsoever and shall not be subject to any set-off, counterclaim or defense to payment which any Lender may have or have had against the Borrowers, any other Lender or any other Person whatever. Without limiting the generality of the foregoing, such obligations shall not be affected by any Default or Event of Default or by any reduction or termination of the Revolving Credit Commitments of any Lender, and each payment made by a Lender under this Section shall be made without any offset, abatement, withholding or reduction whatsoever.

(f) *Zero Balance Program and Account.* During such time as Carolina First Bank is serving as Agent hereunder, until Carolina First Bank notifies Borrowers to the contrary (Carolina First Bank hereby agreeing to implement its Zero Balance Program for Borrowers, so long as no Default or Event of Default exists hereunder and Carolina First Bank continues generally to maintain such program, to a comparable extent as implemented for its similarly situated customers) the Swing Loans shall be administered through Carolina First Bank's Zero Balance Program in accordance with the Agreement for Transaction Clearing Services between Carolina First Bank and Borrowers. In order to facilitate the

borrowing of Swing Loans, Borrowers and Agent, acting in its capacity as a Lender of Swing Loans may, and are hereby authorized to, enter into the Agreement for Transaction Clearing Services providing for the automatic advance (and repayment to) the Agent acting in such capacity of Swing Loans under the conditions set forth in such Agreement for Transaction Clearing Services and without the necessity for any notice by the Borrowers otherwise required by Sections 1.6(a) and 1.14(c) hereof. In the event that, for any Business Day, presentments are made under the Zero Balance Program which exceed the Swing Line Sublimit, then Borrowers shall be deemed to have requested a Revolving Loan (at the Applicable Rate for Swing Loans) in the amount of such excess. The provisions of Sections 1.6(b), (c), (d) and (e) above shall continue to apply in all respects during any participation by the Borrowers in the Zero Balance Program pursuant to this Section 1.14(f) and the Agreement for Transaction Clearing Services, but this Section 1.14(f) shall, during any participation, operate in lieu of those set forth in Sections 1.6(b) and 1.14(c).

## Section 2. Fees.

*Section 2.1. Fees.* (a) *Revolving Credit Commitment Fee.* The Borrowers shall pay to the Agent for the ratable account of the Lenders in accordance with their Revolver Percentages a commitment fee at the rate per annum equal to the Applicable Unused Fee (computed on the basis of a year of 360 days, and the actual number of days elapsed) on the average daily Unused Revolving Credit Commitments. Such commitment fee shall be payable quarterly in arrears on the last day of each March, June, September, and December in each year (commencing on the first such date occurring after the date hereof) and on the Revolving Credit Termination Date.

(b) *Letter of Credit Fees.* On the date of issuance (and if applicable, on each anniversary date thereof) or extension, or increase in the amount, of any Letter of Credit pursuant to Section 1.3 hereof, the Borrowers shall pay (i) to the L/C Issuer for its own account an issuance fee equal to 10 basis points times the face amount for each such Letter of Credit, and (ii) to the Agent, for the ratable benefit of the Lenders in accordance with their Revolver Percentages, a letter of credit fee at a rate per annum equal to 90 basis points (computed on the basis of a year of 360 days, and the actual number of days elapsed) times the face amount of Letters of Credit so issued. In addition, the Borrowers shall pay to the L/C Issuer for its own account the L/C Issuer's standard drawing, negotiation, amendment, and other administrative fees for each Letter of Credit. Such standard fees referred to in the preceding sentence may be established by the L/C Issuer from time to time in accordance with its customary business practice.

(c) *Agent Fees.* The Borrowers shall pay to the Agent, for its own use and benefit, an arrangement fee in the amount of \$45,000, due and payable at Closing.

(d) *Audit Fees.* The Borrowers shall pay to the Agent for its own use and benefit charges for audits of the Collateral performed by the Agent or its agents or representatives in such amounts as the Agent may from time to time request (the Agent acknowledging and agreeing that such charges shall be computed in the same manner as it at the time customarily uses for the assessment of charges for similar collateral audits); *provided, however,* that in the absence of any Default and Event of Default, the Borrowers shall not be required to pay the Agent for more than one such audit per calendar year in an amount not to exceed \$7,500.

(e) *Commitment Fee.* The Borrowers shall pay (or shall have paid) to the Agent for the ratable account of the Lenders a commitment fee in the amount of \$67,500.

## Section 3. Place and Application of Payments.

*Section 3.1. Place and Application of Payments.* Subject to the provisions of Section 1.14(f), all payments of principal of and interest on the Loans and the Reimbursement Obligations, and of all other Obligations payable by the Borrowers under this Agreement and the other Loan Documents, shall be made by the Borrowers to the Agent by no later than 12:00 Noon (Greenville, South Carolina time) on the due date thereof at the office of the Agent in Greenville, South Carolina (or such other location as the Agent may designate to the Borrowers) for the benefit of the Lender or Lenders entitled thereto. Any payments received after such time shall be deemed to have been received by the Agent on the next Business Day. All such payments shall be made in U.S. Dollars, in immediately available funds at the place of payment, in each case without set-off or counterclaim. The Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest on Loans and on Reimbursement Obligations in which the Lenders have purchased Participating Interests ratably to the Lenders and like funds relating to the payment of any other amount payable to any Lender to such Lender, in each case to be applied in accordance with the terms of this Agreement.

Anything contained herein to the contrary notwithstanding, all payments and collections received in respect of the Obligations and all proceeds of the Collateral received, in each instance, by the Agent or any of the Lenders after the occurrence and during the continuation of an Event of Default shall be remitted to the Agent and distributed as follows:

(a) first, to the payment of any outstanding costs and expenses incurred by the Agent, and any security trustee therefor, in monitoring, verifying, protecting, preserving or enforcing the Liens on the Collateral, in protecting, preserving or enforcing rights under the Loan Documents, and in any event all costs and expenses of a character which the Borrowers have agreed to pay the Agent under Section 13.15 hereof (such funds to be retained by the Agent for its own account unless it has previously been reimbursed for such costs and expenses by the Lenders, in which event such amounts shall be remitted to the Lenders to reimburse them for payments theretofore made to the Agent);

(b) second, to the payment of principal and interest on the Swing Note until paid in full;

(c) third, to the payment of any outstanding interest and fees due under the Loan Documents to be allocated *pro rata* in accordance with the aggregate unpaid amounts owing to each holder thereof;

(d) fourth, to the payment of principal on the Notes, unpaid Reimbursement Obligations, together with amounts to be held by the

Agent as collateral security for any outstanding L/C Obligations pursuant to Section 9.4 hereof (until the Agent is holding an amount of cash equal to the then outstanding amount of all such L/C Obligations), and Hedging Liability, the aggregate amount paid to, or held as collateral security for, the Lenders and, in the case of Hedging Liability, their Affiliates to be allocated *pro rata* in accordance with the aggregate unpaid amounts owing to each holder thereof;

(e) fifth, to the payment of all other unpaid Obligations and all other indebtedness, obligations, and liabilities of the Borrowers secured by the Collateral Documents (including, without limitation, Funds Transfer and Deposit Account Liability) to be allocated *pro rata* in accordance with the aggregate unpaid amounts owing to each holder thereof; and

(f) sixth, to the Borrowers or whoever else may be lawfully entitled thereto.

#### Section 4. The Collateral.

*Section 4.1. Collateral.* The Obligations, Hedging Liability, and Funds Transfer and Deposit Account Liability shall be secured by (a) the property pledged by the Mortgage, and (b) the following property of each Borrower, wherever located and whether now owned by such Borrower or hereafter acquired: (i) all Accounts, Inventory, Goods (including, without limitation, Equipment and Fixtures), Investment Property, Instruments, Chattel Paper, Letter of Credit Rights, Deposit Accounts, General Intangibles, Documents and Supporting Obligations; (ii) all money deposits and all funds held on deposit or otherwise under control of the Agent, its agents or any correspondence of the Agent; (iii) an assignment of life insurance as set forth on **Schedule 4.1**, on forms satisfactory to the Agent, and (iv) all parts, accessions to, replacements, substitutions, profits, products and cash and non-cash proceeds of any of the foregoing (including insurance proceeds payable by reason of loss or damage thereto) in any form and wherever located, and shall also include all written or electronically recorded books and records related to any such collateral and other rights related thereto. (All of the foregoing, collectively, the "*Collateral*"). With respect to any real estate collateral pledged by the Mortgage, the Borrowers shall pay all taxes, costs and expenses incurred by the Agent in recording such Mortgage, and shall supply the Agent, at the Borrowers' cost and expense, such hazard insurance and a mortgagee's policy of title insurance from a title insurer acceptable to Agent, as Agent shall reasonably request, together with such other instruments, documents, certificates and opinions reasonably required by the Agent in connection therewith. The Borrowers acknowledge and agree that the Liens on the Collateral shall be granted to the Agent for the benefit of the holders of the Obligations, the Hedging Liability, and the Funds Transfer and Deposit Account Liability and shall be valid and perfected first priority Liens subject, however, to the liens permitted pursuant to Section 8.8, in each case pursuant to one or more Collateral Documents from such Persons, each in form and substance reasonably satisfactory to the Agent.

*Section 4.2. [Reserved].*

*Section 4.3. Further Assurances.* Each Borrower agrees that it shall, from time to time, at the request of the Agent or the Required Lenders, execute and deliver such documents and do such acts and things as the Agent or the Required Lenders may reasonably request in order to provide for or perfect or protect such Liens on the Collateral. In the event any Borrower forms or acquires a Subsidiary after the date hereof, such Borrower shall promptly upon such formation or acquisition cause such newly formed or acquired Subsidiary to execute a Guaranty and such Collateral Documents as the Agent may then require, and such Borrower shall also deliver to the Agent, or cause such Subsidiary to deliver to the Agent, at the Borrowers' cost and expense, such other instruments, documents, certificates, and opinions reasonably required by the Agent in connection therewith.

#### Section 5. Definitions; Interpretation.

*Section 5.1. Definitions.* The following terms when used herein shall have the following meanings:

"*Accounts*" means all Accounts of the Borrowers as defined in the UCC.

"*Account Debtor*" means any Person who is or who may become obligated to any Borrower under or on account of an Account.

"*Acquired Business*" means the entity or assets acquired by Borrower in an Acquisition after the date hereof.

"*Acquisition*" means any transaction or series of related transactions for the purpose of or resulting, directly or indirectly, in (a) the acquisition of all or substantially all of the assets of a Person, or of any business or division of a Person, (b) the acquisition of in excess of 50% of the capital stock, partnership interests, membership interests or equity of any Person (other than a Person that is a Subsidiary), or otherwise causing any Person to become a Subsidiary, or (c) a merger or consolidation or any other combination with another Person (other than a Person that is a Subsidiary) provided that the Borrower is the surviving entity.

"*Administrative Borrower*" shall mean Synalloy Corporation.

"*Affiliate*" means any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, another Person. A Person shall be deemed to control another Person for the purposes of this definition if such Person possesses, directly or indirectly, the power to direct, or cause the direction of, the management and policies of the other Person, whether through the ownership of voting securities, common directors, trustees or officers, by contract or otherwise; *provided that*, in any event for purposes of this definition, any Person that owns, directly or indirectly, 15% or more of the securities having the ordinary voting power for the election of directors or governing body of a corporation or 15% or more of the partnership or other ownership interest of any other Person (other than as a limited partner of such other Person) will be deemed to control such corporation or other Person.

"*Agent*" means Carolina First Bank and any successor pursuant to Section 11.7 hereof.

"*Agreement*" means this Credit Agreement, as the same may be amended, modified, restated or supplemented from time to time pursuant to the

terms hereof.

"Applicable Margin" means that percent per annum set forth below, which shall be based upon the Consolidated Leverage Ratio for the four-quarter period most recently ended as specified below:

<u>Level</u>	<u>Consolidated Leverage Ratio</u>	<u>Applicable Margin</u>
I	Less than or equal to 1.50:1	150 bps
II	Less than or equal to 2:50:1 but greater than 1.50:1	175 bps
III	Less than or equal to 3.50:1 but greater than 2.50:1	200 bps
IV	Less than or equal to 4.50:1 but greater than 3.50:1	250 bps
V	Greater than 4.50:1	300 bps

The Applicable Margin shall be established on each Determination Date. Any change in the Applicable Margin following each Determination Date shall be determined based upon the computations set forth in the certificate furnished to the Agent pursuant to Section 8.5(m), subject to review and approval of such computations by the Agent, and shall be effective commencing on the fifth Business Day following the date such certificate is received until the fifth Business Day following the date on which a new certificate is delivered or is required to be delivered, whichever shall first occur; provided however, if the Borrowers shall fail to deliver any such certificate within the time period required by Section 8.5(m), then the Applicable Margin shall be Tier V until the appropriate certificate is so delivered.

"Applicable Rate" means, as of any date, (i) for Swing Loans, the 1 month LIBOR Rate plus the Applicable Margin, as the same may be adjusted from time to time pursuant to the terms hereof, and (ii) for all other Loans, the LIBOR Rate for the Interest Period as selected by the Borrowers or otherwise determined pursuant to the terms hereof plus the Applicable Margin, as the same may be adjusted from time to time pursuant to the terms hereof.

"Applicable Unused Fee" means that percent per annum set forth below, which shall be based upon the Consolidated Leverage Ratio for the four-quarter period most recently ended as specified below:

<u>Level</u>	<u>Consolidated Leverage Ratio</u>	<u>Applicable Unused Fee</u>
I	Less than or equal to 1.50:1	12.5 bps
II	Less than or equal to 2.50:1 but greater than 1.50:1	15 bps
III	Less than or equal to 3.50:1 but greater than 2.50:1	15.5 bps
IV	Less than or equal to 4.50:1 but greater than 3.50:1	20 bps
V	Greater than 4.50:1	20 bps

The Applicable Unused Fee shall be established on each Determination Date. Any change in the Applicable Unused Fee following each Determination Date shall be determined based upon the computations set forth in the certificate furnished to the Agent pursuant to Section 8.5(m), subject to review and approval of such computations by the Agent, and shall be effective commencing on the fifth Business Day following the date such certificate is received until the fifth Business Day following the date on which a new certificate; is delivered or is required to be delivered, whichever shall first occur; provided however, if the Borrowers shall fail to deliver any such certificate within the time period required by Section 8.5(m), then the Applicable Unused Fee shall be Tier V until the appropriate certificate is so delivered.

"Application" is defined in Section 1.3(b) hereof.

"Authorized Representative" means the President, the Chief Executive Officer, any Vice President of Synalloy Corporation, the Chief Financial Officer or Treasurer of Synalloy Corporation or any other person expressly designated by the Board of Directors (or the appropriate

committee thereof) of the Administrative Borrower as an Authorized Representative of all Borrowers, as set forth from time to time in a certificate in the form attached hereto as **Exhibit E**.

"*Borrowers*" is defined in the introductory paragraph of this Agreement, and "*Borrower*" means any of them.

"*Borrowing*" means the total of Loans of a single type advanced, continued for or converts to an additional Interest Period, by the Lenders under a Credit on a single date. Borrowings of Loans are made and maintained ratably from each of the Lenders under a Credit according to their Percentages of such Credit. A Borrowing is "*advanced*" on the day Lenders advance funds comprising such Borrowing to the Borrowers, is "*continued*" on the date a new Interest Period commences for such Borrowing, and is "*converted*" when such Borrowing is changed from one Interest Period to another, all as requested by the Borrowers pursuant to **[Section 1.5(a)]** hereof. Borrowings of Swing Loans are made by the Agent in accordance with the procedures set forth in Section 1.13 hereof.

"*Borrowing Base*" means the sum of (i) 85% of Eligible Accounts plus (ii) 50% of Eligible Chemicals Inventory plus (iii) 60% of Eligible Metals Inventory, plus (iv) 30% of Eligible Work In Process Metals Inventory, not to exceed \$2,000,000, plus (v) 90% of Cash Surrender Value of Life Insurance, provided however that the value of assets from subclauses (ii), (iii) and (iv) shall not exceed \$7,500,000.00 plus one-half (1/2) of the amount of the Project Reserve then-drawn and outstanding pursuant to Section 7.3 hereof.

"*Borrowing Base Certificate*" means a certificate in the form of **Exhibit F** hereto.

"*Business Day*" means any day (other than a Saturday or Sunday) on which banks are not authorized or required to close in Greenville, South Carolina.

"*Capital Expenditures*" means, with respect to any Person for any period, the aggregate amount of all expenditures (whether paid in cash or accrued as a liability) by such Person during that period for the acquisition or leasing (pursuant to a Capital Lease) of fixed or capital assets or additions to property, plant, or equipment (including replacements, capitalized repairs, and improvements) which should be capitalized on the balance sheet of such Person in accordance with GAAP.

"*Capital Lease*" means any lease of Property which in accordance with GAAP is required to be capitalized on the balance sheet of the lessee.

"*Capitalized Lease Obligation*" means, for any Person, the amount of the liability shown on the balance sheet of such Person in respect of a Capital Lease determined in accordance with GAAP.

"*Cash Surrender Value of Life Insurance*" means the dollar amount, on any date, for which a life insurance company, acceptable to Agent, is obligated to pay to a Borrower a sum certain in consideration of such Borrower's surrender to the issuer of a life insurance policy owned by such Borrower, as evidenced in writing by the insurer. Such life insurance policy shall have been duly assigned to the Agent.

"*Chattel Paper*" shall have the meaning assigned thereto in the UCC.

"*CERCLA*" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. paragraph 9601 *et seq.*, and any future amendments.

"*Closing Date*" means the date of this Agreement or such later Business Day upon which each condition described in Section 7.2 shall be satisfied or waived in a manner acceptable to the Agent in its discretion.

"*Code*" means the Internal Revenue Code of 1986, as amended, and any successor statute thereto.

"*Collateral*" means all properties, rights, interests, and privileges (as described in Section 4.1) from time to time subject to the Liens granted to the Agent, or any security trustee therefor, by the Collateral Documents.

"*Collateral Account*" is defined in Section 9.4 hereof.

"*Collateral Documents*" means the Security Agreement, the Mortgage, and all other mortgages, deeds of trust, security agreements, assignment of life insurance, pledge agreements, assignments, financing statements and other documents as shall from time to time secure or relate to the Obligations, the Hedging Liability, and the Funds Transfer and Deposit Account Liability or any part thereof.

"*Consistent Basis*" in reference to the application of GAAP means the accounting principles observed in the period referred to are comparable in all material respects to those applied in the preparation of the audited consolidated financial statements of the Borrowers referred to in Section 7.6(a) hereof.

"*Consolidated EBITDA*" means, with respect to the Borrowers for any period of computation thereof, the sum of, without duplication, (i) Consolidated Net Income during such period, plus (ii) Consolidated Interest Expense accrued during such period, plus (iii) taxes on income accrued during such period, plus (iv) amortization during such period, plus (v) Depreciation during such period, but excluding non-cash expenses such as environmental accruals and expensing of stock options, adding back cash disbursements to satisfy environmental accruals, all determined on a consolidated basis in accordance with GAAP applied on a Consistent Basis.

"*Consolidated Fixed Charges*" means, with respect to the Borrowers for the period of computation thereof, the sum of, without duplication, (i) Consolidated Interest Expense during such period, plus (ii) current maturities of Consolidated Indebtedness for Money Borrowed actually paid during such period, all determined in accordance with GAAP applied on a Consistent Basis.

"*Consolidated Fixed Charge Ratio*" means, with respect to the Borrowers for the period of computation thereof, the ratio of (i) Consolidated

EBITDA for such period less shareholder/member dividends and distributions, to (ii) Consolidated Fixed Charges for such period.

*"Consolidated Indebtedness"* means, as of any date on which the amount thereof is to be determined, all Debt of the Borrowers as determined on a consolidated basis.

*"Consolidated Indebtedness for Money Borrowed"* means, as of any date on which the amount thereof is to be determined, all Indebtedness for Money Borrowed of the Borrowers, excluding for purposes of Section 9.1 the undrawn amount of letters of credit, as determined on a consolidated basis.

*"Consolidated Indebtedness to Tangible Net Worth Ratio"* means, with respect to the Borrowers for the period of computation thereof, the ratio of (i) Consolidated Indebtedness for such period to (ii) Consolidated Tangible Net Worth.

*"Consolidated Interest Expense"* means, for any period of computation thereof, the gross interest expense of the Borrowers, including without limitation (i) the current amortized portion of debt discounts to the extent included in gross interest expense, (ii) the current amortized portion of all fees (including, without limitation, fees payable in respect of a Swap Agreement) payable in connection with the incurrence of Consolidated Indebtedness to the extent included in gross interest expense, and (iii) the portion of any payments made in connection with Capital Leases allocable to interest expense, all determined on a consolidated basis in accordance with GAAP applied on a Consistent Basis.

*"Consolidated Leverage Ratio"* means, as of the last day of any fiscal quarter of the Borrowers, the ratio of the aggregate outstanding principal amount of all Debt of the Borrowers to EBITDA of the Borrowers for the period of four consecutive fiscal quarters then-ended, on a consolidated basis.

*"Consolidated Net Income"* means, for any period of computation thereof, the consolidated net income of the Borrowers determined in accordance with GAAP applied on a Consistent Basis.

*"Consolidated Shareholders' Equity"* means, as of any date on which the amount thereof is to be determined, the sum of the following in respect of the Borrowers: (i) the amount of issued and outstanding share capital, plus (ii) the amount of additional paid-in capital and retained earnings (or, in the case of a deficit, minus the amount of such deficit), plus (iii) the amount of any foreign currency translation adjustment (if positive, or, if negative, minus the amount of such translation adjustment), minus (iv) the amount of any treasury stock, all determined on a consolidated basis in accordance with GAAP applied on a Consistent Basis.

*"Consolidated Tangible Net Worth"* means, with respect to the Borrowers as of any date on which the amount thereof is to be determined, Consolidated Shareholders' Equity minus the net book value of all assets of the Borrowers which would be treated as intangible assets determined on a consolidated basis in accordance with GAAP applied on a Consistent Basis.

*"Contingent Obligation"* of any Person means all contingent liabilities required (or which, upon the creation or incurring thereof, would be required) to be included in the financial statements (including footnotes) of such Person in accordance with GAAP applied on a Consistent Basis, and any obligation of such Person guaranteeing or in effect guaranteeing any Indebtedness, dividend or other obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, including obligations of such Person however incurred:

- (1) to purchase such Indebtedness or other obligation or any property or assets constituting security therefor;
- (2) to advance or supply funds in any manner (i) for the purchase or payment of such Indebtedness or other obligation, or (ii) to maintain a minimum working capital, net worth or other balance sheet condition or any income statement condition of the primary obligor;
- (3) to grant or convey any lien, security interest, pledge, charge or other encumbrance on any property or assets of such Person to secure payment of such Indebtedness or other obligation;
- (4) to lease property or to purchase securities or other property or services primarily for the purpose of assuring the owner or holder of such Indebtedness or obligation of the ability of the primary obligor to make payment of such Indebtedness or other obligation; or
- (5) otherwise to assure the owner of the Indebtedness or such obligation of the primary obligor against loss in respect thereof;

*"Controlled Group"* means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrowers, are treated as a single employer under Section 414 of the Code.

*"Credit"* means any of the Revolving Credit, the Term Credit or the Swing Line.

*"Credit Event"* means the advancing of any Loan, the continuation or conversion of a Loan, or the issuance of, or extension of the expiration date or increase in the amount of, any Letter of Credit.

*"Debt"* means, at any time the same is to be determined, the aggregate of all indebtedness of each Borrower on a consolidated basis (without duplication) at such time with respect to (a) borrowed money; (b) the aggregate amount of Capitalized Lease Obligations; (c) all indebtedness secured by any Lien on any Property of each Borrower; (d) all indebtedness representing the deferred purchase price of Property or services, excluding trade payables in the ordinary course of business, (e) letters of credit, and (f) direct guaranties and indemnities in respect of, and to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, or to assure an obligee against failure to make payment in respect of, liabilities, obligations or indebtedness of others of the kinds referred to in clauses (a) through (e) above.

*"Default"* means any event or condition the occurrence of which would, with the passage of time or the giving of notice, or both, constitute an Event of Default.

"*Deposit Accounts*" shall have the meaning assigned thereto in the UCC.

"*Depreciation*" means, with respect to the Borrowers for any period of computation thereof, the aggregate amount of depreciation accrued during such period as determined on a consolidated basis in accordance with GAAP applied on a Consistent Basis.

"*Determination Date*" means the last Business Day of each fiscal quarter of the Borrowers.

"*Eligible Accounts*" means those Accounts of each Borrower arising from the sale of goods or services, which goods or services have actually been delivered to the payee therefor, less those Accounts which: (i) remain unpaid more than ninety (90) days after the issue date thereof, unless otherwise agreed to by Agent on a case by case basis; (ii) are disputed or otherwise subject to any setoff, credit allowance or adjustment by the Account Debtor; (iii) arise as a result of an Intercompany Transaction; (iv) are Accounts owing by an Account Debtor which is not Solvent; (v) are Accounts owed by an Account Debtor located outside of the continental United States of America which are not fully secured by a letter of credit or credit insurance acceptable to Agent; (vi) are Accounts owed by the United States of America or any other governmental or quasi-governmental unit, agency or subdivision unless the respective Borrower shall have complied with all applicable federal and state assignment of claims laws, and such Borrower has provided Agent with written evidence satisfactory to Agent of such compliance; or (vii) are otherwise unacceptable to Agent, in its reasonable discretion, all of the foregoing being subject to a valid first priority perfected security interest in favor of Agent subject to Permitted Liens.

"*Eligible Chemicals Inventory*" means raw materials and finished goods Inventory in Borrowers' chemical divisions that is held for sale in the ordinary course of Borrowers' business, located at one of the locations of Borrowers set forth on **Exhibit G**, complies with each of the representations and warranties respecting Inventory made by Borrowers in the Loan Documents, and that is not excluded by virtue of the following criteria. An item of Inventory shall not be included in Inventory if (i) a Borrower does not have good, valid and marketable title thereto, (ii) is not located at one of the locations in the United States set forth on **Exhibit G** or in transit from one such location to another such location; (iii) is not subject to a valid and perfected first priority security interest in the Agent other than a Permitted Lien; (iv) consists of labor or overhead attributable to raw materials or finished goods of inventory owned by third parties, including without limitation "toll" inventory, or (v) consists of goods in possession of third parties on a consignment basis.

"*Eligible Line of Business*" means any business engaged in as of the date of this Agreement by any Borrower.

"*Eligible Metals Inventory*" means raw materials and finished goods Inventory in Borrowers' metal divisions that is held for sale in the ordinary course of Borrowers' business, located at one of the locations of Borrowers set forth on **Exhibit G**, complies with each of the representations and warranties respecting Inventory made by Borrowers in the Loan Documents, and that is not excluded by virtue of the following criteria. An item of Inventory shall not be included in Inventory if (i) a Borrower does not have good, valid and marketable title thereto, (ii) is not located at one of the locations in the United States set forth on **Exhibit G** or in transit from one such location to another such location; (iii) is not subject to a valid and perfected first priority security interest in the Agent other than a Permitted Lien; (iv) consists of labor or overhead attributable to raw materials or finished goods of inventory owned by third parties, including without limitation "toll" inventory, or (v) consists of goods in possession of third parties on a consignment basis.

"*Eligible Work In Process Metals Inventory*" means work in process Inventory in Borrowers' metals division.

"*Environmental Claim*" means any investigation, notice, violation, demand, allegation, action, suit, injunction, judgment, order, consent decree, penalty, fine, lien, proceeding or claim (whether administrative, judicial or private in nature) arising (a) pursuant to, or in connection with an actual or alleged violation of, any Environmental Law, (b) in connection with any Hazardous Material, (c) from any abatement, removal, remedial, corrective or response action in connection with a Hazardous Material, Environmental Law or order of a governmental authority or (d) from any actual or alleged damage, injury, threat or harm to health, safety, natural resources or the environment.

"*Environmental Law*" means any current or future Legal Requirement pertaining to (a) the protection of health, safety and the indoor or outdoor environment, (b) the conservation, management or use of natural resources and wildlife, (c) the protection or use of surface water or groundwater, (d) the management, manufacture, possession, presence, use, generation, transportation, treatment, storage, disposal, Release, threatened Release, abatement, removal, remediation or handling of, or exposure to, any Hazardous Material or (e) pollution (including any Release to air, land, surface water or groundwater), and any amendment, rule, regulation, order or directive issued thereunder.

"*Equipment*" shall have the meaning assigned thereto in the UCC.

"*ERISA*" means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute thereto.

"*Event of Default*" means any event or condition identified as such in Section 9.1 hereof.

"*Federal Funds Rate*" means the fluctuating interest rate per annum quoted rate determined by the Agent to be the average (rounded upward, if necessary, to the next higher 1/100 of 1%) of the rates per annum to the Agent at approximately 10:00 a.m. (Greenville, South Carolina time or as soon thereafter as is practicable) on such day (or, if such day is not a Business Day, on the immediately preceding Business Day) by two or more Federal funds brokers selected by the Agent for sale to the Agent at face value of Federal funds in the secondary market in an amount comparable to the principal amount owed to the Agent for which such rate is being determined.

"*Fixtures*" shall have the meaning assigned thereto in the UCC.

"*Funds Transfer and Deposit Account Liability*" means the liability of any Borrower owing to any of the Lenders, or any Affiliates of such Lenders, arising out of (a) the execution or processing of electronic transfers of funds by automatic clearing house transfer, wire transfer or otherwise to or from the deposit accounts of such Borrower now or hereafter maintained with any of the Lenders or their Affiliates, (b) the

acceptance for deposit or the honoring for payment of any check, draft or other item with respect to any such deposit accounts, and (c) any other deposit, disbursement, and cash management services afforded to a Borrower by any of such Lenders or their Affiliates.

"GAAP" means generally accepted accounting principles set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession) and Public Company Accounting Oversight Board (United States) which are applicable to the circumstances as of the date of determination.

"General Intangibles" shall have the meaning assigned thereto in the UCC.

"Goods" shall have the meaning assigned thereto in the UCC.

"Hazardous Material" means any substance, chemical, compound, product, solid, gas, liquid, waste, byproduct, pollutant, contaminant or material which is hazardous or toxic, and includes, without limitation, (a) asbestos, polychlorinated biphenyls and petroleum (including crude oil or any fraction thereof) and (b) any material classified or regulated as "hazardous" or "toxic" or words of like import pursuant to an Environmental Law.

"Hazardous Material Activity" means any activity, event or occurrence involving a Hazardous Material, including, without limitation, the manufacture, possession, presence, use, generation, transportation, treatment, storage, disposal, Release, threatened Release, abatement, removal, remediation, handling of or corrective or response action to any Hazardous Material.

"Hedging Liability" means the liability of any Borrower to any of the Lenders, or any Affiliates of such Lenders, in respect of any interest rate swap agreements, interest rate cap agreements, interest rate collar agreements, interest rate floor agreements, interest rate exchange agreements, commodity option, commodity forward contract, commodity swap, cap, collar or floor, foreign currency contracts, currency swap contracts, or other similar interest rate, commodity or currency hedging arrangements as any Borrower may from time to time enter into with any one or more of the Lenders party to this Agreement or their Affiliates.

"Intercompany Transaction" means any Account, Chattel Paper, General Intangible, Instrument, Document or other Debt or obligation arising from business done with or for, or Indebtedness owed between or among any Borrower and any other Borrower or Subsidiary or Affiliate thereof.

"Interest Expense" means, with reference to any period, the sum of all interest charges (including imputed interest charges with respect to Capitalized Lease Obligations and all amortization of debt discount and expense) of any Borrower for such period determined on a consolidated basis in accordance with GAAP.

"Interest Period" is defined in Section 1.7 hereof.

"Internal Control Event" means a material weakness in, or fraud that involves management or other employees who have a significant role in, the Borrowers' internal controls over financial reporting, in each case as described in the Securities Laws.

"Instruments" shall have the meaning assigned thereto in the UCC.

"Inventory" shall have the meaning assigned thereto in the UCC.

"Investment Property" shall have the meaning assigned thereto in the UCC.

"L/C Issuer" means Carolina First Bank.

"L/C Obligations" means the aggregate undrawn face amounts of all outstanding Letters of Credit and all unpaid Reimbursement Obligations.

"L/C Sublimit" means \$2,000,000, as reduced pursuant to the terms hereof.

"Legal Requirement" means any treaty, convention, statute, law, regulation, ordinance, license, permit, governmental approval, injunction, judgment, order, consent decree or other requirement of any governmental authority, whether federal, state, or local.

"Lenders" means and includes Carolina First Bank and Regions Bank, and the other financial institutions from time to time party to this Agreement, including each assignee Lender pursuant to Section 13.12 hereof.

"Lending Office" is defined in Section 10.4 hereof.

"Letter of Credit" is defined in Section 1.3(a) hereof.

"Letter of Credit Rights" shall have the meaning assigned thereto in the UCC.

"LIBOR Rate" means, (i) for any Interest Period of 2, 3 or 6 months, the rate per annum (rounded upwards, if necessary, to the next higher 1/100 of a percentage point) for deposits in U.S. dollars for a period equal to such Interest Period, which appears on the Telerate Page 3750 as of 11:00 a.m. (London, England time) on the day two (2) Business Days before the commencement of such Interest Period, and (ii) for any 1 month Interest Period, the rate per annum, (rounded upwards, if necessary, to the next higher 1/100<sup>th</sup> of a percentage point) for deposits in U.S. Dollars for a 1 month period which appears on the Telerate Page 3750 as of 11:00 a.m. (London, England time, on the first (1<sup>st</sup>) day of the month in which a Borrowing having a 1 month Interest Period is made, and ending on the last day of such month, and adjusted based upon the

LIBOR Rate as of the first day of the next succeeding month. If the LIBOR Rate is unavailable for any reason whatsoever, the Agent may, in its reasonable discretion, substitute the Federal Funds Rate plus 20 bp.

"*Lien*" means any mortgage, lien, security interest, pledge, charge or encumbrance of any kind in respect of any Property, including the interests of a vendor or lessor under any conditional sale, Capital Lease or other title retention arrangement.

"*Loan*" means any Revolving Loan, Term Loan or Swing Loan, each of which is a "*type*" of Loan hereunder.

"*Loan Documents*" means this Agreement, the Notes, the Applications, the Collateral Documents, and each other instrument or document to be delivered hereunder or thereunder or otherwise in connection therewith.

"*Material Adverse Effect*" means (a) a material adverse change in, or material adverse effect upon, the operations, business, Property, or a condition (financial or otherwise) of any Borrower or of any Borrower taken as a whole, (b) a material impairment of the ability of any Borrower to perform its material obligations under any Loan Document or (c) a material adverse effect upon (i) the legality, validity, binding effect or enforceability against any Borrower of any Loan Document or the rights and remedies of the Agent and the Lenders thereunder or (ii) the perfection or priority of any Lien granted under any Collateral Document.

"*Moody's*" means Moody's Investors Service, Inc.

"*Mortgage*" means those certain mortgages and deeds of trust dated as of the Closing Date and given to the Agent for the benefit of the Lenders, pledging the real property pledged at as Collateral for the Obligations, together with all improvements situated thereon and all rights, easements and appurtenances associated therewith.

"*Notes*" means and includes the Revolving Notes, the Term Notes and the Swing Note.

"*Obligations*" means all obligations of the Borrowers to pay principal and interest on the Loans, all Reimbursement Obligations owing under the Applications, all fees and charges payable hereunder, and all other payment obligations of the Borrowers arising under or in relation to any Loan Document, in each case whether now existing or hereafter arising, due or to become due, direct or indirect, absolute or contingent, and howsoever evidenced, held or acquired.

"*Participating Interest*" is defined in Section 1.3(d) hereof.

"*Participating Lender*" is defined in Section 1.3(d) hereof.

"*PBGC*" means the Pension Benefit Guaranty Corporation or any Person succeeding to any or all of its functions under ERISA.

"*Percentage*" means for any Lender its Revolver Percentage, or Term Loan Percentage, as applicable; and where the term "*Percentage*" is applied on an aggregate basis (including, without limitation, Section 11.6) such aggregate Percentage shall be calculated by aggregating the separate components of the Revolver Percentage and the Term Loan Percentage, and expressing such components on a single percentage basis.

"*Permitted Acquisition*" means any Acquisition with respect to which all of the following conditions shall have been satisfied:

- (a) the Acquired Business is in an Eligible Line of Business and has its primary operations within the United States of America;
- (b) the Borrowers shall have provided to the Agent such financial statements for the Acquired Businesses as the Borrower is required to obtain under applicable Securities Laws;
- (c) the Total Consideration for the Acquired Business, when taken together with the Total Consideration for all Acquired Businesses acquired during the immediately preceding 12-month period, does not exceed \$2,000,000 in the aggregate;
- (d) if the Total Consideration for the Acquired Business exceeds \$1,000,000, then the Borrowers shall have notified the Agent and Lenders not less than 30 days prior to any such Acquisition and furnished to the Agent and Lenders at such time reasonable details as to such Acquisition (including sources and uses of funds therefor), and a certificate signed the chief financial officer of the Borrowers showing in reasonable detail compliance on a pro forma basis with the requirements of Sections 8.22, 8.23 and 8.24 hereof for the immediately preceding twelve month period of the Borrowers immediately preceding the date of such Acquisition and the four consecutive fiscal quarters of the Borrowers immediately following the date of such Acquisition;
- (e) if the Acquisition involves the merger of any Borrower and another Person, the Borrower shall be the surviving entity or the surviving entity shall become a Borrower hereunder;
- (f) if a new Subsidiary is formed or acquired as a result of or in connection with the Acquisition, the Borrower shall have complied with the requirements of Section 4 hereof in connection therewith; and
- (g) after giving effect to the Acquisition, no Default or Event of Default shall exist, including with respect to the covenants contained in Sections 8.22, 8.23 and 8.24 on a *pro forma* basis.

"*Person*" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization or any other entity or organization, including a government or agency or political subdivision thereof.

"*Plan*" means any employee pension benefit plan covered by Title IV of ERISA or subject to the minimum funding standards under

Section 412 of the Code that either (a) is maintained by a member of the Controlled Group for employees of a member of the Controlled Group or (b) is maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which a member of the Controlled Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

"Premises" means the real property owned or leased by any Borrower.

"Project Reserve" means a sublimit under the Revolving Credit in the amount of \$5,000,000, which may be drawn by the Borrowers only subject to the conditions and terms set forth in Section 7.3 hereof.

"Property" means, as to any Person, all types of real, personal, tangible, intangible or mixed property owned by such Person whether or not included in the most recent balance sheet of such Person and its subsidiaries under GAAP.

"RCRA" means the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and Hazardous and Solid Waste Amendments of 1984, 42 U.S.C. paragraph 6901 *et seq.*, and any future amendments.

"Reimbursement Obligation" is defined in Section 1.3(c) hereof.

"Release" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, migration, dumping, or disposing into the indoor or outdoor environment, including, without limitation, the abandonment or discarding of barrels, drums, containers, tanks or other receptacles containing or previously containing any Hazardous Material.

"Required Lenders" means, as of the date of determination thereof, Lenders whose outstanding interest in Revolving Loans, interests in Term Loans, interests in Swing Line Loans and interests in Letters of Credit and Unused Revolving Credit Commitments constitute more than 60% of the sum of the total outstanding interests in Revolving Loans, interests in Term Loans, interests in Swing Line Loans, interests in Letters of Credit, and Unused Revolving Credit Commitments of the Lenders (provided that, for purposes of the foregoing, Unused Revolving Credit Commitments shall include the Project Revenue)..

"Responsible Officers" shall mean the Chief Executive Officer, the Chief Financial Officer or such officers as are designated by such Administrative Borrower in writing from time to time who are reasonably satisfactory to the Agent.

"Revolver Percentage" means, for each Lender, the percentage of the Revolving Credit Commitments represented by such Lender's Revolving Credit Commitment or, if the Revolving Credit Commitments have been terminated, the percentage held by such Lender (including through participation interests in Reimbursement Obligations) of the aggregate principal amount of all Revolving Loans and L/C Obligations then outstanding.

"Revolving Credit" means the credit facility for making Revolving Loans and issuing Letters of Credit described in Sections 1.2 and 1.3 hereof.

"Revolving Credit Commitment" means, as to any Lender, the obligation of such Lender to make Revolving Loans and to participate in Letters of Credit issued for the account of the Borrowers hereunder in an aggregate principal or face amount at any one time outstanding not to exceed the amount set forth opposite such Lender's name on **Schedule 1** attached hereto and made a part hereof, as the same may be reduced or modified at any time or from time to time pursuant to the terms hereof. The Borrowers and the Lenders acknowledge and agree that the Revolving Credit Commitments of the Lenders aggregate \$20,000,000 on the date hereof, subject further, to the Project Reserve conditions set forth in Section 7.3 hereof.

"Revolving Credit Termination Date" means December 31, 2010 or such earlier date on which the Revolving Credit Commitments are terminated in whole pursuant to Section 9.2 or 9.3 hereof.

"Revolving Loan" is defined in Section 1.2 hereof.

"Revolving Note" is defined in Section 1.11 hereof.

"S&P" means Standard & Poor's Ratings Services Group, a division of The McGraw-Hill Companies, Inc.

"Sarbanes-Oxley" means the Sarbanes-Oxley Act of 2002.

"SEC" means the Securities and Exchange Commission, or any governmental authority succeeding to any of its principal functions.

"Securities Laws" means the Securities Act of 1933, the Securities Exchange Act of 1934, Sarbanes-Oxley and the applicable accounting and auditing principles, rules, standards and practices promulgated, approved or incorporated by the SEC or the Public Company Accounting Oversight Board, as each of the foregoing may be amended and in effect on any applicable date hereunder.

"Security Agreement" means that certain Security Agreement dated as of the date hereof between the Borrowers and the Agent for the benefit of the Lenders and substantially in the form of **Exhibit H** hereto, as hereafter amended, supplemented or replaced from time to time.

"Subsidiary" means, as to any particular parent corporation or organization, any other corporation or organization more than 50% of the outstanding Voting Stock of which is at the time directly or indirectly owned by such parent corporation or organization or by any one or more other entities which are themselves subsidiaries of such parent corporation or organization. Unless otherwise expressly noted herein, the term "Subsidiary" means a Subsidiary of any Borrower or of any of its direct or indirect Subsidiaries.

"*Supporting Obligations*" shall have the meaning assigned thereto in the UCC.

"*Swing Line*" means the credit facility for making one or more Swing Loans described in Section 1.14 hereof.

"*Swing Line Sublimit*" means \$3,000,000.

"*Swing Loan*" and "*Swing Loans*" each is defined in Section 1.14 hereof.

"*Swing Note*" is defined in Section 1.11 hereof.

"*Term Credit*" means the credit facility for Term Loans described in Section 1.1(a) hereof.

"*Term Credit Termination Date*" means December 31, 2010.

"*Term Loan*" is defined in Section 1.1(a) hereof.

"*Term Loan Commitment*" means, as to any Lender, the obligation of such Lender to make its Term Loan on the Closing Date, in the aggregate principal amount not to exceed the amount set forth such Lender's name on Schedule 1 attached hereto and made a part hereof. The Borrowers and the Lenders acknowledge and agree that the Term Loan Commitments of the Lenders aggregate \$7,000,000 on the date hereof.

"*Term Loan Percentage*" means, for each Lender, the percentage of the Term Loan Commitments represented by such Lender's Term Loan Commitment.

"*Term Note*" is defined in Section 1.11 hereof.

"*Total Consideration*" means the total amount (but without duplication) of (a) cash paid in connection with any Acquisition, but excluding any cash proceeds of the issuance and sale of equity securities of a Borrower issued for the purpose of financing such Acquisition, plus (b) indebtedness payable to the seller in connection with such Acquisition, plus (c) the present value (based on a commercially-reasonable discount rate in effect at the time of calculation) of covenants not to compete entered into in connection with such Acquisition or other future payments which are required to be made over a period of time and are not contingent upon a Borrower or its Subsidiary meeting financial performance objectives (exclusive of salaries paid in the ordinary course of business) (discounted at commercially-reasonable rate), but only to the extent not included in clause (a), (b) or (c) above, plus (d) the amount of indebtedness assumed in connection with such Acquisition.

"*Total Shareholders' Equity*" means, at any time the same is to be determined, the total shareholder's equity of a Borrower and its Subsidiaries which would appear on the balance sheet of such Borrower prepared on a consolidated basis in accordance with GAAP.

"*UCC*" means the Uniform Commercial Code in effect under the laws of the State of South Carolina, as amended from time to time.

"*Unfunded Vested Liabilities*" means, for any Plan at any time, the amount (if any) by which the present value of all vested nonforfeitable accrued benefits under such Plan exceeds the fair market value of all Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the Controlled Group to the PBGC or the Plan under Title IV of ERISA.

"*Unused Revolving Credit Commitments*" means, at any time, the difference between the Revolving Credit Commitments then in effect and the aggregate outstanding principal amount of Revolving Loans and L/C Obligations, *provided* that (i) Swing Loans outstanding from time to time shall be deemed to reduce the Unused Revolving Credit Commitment of the Agent for purposes of computing the commitment fee under Section 2.1(a) hereof, and (ii) the Unused Revolving Credit Commitment shall at all times be reduced by the amount of the Project Reserve.

"*U.S. Dollars*" and "\$" each means the lawful currency of the United States of America.

"*Voting Stock*" of any Person means capital stock or other equity interests of any class or classes (however designated) having ordinary power for the election of directors or other similar governing body of such Person, other than stock or other equity interests having such power only by reason of the happening of a contingency.

"*Welfare Plan*" means a "welfare plan" as defined in Section 3(1) of ERISA.

"*Wholly-owned Subsidiary*" means a Subsidiary of which all of the issued and outstanding shares of capital stock (other than directors' qualifying shares as required by law) or other equity interests are owned by a Borrower and/or one or more Wholly-owned Subsidiaries within the meaning of this definition.

*Section 5.2. Interpretation.* The foregoing definitions are equally applicable to both the singular and plural forms of the terms defined. The words "*hereof*", "*herein*", and "*hereunder*" and words of like import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. All references to time of day herein are references to Greenville, South Carolina, time unless otherwise specifically provided. Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, it shall be done in accordance with GAAP except where such principles are inconsistent with the specific provisions of this Agreement.

*Section 5.3. Change in Accounting Principles.* If, after the date of this Agreement, there shall occur any change in GAAP from those used in the preparation of the financial statements referred to in Section 6.5 hereof and such change shall result in a change in the method of calculation of any financial covenant, standard or term found in this Agreement, either the Borrowers or the Required Lenders may by notice to the

Lenders and the Borrowers, respectively, require that the Lenders and the Borrowers negotiate in good faith to amend such covenants, standards, and term so as equitably to reflect such change in accounting principles, with the desired result being that the criteria for evaluating the financial condition of the Borrowers shall be the same as if such change had not been made. No delay by the Borrowers or the Required Lenders in requiring such negotiation shall limit their right to so require such a negotiation at any time after such a change in accounting principles. Until any such covenant, standard, or term is amended in accordance with this Section 5.3, financial covenants shall be computed and determined in accordance with GAAP in effect prior to such change in accounting principles. Without limiting the generality of the foregoing, the Borrowers shall neither be deemed to be in compliance with any financial covenant hereunder nor out of compliance with any financial covenant hereunder if such state of compliance or noncompliance, as the case may be, would not exist but for the occurrence of a change in accounting principles after the date hereof.

#### Section 6. Representations and Warranties.

The Borrowers represent and warrant to the Agent and the Lenders as follows:

*Section 6.1. Organization and Qualification.* Each Borrower is duly organized, validly existing and in good standing under the laws of its respective State of incorporation or organization, has full and adequate power to own its Property and conduct its business as now conducted, and is duly licensed or qualified and in good standing in each jurisdiction in which the nature of the business conducted by it or the nature of the Property owned or leased by it requires such licensing or qualifying, except where the failure to do so would not have a Material Adverse Effect.

*Section 6.2. Subsidiaries.* Each Subsidiary is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated or organized, as the case may be, has full and adequate power to own its Property and conduct its business as now conducted, and is duly licensed or qualified and in good standing in each jurisdiction in which the nature of the business conducted by it or the nature of the Property owned or leased by it requires such licensing or qualifying, except where the failure to do so would not have a Material Adverse Effect. **Schedule 6.2** hereto identifies each Subsidiary, the jurisdiction of its incorporation or organization, as the case may be, the percentage of issued and outstanding shares of each class of its capital stock or other equity interests owned by a Borrower and the other Subsidiaries and, if such percentage is not 100% (excluding directors' qualifying shares as required by law), a description of each class of its authorized capital stock and other equity interests and the number of shares of each class issued and outstanding. All of the outstanding shares of capital stock and other equity interests of each Subsidiary are validly issued and outstanding and fully paid and nonassessable and all such shares and other equity interests indicated on **Schedule 6.2** as owned by any Borrower or another Subsidiary are owned, beneficially and of record, by the Borrower or such Subsidiary free and clear of all Liens other than the Liens granted in favor of the Agent pursuant to the Collateral Documents. There are no outstanding commitments or other obligations of any Subsidiary to issue, and no options, warrants or other rights of any Person to acquire, any shares of any class of capital stock or other equity interests of any Subsidiary.

*Section 6.3. Authority and Validity of Obligations.* Each Borrower has full right and authority to enter into this Agreement and the other Loan Documents executed by it, to make the borrowings herein provided for, to issue its Notes in evidence thereof, to grant to the Agent the Liens described in the Collateral Documents executed by the Borrowers, and to perform all of its obligations hereunder and under the other Loan Documents executed by it. The Loan Documents delivered by the Borrowers have been duly authorized, executed, and delivered by such Person and constitute valid and binding obligations of such Person enforceable against it in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance or similar laws affecting creditors' rights generally and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law); and this Agreement and the other Loan Documents do not, nor does the performance or observance by any Borrower of any of the matters and things herein or therein provided for, (a) contravene or constitute a default under any provision of law or any judgment, injunction, order or decree binding upon any Borrower or any provision of the organizational documents (e.g., charter, articles of incorporation or by-laws, articles of association or operating agreement, partnership agreement or other similar document) of any Borrower, (b) contravene or constitute a default under any covenant, indenture or agreement of or affecting any Borrower or any of its Property, in each case where such contravention or default, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect or (c) result in the creation or imposition of any Lien on any Property of any Borrower other than the Liens granted in favor of the Agent pursuant to the Collateral Documents.

*Section 6.4. Use of Proceeds; Margin Stock.* The Borrowers shall use the proceeds of (a) the Revolving Credit to refinance existing debt, for general working capital purposes and for such other legal and proper purposes as are consistent with all applicable laws, and (b) the Term Loans to refinance existing indebtedness of the Borrowers. None of the Borrowers is engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any Loan or any other extension of credit made hereunder will be used to purchase or carry any such margin stock or to extend credit to others for the purpose of purchasing or carrying any such margin stock. Margin stock (as hereinabove defined) constitutes less than 25% of the assets of any Borrower and its Subsidiaries which are subject to any limitation on sale, pledge or other restriction hereunder.

*Section 6.5. Financial Reports.* The consolidated balance sheet of the Borrowers and their Subsidiaries furnished to the Lenders in applying for the Loans fairly present the consolidated financial condition of the Borrowers and their Subsidiaries as at said dates and the consolidated results of their operations and cash flows for the periods then ended in conformity with GAAP applied on a consistent basis. Neither any Borrower nor any Subsidiary has contingent liabilities which are material to it other than as indicated on such financial statements or, with respect to future periods, on the financial statements furnished pursuant to Section 8.5 hereof.

*Section 6.6. No Material Adverse Change.* Since September 30, 2005, there has been no change in the condition (financial or otherwise) or with respect to the assets of any Borrower and its Subsidiaries taken as a whole, except those occurring in the ordinary course of business, none of which individually or in the aggregate have been materially adverse, nor has any Internal Control Event occurred since the time such

information was furnished.

*Section 6.7. Full Disclosure.* The written statements and information furnished to the Agent and the Lenders in connection with the negotiation of this Agreement and the other Loan Documents and the commitments by the Lenders to provide all or part of the financing contemplated hereby, taken as a whole, do not contain any untrue statements of a material fact or, to the best of each Borrower's knowledge, omit a material fact necessary to make the material statements contained herein or therein not misleading, the Agent and the Lenders acknowledging that as to any projections furnished to the Agent and the Lenders, each Borrower only represents that the same were prepared on the basis of information and estimates such Borrower believed to be reasonable.

*Section 6.8. Trademarks, Franchises, and Licenses.* To the best of its knowledge, the Borrowers own, possess, or have the right to use all necessary patents, licenses, franchises, trademarks, trade names, trade styles, copyrights, trade secrets, know how, and confidential commercial and proprietary information to conduct their businesses as now conducted, without known conflict with any patent, license, franchise, trademark, trade name, trade style, copyright or other proprietary right of any other Person.

*Section 6.9. Governmental Authority and Licensing.* The Borrowers have received all licenses, permits, and approvals of all federal, state, and local governmental authorities, if any, necessary to conduct their businesses, in each case where the failure to obtain or maintain the same could reasonably be expected to have a Material Adverse Effect. No investigation or proceeding which, if adversely determined, could reasonably be expected to result in revocation or denial of any material license, permit or approval is pending or, to the knowledge of the Borrower, threatened.

*Section 6.10. Good Title.* The Borrowers have good and defensible title (or valid leasehold interests) to their assets as reflected on the most recent consolidated balance sheet of the Borrowers furnished to the Agent and the Lenders (except for sales of assets in the ordinary course of business), subject to no Liens other than such thereof as are permitted by Section 8.8 hereof.

*Section 6.11. Litigation and Other Controversies.* There is no litigation or governmental proceeding or labor controversy pending, nor to the knowledge of any Borrower threatened, against any Borrower or any Subsidiary which if adversely determined, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect which is not fully covered by insurance (subject to a deductible of not more than \$250,000) for which the insurer has accepted coverage.

*Section 6.12. Taxes.* All tax returns required to be filed by the Borrowers in any jurisdiction have, in fact, been filed, and all taxes, assessments, fees, and other governmental charges upon the Borrowers or upon any of their Property, income or franchises, which are shown to be due and payable in such returns, have been paid, except such taxes, assessments, fees and governmental charges, if any, as are being contested in good faith and by appropriate proceedings which prevent enforcement of the matter under contest and as to which adequate reserves established in accordance with GAAP have been provided. No Borrower knows of any proposed additional tax assessment against it or its Subsidiaries for which adequate provisions in accordance with GAAP have not been made on their accounts. Adequate provisions in accordance with GAAP for taxes on the books of each Borrower and each Subsidiary have been made for all open years, and for its current fiscal period.

*Section 6.13. Approvals.* No authorization, consent, license or exemption from, or filing or registration with, any court or governmental department, agency or instrumentality, nor any approval or consent of any other Person, is or will be necessary to the valid execution, delivery or performance by any Borrower of any Loan Document, except for such approvals which have been obtained prior to the date of this Agreement and remain in full force and effect, except in each case where the failure to obtain such authorization, consent, license or exemption or to make such filing or to obtain such approval or consent would not be reasonably expected to have a Material Adverse Effect.

*Section 6.14. Affiliate Transactions.* No Borrower is a party to any contracts or agreements with any of its Affiliates or Subsidiaries (other than with Wholly-owned Subsidiaries) on terms and conditions which are less favorable to such Borrower than would be usual and customary in similar contracts or agreements between Persons not affiliated with each other.

*Section 6.15. Investment Company; Public Utility Holding Company.* No Borrower is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or a "public utility holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

*Section 6.16. ERISA.* Each Borrower and each other member of its Controlled Group has fulfilled its obligations under the minimum funding standards of and is in compliance in all material respects with ERISA and the Code to the extent applicable to it and has not incurred any liability to the PBGC or a Plan under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA. No Borrower has any contingent liabilities with respect to any post-retirement benefits under a Welfare Plan, other than liability for continuation coverage described in article 6 of Title I of ERISA.

*Section 6.17. Compliance with Laws.* (a) Each Borrower is in compliance with the requirements of all federal, state and local laws, rules and regulations applicable to or pertaining to its Property or business operations (including, without limitation, Securities Laws, the Occupational Safety and Health Act of 1970, the Americans with Disabilities Act of 1990, and laws and regulations establishing quality criteria and standards for air, water, land and toxic or hazardous wastes and substances), where any such non-compliance, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(b) Without limiting the representations and warranties set forth in Section 6.17(a) above, except for such matters as have been disclosed to Agent in writing, each Borrower represents and warrants that: (i) such Borrower, and each of the Premises, comply in all material respects with all applicable Environmental Laws; (ii) such Borrower has obtained all governmental approvals required for their operations and each of the Premises by any applicable Environmental Law; (iii) such Borrower has not, and has no knowledge of any other Person who has, caused any Release, threatened Release or disposal of any Hazardous Material at, on, about, or off any of the Premises in any material quantity and, to the knowledge of such Borrower, none of the Premises are adversely affected by any Release, threatened Release or disposal of a Hazardous

Material originating or emanating from any other property; (iv) except as in compliance in all material respects with Environmental Laws, none of the Premises contain any: (1) underground storage tank, (2) material amounts of asbestos containing building material, (3) landfills or dumps, (4) hazardous waste management facility as defined pursuant to RCRA or any comparable state law, or (5) site on or nominated for the National Priority List promulgated pursuant to CERCLA or any state remedial priority list promulgated or published pursuant to any comparable state law; (v) such Borrower has not used a material quantity of any Hazardous Material and have conducted no Hazardous Material Activity at any of the Premises, except in the normal course of its business and in compliance in all material respects with all applicable Environmental Laws; (vi) such Borrower has no material liability for response or corrective action, natural resource damage or other harm pursuant to CERCLA, RCRA or any comparable state law; (vii) such Borrower has not received any written notice of any material Environmental Claim involving it or any of the Premises; (viii) none of the Premises are subject to any, and such Borrower has no knowledge of any imminent, restriction on the transferability of the Premises in connection with any (1) Environmental Law or (2) Release, threatened Release or disposal of a Hazardous Material; and (ix) to the knowledge of such Borrower, there are no conditions or circumstances at any of the Premises which pose an unreasonable risk to the environment or the health or safety of Persons.

*Section 6.18. Other Agreements.* No Borrower is in default under the terms of any covenant, indenture or agreement of or affecting such Person or any of its Property, which default if uncured could reasonably be expected to have a Material Adverse Effect.

*Section 6.19. Solvency.* Each Borrower is solvent, able to pay its debts as they become due, and has sufficient capital to carry on their business.

*Section 6.20. No Default.* No Default or Event of Default has occurred and is continuing.

*Section 6.21. Trade Relations.* Except as set forth on **Schedule 6.21** hereto and except as in the ordinary course of business, to the knowledge of the Borrowers, there exists no actual or threatened termination, cancellation or limitation of, or any adverse modification or change in, the business agreements, contracts or arrangements of the Borrowers (which agreements, contracts or arrangements extend for a period in excess of one (1) year with any material customer, any group of customers, any cooperative marketing association or trade exchange whose purchases, marketing or trade efforts, individually or in the aggregate, are material to the business of any Borrower, and which customers or associations are not readily replaceable in the ordinary course of business.

#### Section 7. Conditions Precedent.

The obligation of each Lender to advance, continue or convert any Loan or of the L/C Issuer to issue, extend the expiration date (including by not giving notice of non-renewal) of or increase the amount of any Letter of Credit under this Agreement, shall be subject to the following conditions precedent:

*Section 7.1. All Credit Events.* At the time of each Credit Event hereunder:

- (a) each of the representations and warranties set forth herein and in the other Loan Documents shall be and remain true and correct as of said time, except to the extent the same expressly relate to an earlier date;
- (b) each Borrower shall be in compliance with all of the terms and conditions hereof and of the other Loan Documents, and no Default or Event of Default shall have occurred and be continuing or would occur as a result of such Credit Event;
- (c) excepting Borrowings made under Section 1.14(f) hereof, in the case of a Borrowing the Agent shall have received the notice required by Section 1.6 hereof, in the case of the issuance of any Letter of Credit the L/C Issuer shall have received a duly completed Application for such Letter of Credit together with any fees called for by Section 2.1 hereof, and, in the case of an extension or increase in the amount of a Letter of Credit, a written request therefor in a form acceptable to the L/C Issuer together with fees called for by Section 2.1 hereof; and
- (d) such Credit Event shall not violate any order, judgment or decree of any court or other authority or any provision of law or regulation applicable to the Agent or any Lender (including, without limitation, Regulation U of the Board of Governors of the Federal Reserve System) as then in effect.

Each request for a Borrowing hereunder and each request for the issuance of, increase in the amount of, or extension of the expiration date of, a Letter of Credit shall be deemed to be a representation and warranty by the Borrowers on the date on such Credit Event as to the facts specified in subsections (a) through (c), both inclusive, of this Section.

*Section 7.2. Initial Credit Event.* Before or concurrently with the initial Credit Event:

- (a) the Agent shall have received for each Lender this Agreement duly executed by the Borrowers and the Lenders;
- (b) the Agent shall have received for each Lender such Lender's duly executed Notes of the Borrowers dated the date hereof and otherwise in compliance with the provisions of Section 1.11 hereof;
- (c) the Agent shall have received the Mortgages and the Security Agreement duly executed by the relevant Borrowers;
- (d) the Agent shall have received all other Loan Documents executed by the appropriate party;
- (e) the Agent shall have received evidence of insurance required to be maintained under the Loan Documents, naming the Agent as loss payee and additional insured;
- (f) the Agent shall have received for each Lender copies of Borrower's articles of incorporation and bylaws (or comparable

organizational documents) and any amendments thereto, certified in each instance by its Secretary or Assistant Secretary;

(g) the Agent shall have received for each Lender copies of resolutions of each Borrower's Board of Directors (or similar governing body) authorizing the execution, delivery and performance of this Agreement and the other Loan Documents to which it is a party and the consummation of the transactions contemplated hereby and thereby, together with specimen signatures of the persons authorized to execute such documents on each Borrower's behalf, all certified in each instance by its Secretary or Assistant Secretary;

(h) the Agent shall have received for each Lender copies of the certificates of good standing for each Borrower (dated no earlier than 30 days prior to the date hereof) from the office of the secretary of the state of its incorporation or organization and of each state in which it is qualified to do business as a foreign corporation or organization;

(i) the Agent shall have received for itself and for the Lenders the initial fees called for by Section 2.1 hereof;

(j) each Lender shall have received a Borrowing Base Certificate and a certificate in the form attached hereto as **Exhibit I**, containing compliance calculations of the financial covenants as of the date of this Agreement in order to satisfy itself as to the financial condition of each Borrower, and the lack of material contingent liabilities of the Borrower;

(k) the Agent shall have received pay-off and lien release letters from Wells Fargo Foothill, Inc., setting forth, among other things, the total amount of indebtedness outstanding and owing to them (or outstanding letters of credit issued for the account of the Borrowers) and containing an undertaking to cause to be delivered to the Agent UCC termination statements and any other lien release instruments necessary to release their Liens on the assets of the Borrowers, which pay-off and lien release letters shall be in form and substance acceptable to the Agent;

(l) [Reserved.];

(m) the Agent shall have received for each Lender the favorable written opinion of counsel to each Borrower, in form and substance reasonably satisfactory to the Agent;

(n) the Agent shall be reasonably satisfied with the terms of all material contracts to which each Borrower is or will be subject;

(o) no material litigation or administrative proceeding involving any Borrower shall be pending or, to the knowledge of any Borrower, threatened; and

(p) the Agent shall have received for the account of the Lenders such other agreements, instruments, documents and certificates as the Agent may reasonably request.

*Section 7.3 Project Reserve.* Notwithstanding anything to the contrary set forth in this Agreement, Project Reserve Borrowings shall be made at the discretion of the Agent and the Required Lenders. As a condition to any such Borrowing the Agent may require the Borrowers to furnish such information and documentation as the Agent may require regarding the uses of funds for such Borrowing.

#### Section 8. Covenants.

Each Borrower agrees that, so long as any credit is available to or in use by any Borrower hereunder, except to the extent compliance in any case or cases is waived in writing pursuant to the terms of Section 13.13 hereof:

*Section 8.1. Maintenance of Business.* Each Borrower shall preserve and maintain its existence, except as otherwise provided in Section 8.10(c) hereof. Each Borrower shall preserve and keep in force and effect all licenses, permits, franchises, approvals, patents, trademarks, trade names, trade styles, copyrights, and other proprietary rights necessary to the proper conduct of its business where the failure to do so could reasonably be expected to have a Material Adverse Effect.

*Section 8.2. Maintenance of Properties.* Borrower shall maintain, preserve, and keep its property, plant, and equipment in good repair, working order and condition (ordinary wear and tear excepted), and shall from time to time make all needful and proper repairs, renewals, replacements, additions, and betterments thereto so that at all times the efficiency thereof shall be fully preserved and maintained, except to the extent that, in the reasonable business judgment of such Person, any such Property is no longer necessary for the proper conduct of the business of such Person except in each case where the failure to take such action would not be expected to have a Material Adverse Effect.

*Section 8.3. Taxes and Assessments.* Each Borrower shall duly pay and discharge all taxes, rates, assessments, fees, and governmental charges upon or against it or its Property, in each case before the same become delinquent and before penalties accrue thereon, unless and to the extent that the same are being contested in good faith and by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves are provided therefor.

*Section 8.4. Insurance.* Each Borrower shall insure and keep insured, with good and responsible insurance companies, all insurable Property owned by it which is of a character usually insured by Persons similarly situated and operating like Properties against loss or damage from such hazards and risks, and in such amounts, as are insured by Persons similarly situated and operating like Properties; and each Borrower shall insure such other hazards and risks (including, without limitation, employers' and public liability risks) with good and responsible insurance companies as and to the extent usually insured by Persons similarly situated and conducting similar businesses. Each Borrower shall in any event maintain insurance on the Collateral to the extent required by the Collateral Documents. Each Borrower shall, upon the request of the Agent, furnish to the Agent and the Lenders at reasonable and periodic intervals a certificate setting forth in summary form the nature and

extent of the insurance maintained pursuant to this Section.

*Section 8.5. Financial Reports.* Each Borrower shall maintain a standard system of accounting in accordance with GAAP and shall furnish to the Agent, each Lender and each of their duly authorized representatives such information respecting the business and financial condition of such Borrower as the Agent or such Lender may reasonably request; and without any request, shall furnish to the Agent and the Lenders:

(a) as soon as available, and in any event within 15 days after the last day of each calendar month, a Borrowing Base Certificate showing the computation of the Borrowing Base in reasonable detail as of the close of business on the last day of period end, together with an accounts receivable and accounts payable aging, prepared by the Borrowers and certified by their chief financial officer or another officer of the Borrowers acceptable to the Agent;

(b) as soon as available, and in any event within 45 days after the close of each fiscal quarter of each fiscal year of the Borrowers, a copy of Form 10-Q filed by Sinalloy Corporation with the Securities and Exchange Commission prepared by the Borrower in accordance with GAAP and certified to by its chief financial officer or another officer of the Borrower reasonably acceptable to the Agent;

(c) as soon as available, and in any event within 90 days after the close of each fiscal year of the Borrowers, a copy of the Form 10-K filed by Sinalloy Corporation with the Securities and Exchange Commission prepared by the Borrower in accordance with GAAP and certified to by its chief financial officer or another officer of the Borrower reasonably acceptable to the Agent; which shall include an unqualified opinion of Dixon Hughes or another firm of independent public accountants of recognized national standing, selected by the Borrowers and reasonably satisfactory to the Agent and the Required Lenders, to the effect that the consolidated financial statements have been prepared in accordance with GAAP and present fairly in accordance with GAAP the consolidated financial condition of each Borrower and its Subsidiaries as of the close of such fiscal year and the results of their operations and cash flows for the fiscal year then ended and that an examination of such accounts in connection with such financial statements has been made in accordance with generally accepted auditing standards and, accordingly, such examination included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances;

(d) within the period provided in subsection (c) above, the written statement of the accountants who certified the audit report thereby required that in the course of their audit they have obtained no knowledge of any Default or Event of Default, or, if such accountants have obtained knowledge of any such Default or Event of Default, they shall disclose in such statement the nature and period of the existence thereof;

(e) promptly after receipt thereof, any additional written reports, management letters or other detailed information contained in writing concerning significant aspects of the Borrowers' operations and financial affairs given to it by its independent public accountants;

(f) promptly after the sending or filing thereof, copies of each report filed on Form 8-K, proxy statement, or other filing by Sinalloy Corporation with the Securities and Exchange Commission;

(g) promptly after receipt thereof, a copy of each notice of any material noncompliance with any applicable law, regulation or guideline relating to the Borrowers or their business;

(h) as soon as available, and in any event prior to the start of the next fiscal year of the Borrowers, a copy of the Borrowers' consolidated and consolidating business plan for the following fiscal year, such business plan to show the Borrowers' projected consolidated and consolidating revenues, expenses and balance sheet on a quarter-by-quarter basis, such business plan to be in reasonable detail prepared by the Borrowers (which shall include a summary of all assumptions made in preparing such business plan);

(i) promptly notify Agent of the occurrence of any Internal Control Event;

(j) promptly after knowledge thereof shall have come to the attention of any Responsible Officer, written notice of (i) any threatened or pending litigation or governmental proceeding or labor controversy against Borrower which, if adversely determined, could reasonably be expected to have a Material Adverse Effect or of (ii) the occurrence of any Default or Event of Default hereunder; and

(k) with each of the financial statements furnished to the Lenders pursuant to subsections (a) and (c) above, a written certificate in the form attached hereto as **Exhibit I** signed by the chief financial officer of the Borrowers or another officer of the Borrower reasonably acceptable to the Agent to the effect that to the best of such officer's knowledge and belief no Default or Event of Default has occurred during the period covered by such statements or, if any such Default or Event of Default has occurred during such period, setting forth a description of such Default or Event of Default and specifying the action, if any, taken by the Borrowers to remedy the same. Such certificate shall also set forth the calculations supporting such statements in respect of Sections 8.22 through 8.24 hereof.

*Section 8.6. Inspection.* Each Borrower shall permit the Agent, each Lender, and each of their duly authorized representatives and agents to visit and inspect any of its Property, corporate books, and financial records, to examine and make copies of its books of accounts and other financial records, and to discuss its affairs, finances, and accounts with, and to be advised as to the same by, its officers and independent public accountants (and by this provision each Borrower hereby authorizes such accountants to discuss with the Agent and such Lenders the finances and affairs of such Borrower) at such reasonable times and intervals as the Agent or any such Lender may designate and, so long as no Default or Event of Default exists, with reasonable prior notice to the Borrowers.

*Section 8.7. Borrowings and Guaranties.* No Borrower shall issue, incur, assume, create or have outstanding any Debt, or be or become liable as endorser, guarantor, surety or otherwise for any debt, obligation or undertaking of any other Person, or otherwise agree to provide funds for payment of the obligations of another, or supply funds thereto or invest therein or otherwise assure a creditor of another against loss, or apply for or become liable to the issuer of a letter of credit which supports an obligation of another, or subordinate any claim or demand it may have to the claim or demand of any other Person; *provided, however,* that the foregoing shall not restrict nor operate to prevent:

- (a) the Obligations, Hedging Liability, and Funds Transfer and Deposit Account Liability of the Borrowers owing to the Agent and the Lenders (and their Affiliates);
- (b) Debt listed on **Schedule 8.7(b)** outstanding on the date of this Agreement;
- (c) obligations of the Borrowers arising out of interest rate and foreign currency hedging agreements entered into with financial institutions in the ordinary course of business;
- (d) endorsement of items for deposit or collection of commercial paper received in the ordinary course of business;
- (e) indebtedness from time to time owing by any Subsidiary or Affiliate to any Borrower arising from intercompany advances permitted by Section 8.9(f)(i) hereof;
- (f) Debt of the Borrowers not otherwise permitted by this Section in an amount not to exceed \$2,000,000 in the aggregate at any one time outstanding;
- (g) A guarantee by a Borrower of liability incurred by another Borrower in the ordinary course of business and otherwise permitted hereunder.

*Section 8.8. Liens.* No Borrower shall create, incur or permit to exist any Lien of any kind on any Property owned by any such Person; *provided, however,* that the foregoing shall not apply to nor operate to prevent:

- (a) Liens arising by statute in connection with worker's compensation, unemployment insurance, old age benefits, social security obligations, taxes, assessments, statutory obligations or other similar charges (other than Liens arising under ERISA), good faith cash deposits in connection with tenders, contracts or leases to which is a party or other cash deposits required to be made in the ordinary course of business, provided in each case that the obligation is not for borrowed money and that the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate proceedings which prevent enforcement of the matter under contest and adequate reserves have been established therefor;
- (b) mechanics', workmen's, materialmen's, landlords', carriers' or other similar Liens arising in the ordinary course of business with respect to obligations which are not due or which are being contested in good faith by appropriate proceedings and, in the case of such Liens securing obligations that exceed \$100,000 individually or in the aggregate, such proceedings prevent enforcement of the matter under contest;
- (c) judgment liens and judicial attachment liens not constituting an Event of Default under Section 9.1(h) hereof and the pledge of assets for the purpose of securing an appeal, stay or discharge in the course of any legal proceeding, *provided* that the aggregate amount of such judgment liens and attachments and liabilities of the Borrowers secured by a pledge of assets permitted under this subsection, including interest and penalties thereon, if any, shall not be in excess of \$100,000 at any one time outstanding;
- (d) any interest or title of a lessor under any operating lease;
- (e) easements, rights-of-way, restrictions, and other similar encumbrances against real property incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not materially detract from the value of the Property subject thereto or materially interfere with the ordinary conduct of the business of the Borrower; and
- (f) Liens existing on the date hereof and listed on **Schedule 8.8(f)** and any replacements, extensions and refinancings thereof;
- (g) Liens securing purchase money indebtedness; and
- (h) the Liens granted in favor of the Agent pursuant to the Collateral Documents.

*Section 8.9. Investments, Acquisitions, Loans and Advances.* No Borrower shall directly or indirectly, make, retain or have outstanding any investments (whether through purchase of stock or obligations or otherwise) in, or loans or advances to, any other Person, or acquire all or any substantial part of the assets or business of any other Person or division thereof; *provided, however,* that the foregoing shall not apply to nor operate to prevent:

- (a) investments in direct obligations of the United States of America or of any agency or instrumentality thereof whose obligations constitute full faith and credit obligations of the United States of America, provided that any such obligations shall mature within one year of the date of issuance thereof;
- (b) investments in commercial paper of the Agent and in commercial paper rated at least P-1 by Moody's and at least A-1 by S&P maturing within one year of the date of issuance thereof;
- (c) investments in certificates of deposit issued by any Lender or by any United States commercial bank having capital and surplus

of not less than \$100,000,000 which have a maturity of one year or less;

(d) investments in repurchase obligations with a term of not more than 7 days for underlying securities of the types described in subsection (a) above entered into with any bank meeting the qualifications specified in subsection (c) above, provided all such agreements require physical delivery of the securities securing such repurchase agreement, except those delivered through the Federal Reserve Book Entry System;

(e) investments in money market funds that invest solely, and which are restricted by their respective charters to invest solely, in investments of the type described in the immediately preceding subsections (a), (b), (c), and (d) above;

(f) (i) investments, loans and advances at any time made from time to time by any Borrower to any one or more of its Subsidiaries or Affiliates in the ordinary course of business to finance working capital needs, and (ii) investments, loans and advances made from time to time by a Borrower in its Subsidiaries, all of which has been subordinated to the Loans;

(g) Permitted Acquisitions; and

(h) investments, loans, and advances in addition to those otherwise permitted by this Section in an amount not to exceed \$100,000 in the aggregate at any one time outstanding.

In determining the amount of investments, acquisitions, loans, and advances permitted under this Section, investments and acquisitions shall always be taken at the original cost thereof (regardless of any subsequent appreciation or depreciation therein), and loans and advances shall be taken at the principal amount thereof then remaining unpaid.

*Section 8.10. Mergers, Consolidations and Sales.* No Borrower shall be a party to any merger or consolidation, or sell, transfer, lease or otherwise dispose of all or any part of its Property, including any disposition of Property as part of a sale and leaseback transaction, or in any event sell or discount (with or without recourse) any of its notes or accounts receivable; *provided, however,* that this Section shall not apply to nor operate to prevent:

(a) the sale or lease of inventory in the ordinary course of business;

(b) the sale, transfer, lease or other disposition of Property of the Borrowers to one another in the ordinary course of its business;

(c) the merger of any Subsidiary with and into Borrower, *provided that,* in the case of any merger involving a Borrower, such Borrower is the corporation surviving the merger;

(d) the sale of delinquent notes or accounts receivable in the ordinary course of business for purposes of collection only (and not for the purpose of any bulk sale or securitization transaction);

(e) the sale, transfer or other disposition of any tangible personal property, other than in the ordinary course of business, that, in the reasonable business judgment of any Borrower has become obsolete or worn out;

(f) [Reserved];

(g) sales that are part of a sale and leaseback permitted by this Agreement; and

(h) the sale, transfer, lease or other disposition of Property of any Borrower aggregating for the Borrowers during any fiscal year of the Borrowers not more than an amount equal to \$2,000,000.00 in the aggregate among all Borrowers during any 12 month period;

(i) the sale of the Borrowers' real property and plant, property and equipment located in Augusta, Georgia or Greensboro, North Carolina.

So long as no Default or Event of Default has occurred and is continuing or would arise as a result thereof, upon the written request of the Borrowers, the Agent shall release its Lien on any Property sold pursuant to the foregoing provisions.

*Section 8.11. Maintenance of Subsidiaries.* Borrower shall not assign, sell or transfer, nor shall it permit any Subsidiary to issue, assign, sell or transfer, any shares of capital stock or other equity interests of a Subsidiary; *provided, however,* that the foregoing shall not operate to prevent (a) the issuance, sale, and transfer to any person of any shares of capital stock of a Subsidiary solely for the purpose of qualifying, and to the extent legally necessary to qualify, such person as a director of such Subsidiary, and (b) any transaction permitted by Section 8.10(c) above.

*Section 8.12.* [Reserved].

*Section 8.13. ERISA.* Each Borrower shall, and shall cause each of its Subsidiaries to, promptly pay and discharge all obligations and liabilities arising under ERISA of a character which if unpaid or unperformed could reasonably be expected to result in the imposition of a Lien against any of its Property or to have a Material Adverse Effect. Each Borrower shall, and shall cause each Subsidiary to, promptly notify the Agent and each Lender of: (a) the occurrence of any reportable event (as defined in ERISA) with respect to a Plan, (b) receipt of any notice from the PBGC of its intention to seek termination of any Plan or appointment of a trustee therefor, (c) its intention to terminate or withdraw from any Plan, and (d) the occurrence of any event with respect to any Plan which would result in the incurrence by the Borrower or any Subsidiary of any material liability, fine or penalty, or any material increase in the contingent liability of the Borrower or any Subsidiary with respect to any post-retirement Welfare Plan benefit.

*Section 8.14. Compliance with Laws.* (a) Each Borrower shall comply in all respects with the requirements of all federal, state, and local laws, rules, regulations, ordinances and orders applicable to or pertaining to its Property or business operations, where any such non-compliance, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect or result in a Lien upon any of its Property.

(b) Without limiting the agreements set forth in Section 8.14(a) above, each Borrower at all times, do the following to the extent the failure to do so, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect: (i) comply in all material respects with, and maintain each of the Premises in compliance in all material respects with, all applicable Environmental Laws; (ii) require that each tenant and subtenant, if any, of any of the Premises or any part thereof comply in all material respects with all applicable Environmental Laws; (iii) obtain and maintain in full force and effect all material governmental approvals required by any applicable Environmental Law for operations at each of the Premises; (iv) cure any material violation by it or at any of the Premises of applicable Environmental Laws; (v) not allow the presence or operation at any of the Premises of any (1) landfill or dump or (2) hazardous waste management facility or solid waste disposal facility as defined pursuant to RCRA or any comparable state law; (vi) not manufacture, use, generate, transport, treat, store, release, dispose or handle any Hazardous Material at any of the Premises except in the ordinary course of its business; (vii) within 10 Business Days notify the Agent in writing of and provide any reasonably requested documents upon learning of any of the following in connection with the affected Borrower or any Subsidiary or any of the Premises: (1) any material liability for response or corrective action, natural resource damage or other harm pursuant to CERCLA, RCRA or any comparable state law; (2) any material Environmental Claim; (3) any material violation of an Environmental Law or material Release, threatened Release or disposal of a Hazardous Material; (4) any restriction on the ownership, occupancy, use or transferability arising pursuant to any (x) Release, threatened Release or disposal of a Hazardous Substance or (y) Environmental Law; or (5) any environmental, natural resource, health or safety condition, which could reasonably be expected to have a Material Adverse Effect; (viii) conduct at its expense any investigation, study, sampling, testing, abatement, cleanup, removal, remediation or other response action necessary to remove, remediate, clean up or abate any material Release, threatened Release or disposal of a Hazardous Material as required by any applicable Environmental Law; (ix) abide by and observe any restrictions on the use of the Premises imposed by any governmental authority as set forth in a deed or other instrument affecting any Borrower's or any Subsidiary's interest therein; (x) promptly, at the request of the Agent, provide or otherwise make available to the Agent any reasonably requested environmental record concerning the Premises which any Borrower or any Subsidiary possesses or can reasonably obtain; and (xi) perform, satisfy, and implement any operation or maintenance actions required by any governmental authority or Environmental Law, or included in any no further action letter or covenant not to sue issued by any governmental authority under any Environmental Law unless contested or negotiated in good faith by the affected Borrower or any Subsidiary with the appropriate governmental authority.

*Section 8.15. Burdensome Contracts With Affiliates.* No Borrower shall enter into any contract, agreement or business arrangement with any of its Affiliates (other than with Wholly-owned Subsidiaries) on terms and conditions which are less favorable to such Borrower or such Subsidiary than would be usual and customary in similar contracts, agreements or business arrangements between Persons not affiliated with each other.

*Section 8.16. No Changes in Fiscal Year.* The fiscal year of each Borrower ends on the Saturday closest to December 31 of each year; and no Borrower shall change its fiscal year from its present basis.

*Section 8.17. Formation of Subsidiaries.* Promptly upon the formation or acquisition of any Subsidiary, the affected Borrower shall provide the Agent and the Lenders notice thereof and timely comply with the requirements of Section 4 hereof (at which time **Schedule 6.2** shall be deemed amended to include reference to such Subsidiary).

*Section 8.18. Change in the Nature of Business.* No Borrower shall engage in any business or activity if as a result the general nature of the business of such Borrower would be changed in any material respect from the general nature of the business engaged in by it as of the Closing Date.

*Section 8.19. Use of Loan Proceeds.* The Borrowers shall use the credit extended under this Agreement solely for the purposes set forth in, or otherwise permitted by, Section 6.4 hereof.

*Section 8.20. No Restrictions.* Except as provided herein, no Borrower shall directly or indirectly create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction of any kind on the ability of any Borrower or any of its Subsidiaries to: (a) pay dividends or make any other distribution on any Subsidiary's capital stock or other equity interests owned by the Borrower, (b) pay any indebtedness owed to the Borrower, (c) make loans or advances to the Borrower or any Subsidiary, (d) transfer any of its Property to the Borrower or any Subsidiary or (e) guarantee the Obligations and/or grant Liens on its assets to the Agent as required by the Loan Documents.

*Section 8.21. Capital Expenditures.* No Borrower shall incur Capital Expenditures during any fiscal year of the Borrowers in an amount in excess of the sum of \$5,000,000 in the aggregate among all of the Borrowers, net of any proceeds of sale of any capital asset of Borrowers.

*Section 8.22. Consolidated Fixed Charge Ratio.* Beginning with fiscal quarter ending December 31, 2005, the Borrowers shall maintain a Consolidated Fixed Charge Ratio of not less than 1.75 to 1.0, tested quarterly.

*Section 8.23. Consolidated Tangible Net Worth.* Beginning with fiscal quarter ending December 31, 2005, the Borrowers shall maintain a Consolidated Tangible Net Worth of not less than \$33,000,000.00, to be increased annually by fifty percent (50%) of Consolidated Net Income as of each anniversary thereof, based upon such prior year's Consolidated Net Income, tested quarterly.

*Section 8.24. Consolidated Indebtedness to Tangible Net Worth Ratio.* Beginning with fiscal quarter ending December 31, 2005, the Borrowers shall maintain a Consolidated Indebtedness to Tangible Net Worth Ratio of not greater than 1.30 to 1.0, tested quarterly.

*Section 8.25. Sale and Leaseback Transactions.* No Borrower shall, directly or indirectly, enter into any arrangement with any Person providing for a Borrower to lease or rent Property that such Borrower has or will sell or otherwise transfer to such Person (a "Sale and

*Leaseback*"), unless the aggregate net cash proceeds of all such Sale and Leasebacks in any fiscal year of the Borrowers in the aggregate are less than \$1,000,000.

*Section 8.26. Speculative Hedging Transactions.* No Borrower will enter into any agreement of the type described in the definition of the term "Hedging Liability" contained in Section 5.1 of this Agreement that is not in the ordinary course of business or is not intended to hedge existing business risks or that is entered into for the purpose of speculation.

#### Section 9. Events of Default and Remedies.

*Section 9.1. Events of Default.* Any one or more of the following shall constitute an "Event of Default" hereunder:

(a) (i) default in the payment when due of all or any part of the principal of any Note (whether at the stated maturity thereof or at any other time provided for in this Agreement) or (ii) default in any payment of interest or of any Reimbursement Obligation or of any fee or other Obligation payable hereunder or under any other Loan Document when due and such default shall continue unremedied for five days after notice from the Agent;

(b) default in the observance or performance of any covenant set forth in Sections 8.10, 8.22, 8.23 or 8.24 hereof or of any provision in any Loan Document dealing with the use, disposition or remittance of the proceeds of Collateral or requiring the maintenance of insurance thereon;

(c) default in the observance or performance of any covenant set forth in Sections 8.5, 8.7, 8.8, 8.9 or 8.11 hereof which is not remedied within 5 days after the earlier of (i) the date on which such failure shall first become known to any officer of the Borrowers or (ii) written notice thereof is given to the Borrowers by the Agent;

(d) default in the observance or performance of any other provision hereof or of any other Loan Document which is not remedied within 30 days after the earlier of (i) the date on which such failure shall first become known to any officer of the Borrowers or (ii) written notice thereof is given to the Borrowers by the Agent;

(e) any representation or warranty made herein or in any other Loan Document or in any certificate furnished to the Agent or the Lenders pursuant hereto or thereto or in connection with any transaction contemplated hereby or thereby proves untrue in any material respect as of the date of the issuance or making or deemed making thereof;

(f) any event occurs or condition exists (other than those described in subsections (a) through (d) above) which is specified as an event of default under any of the other Loan Documents, or any of the Loan Documents shall for any reason not be or shall cease to be in full force and effect or is declared to be null and void, or any of the Collateral Documents shall for any reason fail to create a valid and perfected first priority Lien in favor of the Agent in any Collateral purported to be covered thereby except as expressly permitted by the terms thereof;

(g) default shall occur under any Debt issued, assumed or guaranteed by any Borrower aggregating in excess of \$250,000 or under any indenture, agreement or other instrument under which the same may be issued, and such default shall continue for a period of time sufficient to permit the acceleration of the maturity of any such Debt (whether or not such maturity is in fact accelerated), or any such Debt shall not be paid when due (whether by demand, lapse of time, acceleration or otherwise);

(h) any judgment or judgments, writ or writs or warrant or warrants of attachment, or any similar process or processes, shall be entered or filed against the Borrowers, or against any of its Property, in an aggregate amount in excess of \$250,000 among all Borrowers and which remains undischarged, unvacated, unbonded or unstayed for a period of 60 days;

(i) any Borrower or any Subsidiary, or any member of its Controlled Group, shall fail to pay when due an amount or amounts aggregating in excess of \$10,000.00 which it shall have become liable to pay to the PBGC or to a Plan under Title IV of ERISA; or notice of intent to terminate a Plan or Plans having aggregate Unfunded Vested Liabilities in excess of \$10,000.00 (collectively, a "Material Plan") shall be filed under Title IV of ERISA by any Borrower or any Subsidiary, or any other member of its Controlled Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate or to cause a trustee to be appointed to administer any Material Plan or a proceeding shall be instituted by a fiduciary of any Material Plan against any Borrower or any Subsidiary, or any member of its Controlled Group, to enforce Section 515 or 4219(c)(5) of ERISA and such proceeding shall not have been dismissed within 60 days thereafter; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated;

(j) [Reserved];

(k) any Borrower or any Subsidiary or Affiliate shall (i) have entered involuntarily against it an order for relief under the United States Bankruptcy Code, as amended, (ii) not pay, or admit in writing its inability to pay, its debts generally as they become due, (iii) make an assignment for the benefit of creditors, (iv) apply for, seek, consent to or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial part of its Property, (v) institute any proceeding seeking to have entered against it an order for relief under the United States Bankruptcy Code, as amended, to adjudicate its insolvency, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (vi) take any corporate action in furtherance of any matter described in parts (i) through (v) above, or (vii) fail to contest in good faith any appointment or proceeding described in

Section 9.1(l) hereof; or

(l) a custodian, receiver, trustee, examiner, liquidator or similar official shall be appointed for any Borrower, or any substantial part of any of its Property, or a proceeding described in Section 9.1(k)(v) shall be instituted against any Borrower, and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of 60 days.

*Section 9.2. Non-Bankruptcy Defaults.* When any Event of Default other than those described in subsection (k) or (l) of Section 9.1 hereof has occurred and is continuing, the Agent shall, by written notice to the Borrowers: (a) if so directed by the Required Lenders, terminate the remaining Revolving Credit Commitments and all other obligations of the Lenders hereunder on the date stated in such notice (which may be the date thereof); (b) if so directed by the Required Lenders, declare the principal of and the accrued interest on all outstanding Notes to be forthwith due and payable and thereupon all outstanding Notes, including both principal and interest thereon, shall be and become immediately due and payable together with all other amounts payable under the Loan Documents without further demand, presentment, protest or notice of any kind; and (c) if so directed by the Required Lenders, demand that the Borrowers immediately pay to the Agent the full amount then available for drawing under each or any Letter of Credit, and the Borrowers agree to immediately make such payment and acknowledges and agrees that the Lenders would not have an adequate remedy at law for failure by the Borrowers to honor any such demand and that the Agent, for the benefit of the Lenders, shall have the right to require the Borrower to specifically perform such undertaking whether or not any drawings or other demands for payment have been made under any Letter of Credit. The Agent, after giving notice to the Borrowers pursuant to Section 9.1(c) or (d) or this Section 9.2, shall also promptly send a copy of such notice to the other Lenders, but the failure to do so shall not impair or annul the effect of such notice.

*Section 9.3. Bankruptcy Defaults.* When any Event of Default described in subsections (k) or (l) of Section 9.1 hereof has occurred and is continuing, then all outstanding Notes shall immediately become due and payable together with all other amounts payable under the Loan Documents without presentment, demand, protest or notice of any kind, the obligation of the Lenders to extend further credit pursuant to any of the terms hereof shall immediately terminate and the Borrowers shall immediately pay to the Agent the full amount then available for drawing under all outstanding Letters of Credit, the Borrowers acknowledging and agreeing that the Lenders would not have an adequate remedy at law for failure by the Borrowers to honor any such demand and that the Lenders, and the Agent on their behalf, shall have the right to require the Borrowers to specifically perform such undertaking whether or not any draws or other demands for payment have been made under any of the Letters of Credit.

*Section 9.4. Collateral for Undrawn Letters of Credit.* (a) If the prepayment of the amount available for drawing under any or all outstanding Letters of Credit is required under Section 1.8(b) or under Section 9.2 or 9.3 above, the Borrowers shall forthwith pay the amount required to be so prepaid, to be held by the Agent as provided in subsection (b) below.

(b) All amounts prepaid pursuant to subsection (a) above shall be held by the Agent in one or more separate collateral accounts (each such account, and the credit balances, properties, and any investments from time to time held therein, and any substitutions for such account, any certificate of deposit or other instrument evidencing any of the foregoing and all proceeds of and earnings on any of the foregoing being collectively called the "*Collateral Account*") as security for, and for application by the Agent (to the extent available) to, the reimbursement of any payment under any Letter of Credit then or thereafter made by the Agent, and to the payment of the unpaid balance of any other Obligations. The Collateral Account shall be held in the name of and subject to the exclusive dominion and control of the Agent for the benefit of the Agent, the Lenders, and the L/C Issuer. If and when requested by the Borrowers, the Agent shall invest funds held in the Collateral Account from time to time in direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America with a remaining maturity of one year or less, *provided* that the Agent is irrevocably authorized to sell investments held in the Collateral Account when and as required to make payments out of the Collateral Account for application to amounts due and owing from the Borrowers to the L/C Issuer, the Agent or the Lenders; *provided, however*, that if (i) the Borrowers shall have made payment of all such obligations referred to in subsection (a) above, (ii) all relevant preference or other disgorgement periods relating to the receipt of such payments have passed, and (iii) no Letters of Credit, Revolving Credit Commitments, Loans or other Obligations remain outstanding hereunder, then the Agent shall release to the Borrowers any remaining amounts held in the Collateral Account.

*Section 9.5. Notice of Default.* The Agent shall give notice to the Borrowers under Section 9.1(c) or (d) hereof promptly upon being requested to do so by any Lender and shall thereupon notify all the Lenders thereof.

*Section 9.6. Expenses.* The Borrowers agree to pay to the Agent and each Lender, and any other holder of any Note outstanding hereunder, all costs and expenses reasonably incurred or paid by the Agent and such Lender or any such holder, including reasonable attorneys' fees and court costs, in connection with any Default or Event of Default by the Borrowers hereunder or in connection with the enforcement of any of the Loan Documents (including all such costs and expenses incurred in connection with any proceeding under the United States Bankruptcy Code involving the Borrowers as a debtor thereunder).

## Section 10. Change in Circumstances.

*Section 10.1. Change of Law.* Notwithstanding any other provisions of this Agreement or any Note, if at any time any change in applicable law or regulation or in the interpretation thereof makes it unlawful for any Lender to make or continue to maintain any Loans or to perform its obligations as contemplated hereby, such Lender shall promptly give notice thereof to the Borrowers and such Lender's obligations to make or maintain Loans under this Agreement shall be suspended until it is no longer unlawful for such Lender to make or maintain Loans. The Borrowers shall prepay on demand the outstanding principal amount of any such affected Loans, together with all interest accrued thereon and all other amounts then due and payable to such Lender under this Agreement; *provided, however*, subject to all of the terms and conditions of this Agreement, the Borrowers may then elect to borrow the principal amount of the affected Loans from such Lender by means of another interest rate Loans from such Lender, which Loans shall not be made ratably by the Lenders but only from such affected Lender.

Section 10.2. [Reserved].

*Section 10.3. Increased Cost and Reduced Return.* (a) If, on or after the date hereof, the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency:

(i) shall subject any Lender (or its Lending Office) to any tax, duty or other charge with respect to its Loans, its Notes, its Letter(s) of Credit, or its participation in any thereof, any Reimbursement Obligations owed to it or its obligation to make Loans, issue a Letter of Credit, or to participate therein, or shall change the basis of taxation of payments to any Lender (or its Lending Office) of the principal of or interest on its Loans, Letter(s) of Credit, or participations therein or any other amounts due under this Agreement or any other Loan Document in respect of its Loans, Letter(s) of Credit, any participation therein, any Reimbursement Obligations owed to it, or its obligation to make Loans, or issue a Letter of Credit, or acquire participations therein (except for changes in the rate of tax on the overall net income of such Lender or its Lending Office imposed by the jurisdiction in which such Lender's principal executive office or Lending Office is located); or

(ii) shall impose, modify or deem applicable any reserve, special deposit or similar requirement (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), against assets of, deposits with or for the account of, or credit extended by, any Lender (or its Lending Office) or shall impose on any Lender (or its Lending Office) or on the interbank market any other condition affecting its Loans, its Notes, its Letter(s) of Credit, or its participation in any thereof, any Reimbursement Obligation owed to it, or its obligation to make Loans, or to issue a Letter of Credit, or to participate therein;

and the result of any of the foregoing is to increase the cost to such Lender (or its Lending Office) of making or maintaining any Loan, issuing or maintaining a Letter of Credit, or participating therein, or to reduce the amount of any sum received or receivable by such Lender (or its Lending Office) under this Agreement or under any other Loan Document with respect thereto, by an amount reasonably deemed by such Lender to be material, then, within 15 days after demand by such Lender (with a copy to the Agent), the Borrowers shall be obligated to pay to such Lender such additional amount or amounts as will compensate such Lender for such increased cost or reduction.

(b) If, after the date hereof, any Lender or the Agent shall have determined that the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Lending Office) or any corporation controlling such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has had the effect of reducing the rate of return on such Lender's or such corporation's capital as a consequence of its obligations hereunder to a level below that which such Lender or such corporation could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy) by an amount reasonably deemed by such Lender to be material, then from time to time, within 15 days after demand by such Lender (with a copy to the Agent), the Borrowers shall pay to such Lender such additional amount or amounts as will compensate such Lender for such reduction.

(c) A certificate of a Lender claiming compensation under this Section 10.3 and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive if reasonably determined. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

*Section 10.4. Lending Offices.* Each Lender may, at its option, elect to make its Loans hereunder at the branch, office or affiliate specified on the appropriate signature page hereof (each a "*Lending Office*") for each type of Loan available hereunder or at such other of its branches, offices or affiliates as it may from time to time elect and designate in a written notice to the Borrowers and the Agent.

*Section 10.5. Discretion of Lender as to Manner of Funding.* Notwithstanding any other provision of this Agreement, each Lender shall be entitled to fund and maintain its funding of all or any part of its Loans in any manner it sees fit, it being understood, however, that for the purposes of this Agreement all determinations hereunder with respect to Loans shall be made as if each Lender had actually funded and maintained each Loan through the purchase of deposits in the interbank eurodollar market having a maturity corresponding to such Loan's Interest Period, and bearing an interest rate equal to LIBOR for such Interest Period.

## Section 11. The Agent.

*Section 11.1. Appointment and Authorization of Agent.* Each Lender hereby appoints Carolina First Bank as the Agent under the Loan Documents and hereby authorizes the Agent to take such action as Agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto. The Lenders expressly agree that the Agent is not acting as a fiduciary of the Lenders in respect of the Loan Documents, the Borrowers or otherwise, and nothing herein or in any of the other Loan Documents shall result in any duties or obligations on the Agent or any of the Lenders except as expressly set forth herein.

*Section 11.2. Agent and its Affiliates.* The Agent shall have the same rights and powers under this Agreement and the other Loan Documents as any other Lender and may exercise or refrain from exercising such rights and power as though it were not the Agent, and the Agent and its affiliates may accept deposits from, lend money to, and generally engage in any kind of business with the Borrowers or any Affiliate of the Borrowers as if it were not the Agent under the Loan Documents. The term "*Lender*" as used herein and in all other Loan Documents, unless the context otherwise clearly requires, includes the Agent in its individual capacity as a Lender. References in Section 1 hereof to the Agent's Loans, or to the amount owing to the Agent for which an interest rate is being determined, refer to the Agent in its individual capacity as a

Lender.

*Section 11.3. Action by Agent.* If the Agent receives from the Borrowers a written notice of an Event of Default pursuant to Section 8.5 hereof, the Agent shall promptly give each of the Lenders written notice thereof. The obligations of the Agent under the Loan Documents are only those expressly set forth therein. Without limiting the generality of the foregoing, the Agent shall not be required to take any action hereunder with respect to any Default or Event of Default, except as expressly provided in Sections 9.2 and 9.5. Upon the occurrence of an Event of Default, the Agent shall take such action to enforce its Lien on the Collateral and to preserve and protect the Collateral as may be directed by the Required Lenders. Unless and until the Required Lenders give such direction, the Agent may (but shall not be obligated to) take or refrain from taking such actions as it deems appropriate and in the best interest of all the Lenders. In no event, however, shall the Agent be required to take any action in violation of applicable law or of any provision of any Loan Document, and the Agent shall in all cases be fully justified in failing or refusing to act hereunder or under any other Loan Document unless it first receives any further assurances of its indemnification from the Lenders that it may require, including prepayment of any related expenses and any other protection it requires against any and all costs, expense, and liability which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall be entitled to assume that no Default or Event of Default exists unless notified in writing to the contrary by a Lender or the Borrowers. In all cases in which the Loan Documents do not require the Agent to take specific action, the Agent shall be fully justified in using its discretion in failing to take or in taking any action thereunder. Any instructions of the Required Lenders, or of any other group of Lenders called for under the specific provisions of the Loan Documents, shall be binding upon all the Lenders and the holders of the Obligations.

*Section 11.4. Consultation with Experts.* The Agent may consult with legal counsel, independent public accountants, and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

*Section 11.5. Liability of Agent; Credit Decision.* Neither the Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or not taken by it in connection with the Loan Documents: (a) with the consent or at the request of the Required Lenders or (b) in the absence of its own gross negligence or willful misconduct. Neither the Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into or verify: (i) any statement, warranty or representation made in connection with this Agreement, any other Loan Document or any Credit Event; (ii) the performance or observance of any of the covenants or agreements of the Borrowers or any Subsidiary contained herein or in any other Loan Document; (iii) the satisfaction of any condition specified in Section 7 hereof, except receipt of items required to be delivered to the Agent; or (iv) the validity, effectiveness, genuineness, enforceability, perfection, value, worth or collectibility hereof or of any other Loan Document or of any other documents or writing furnished in connection with any Loan Document or of any Collateral; and the Agent makes no representation of any kind or character with respect to any such matter mentioned in this sentence. The Agent may execute any of its duties under any of the Loan Documents by or through employees, agents, and attorneys-in-fact and shall not be answerable to the Lenders, the Borrowers, or any other Person for the default or misconduct of any such agents or attorneys-in-fact selected with reasonable care. The Agent shall not incur any liability by acting in reliance upon any notice, consent, certificate, other document or statement (whether written or oral) believed by it to be genuine or to be sent by the proper party or parties. In particular and without limiting any of the foregoing, the Agent shall have no responsibility for confirming the accuracy of any compliance certificate or other document or instrument received by it under the Loan Documents. The Agent may treat the payee of any Note as the holder thereof until written notice of transfer shall have been filed with the Agent signed by such payee in form satisfactory to the Agent. Each Lender acknowledges that it has independently and without reliance on the Agent or any other Lender, and based upon such information, investigations and inquiries as it deems appropriate, made its own credit analysis and decision to extend credit to the Borrowers in the manner set forth in the Loan Documents. It shall be the responsibility of each Lender to keep itself informed as to the creditworthiness of the Borrowers and their Subsidiaries, and the Agent shall have no liability to any Lender with respect thereto.

*Section 11.6. Indemnity.* The Lenders shall ratably, in accordance with their respective Percentages, indemnify and hold the Agent, and its directors, officers, employees, agents, and representatives harmless from and against any liabilities, losses, costs or expenses suffered or incurred by it under any Loan Document or in connection with the transactions contemplated thereby, regardless of when asserted or arising, except to the extent they are promptly reimbursed for the same by the Borrowers and except to the extent that any event giving rise to a claim was caused by the gross negligence or willful misconduct of the party seeking to be indemnified. The obligations of the Lenders under this Section shall survive termination of this Agreement. The Agent shall be entitled to offset amounts received for the account of a Lender under this Agreement against unpaid amounts due from such Lender to the Agent hereunder (whether as fundings of participations, indemnities or otherwise), but shall not be entitled to offset against amounts owed to the Agent by any Lender arising outside of this Agreement and the other Loan Documents.

*Section 11.7. Resignation of Agent and Successor Agent.* The Agent may resign at any time by giving written notice thereof to the Lenders and the Borrowers. Upon any such resignation of the Agent, the Required Lenders shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent, which may be any Lender hereunder or any commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$200,000,000. Upon the acceptance of its appointment as the Agent hereunder, such successor Agent shall thereupon succeed to and become vested with all the rights and duties of the retiring Agent under the Loan Documents, and the retiring Agent shall be discharged from its duties and obligations thereunder. After any retiring Agent's resignation hereunder as Agent, the provisions of this Section 11 and all protective provisions of the other Loan Documents shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent, but no successor Agent shall in any event be liable or responsible for any actions of its predecessor. If the Agent resigns and no successor is appointed, the rights and obligations of such Agent shall be automatically assumed by the Required Lenders and (i) the Borrowers shall be directed to make all payments due each Lender hereunder directly to such Lender and (ii) the Agent's rights in the Collateral Documents shall be assigned without representation, recourse or warranty to the Lenders as their interests may appear.

*Section 11.8. L/C Issuer.* The L/C Issuer shall act on behalf of the Lenders with respect to any Letters of Credit issued by it and the documents

associated therewith. The L/C Issuer shall have all of the benefits and immunities (i) provided to the Agent in this Section 11 with respect to any acts taken or omissions suffered by the L/C Issuer in connection with Letters of Credit issued by it or proposed to be issued by it and the Applications pertaining to such Letters of Credit as fully as if the term "Agent", as used in this Section 11, included the L/C Issuer with respect to such acts or omissions and (ii) as additionally provided in this Agreement with respect to such L/C Issuer.

*Section 11.9. Hedging Liability and Funds Transfer and Deposit Account Liability Arrangements.* By virtue of a Lender's execution of this Agreement or an assignment agreement pursuant to Section 13.12 hereof, as the case may be, any Affiliate of such Lender with whom any Borrower or any Subsidiary has entered into an agreement creating Hedging Liability or Funds Transfer and Deposit Account Liability shall be deemed a Lender party hereto for purposes of any reference in a Loan Document to the parties for whom the Agent is acting, it being understood and agreed that the rights and benefits of such Affiliate under the Loan Documents consist exclusively of such Affiliate's right to share in payments and collections out of the Collateral as more fully set forth in Section 3.1 hereof. In connection with any such distribution of payments and collections, the Agent shall be entitled to assume no amounts are due to any Lender or its Affiliate with respect to Hedging Liability or Funds Transfer and Deposit Account Liability unless such Lender has notified the Agent in writing of the amount of any such liability owed to it or its Affiliate prior to such distribution.

*Section 11.10. Designation of Additional Agents.* The Agent shall have the continuing right, for purposes hereof, at any time and from time to time to designate one or more of the Lenders (and/or its or their Affiliates) as "syndication agents," "documentation agents," "arrangers," or other designations for purposes hereto, but such designation shall have no substantive effect, and such Lenders and their Affiliates shall have no additional powers, duties or responsibilities as a result thereof.

*Section 11.11. Authorization to Release Liens and Limit Amount of Certain Claims.* The Agent is hereby irrevocably authorized by each of the Lenders to release any Lien covering any Property of any Borrower that is the subject of a disposition which is permitted by this Agreement or which has been consented to in accordance with Section 13.13. The Agent is further irrevocably authorized by each of the Lenders to reduce or limit the amount of the Obligations secured by any particular item of Collateral to an amount not less than the estimated value thereof to the extent necessary to reduce mortgage registry, filing and similar taxes.

Section 12. [Reserved].

Section 13. Miscellaneous.

*Section 13.1. Withholding Taxes.* (a) *Payments Free of Withholding.* Except as otherwise required by law and subject to Section 13.1(b) hereof, each payment by the Borrowers under this Agreement or the other Loan Documents shall be made without withholding for or on account of any present or future taxes (other than overall net income taxes on the recipient) imposed by or within the jurisdiction in which the Borrowers are domiciled, any jurisdiction from which the Borrowers make any payment, or (in each case) any political subdivision or taxing authority thereof or therein. If any such withholding is so required, the Borrowers shall make the withholding, pay the amount withheld to the appropriate governmental authority before penalties attach thereto or interest accrues thereon and forthwith pay such additional amount as may be necessary to ensure that the net amount actually received by each Lender and the Agent free and clear of such taxes (including such taxes on such additional amount) is equal to the amount which that Lender or the Agent (as the case may be) would have received had such withholding not been made. If the Agent or any Lender pays any amount in respect of any such taxes, penalties or interest, the Borrowers shall reimburse the Agent or such Lender for that payment on demand in the currency in which such payment was made. If the Borrowers pay any such taxes, penalties or interest, it shall deliver official tax receipts evidencing that payment or certified copies thereof to the Lender or Agent on whose account such withholding was made (with a copy to the Agent if not the recipient of the original) on or before the thirtieth day after payment.

(b) *U.S. Withholding Tax Exemptions.* Each Lender that is not a United States person (as such term is defined in Section 7701(a)(30) of the Code) shall submit to the Borrowers and the Agent on or before the date the initial Credit Event is made hereunder or, if later, the date such financial institution becomes a Lender hereunder, two duly completed and signed copies of (i) either Form W-8 BEN (relating to such Lender and entitling it to a complete exemption from withholding under the Code on all amounts to be received by such Lender, including fees, pursuant to the Loan Documents and the Obligations) or Form W-8 ECI (relating to all amounts to be received by such Lender, including fees, pursuant to the Loan Documents and the Obligations) of the United States Internal Revenue Service or (ii) solely if such Lender is claiming exemption from United States withholding tax under Section 871(h) or 881(c) of the Code with respect to payments of "portfolio interest", a Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, and a certificate representing that such Lender is not a bank for purposes of Section 881(c) of the Code, is not a 10-percent shareholder (within the meaning of Section 871(h)(3)(B) of the Code) of the Borrowers and is not a controlled foreign corporation related to the Borrowers (within the meaning of Section 864(d)(4) of the Code). Thereafter and from time to time, each Lender shall submit to the Borrowers and the Agent such additional duly completed and signed copies of one or the other of such Forms (or such successor forms as shall be adopted from time to time by the relevant United States taxing authorities) and such other certificates as may be (i) requested by the Borrowers in a written notice, directly or through the Agent, to such Lender and (ii) required under then-current United States law or regulations to avoid or reduce United States withholding taxes on payments in respect of all amounts to be received by such Lender, including fees, pursuant to the Loan Documents or the Obligations. Upon the request of the Borrowers or the Agent, each Lender that is a United States person (as such term is defined in Section 7701(a)(30) of the Code) shall submit to the Borrowers and the Agent a certificate to the effect that it is such a United States person.

(c) *Inability of Lender to Submit Forms.* If any Lender determines, as a result of any change in applicable law, regulation or treaty, or in any official application or interpretation thereof, that it is unable to submit to the Borrowers or the Agent any form or certificate that such Lender is obligated to submit pursuant to subsection (b) of this Section 13.1 or that such Lender is required to withdraw or cancel any such form or certificate previously submitted or any such form or certificate otherwise becomes ineffective or inaccurate, such Lender shall promptly notify the Borrowers and Agent of such fact and the Lender shall to that extent not be obligated to provide any such form or certificate and will be entitled to withdraw or cancel any affected form or certificate, as applicable.

*Section 13.2. No Waiver, Cumulative Remedies.* No delay or failure on the part of the Agent or any Lender or on the part of the holder or holders of any of the Obligations in the exercise of any power or right under any Loan Document shall operate as a waiver thereof or as an acquiescence in any default, nor shall any single or partial exercise of any power or right preclude any other or further exercise thereof or the exercise of any other power or right. The rights and remedies hereunder of the Agent, the Lenders and of the holder or holders of any of the Obligations are cumulative to, and not exclusive of, any rights or remedies which any of them would otherwise have.

*Section 13.3. Non-Business Days.* If any payment hereunder becomes due and payable on a day which is not a Business Day, the due date of such payment shall be extended to the next succeeding Business Day on which date such payment shall be due and payable. In the case of any payment of principal falling due on a day which is not a Business Day, interest on such principal amount shall continue to accrue during such extension at the rate per annum then in effect, which accrued amount shall be due and payable on the next scheduled date for the payment of interest.

*Section 13.4. Documentary Taxes.* The Borrowers agree to pay on demand any documentary, stamp, recording or similar taxes payable in respect of this Agreement or any other Loan Document, including interest and penalties, in the event any such taxes are assessed, irrespective of when such assessment is made and whether or not any credit is then in use or available hereunder.

*Section 13.5. Survival of Representations.* All representations and warranties made herein or in any other Loan Document or in certificates given pursuant hereto or thereto shall survive the execution and delivery of this Agreement and the other Loan Documents, and shall continue in full force and effect with respect to the date as of which they were made as long as any credit is in use or available hereunder.

*Section 13.6. Survival of Indemnities.* All indemnities and other provisions relative to reimbursement to the Lenders of amounts sufficient to protect the yield of the Lenders with respect to the Loans and Letters of Credit, including, but not limited to, Sections 1.12, 10.3, and 13.15 hereof, shall survive the termination of this Agreement and the other Loan Documents and the payment of the Obligations.

*Section 13.7. Sharing of Set-Off.* Each Lender agrees with each other Lender a party hereto that if such Lender shall receive and retain any payment, whether by set-off or application of deposit balances or otherwise, on any of the Loans or Reimbursement Obligations in excess of its ratable share of payments on all such Obligations then outstanding to the Lenders, then such Lender shall purchase for cash at face value, but without recourse, ratably from each of the other Lenders such amount of the Loans or Reimbursement Obligations, or participations therein, held by each such other Lenders (or interest therein) as shall be necessary to cause such Lender to share such excess payment ratably with all the other Lenders; *provided, however,* that if any such purchase is made by any Lender, and if such excess payment or part thereof is thereafter recovered from such purchasing Lender, the related purchases from the other Lenders shall be rescinded ratably and the purchase price restored as to the portion of such excess payment so recovered, but without interest. For purposes of this Section, amounts owed to or recovered by the L/C Issuer in connection with Reimbursement Obligations in which Lenders have been required to fund their participation shall be treated as amounts owed to or recovered by the L/C Issuer as a Lender hereunder.

*Section 13.8. Notices.* Except as otherwise specified herein, all notices hereunder and under the other Loan Documents shall be in writing (including, without limitation, notice by telecopy) and shall be given to the relevant party at its address or telecopier number set forth below, or such other address or telecopier number as such party may hereafter specify by notice to the Agent and the Borrowers given by courier, by United States certified or registered mail, by telecopy or by other telecommunication device capable of creating a written record of such notice and its receipt. Notices under the Loan Documents to the Lenders and the Agent shall be addressed to their respective addresses or telecopier numbers set forth on the signature pages hereof, and to the Borrowers to:

Synalloy Corporation  
2155 West Croft Circle  
P.O. Box 5627  
Spartanburg, SC 29304  
Attention: Chief Financial Officer  
Telephone: 864-596-1535  
Telecopy: 864-596-1501

Each such notice, request or other communication shall be effective (i) if given by telecopier, when such telecopy is transmitted to the telecopier number specified in this Section or on the signature pages hereof and a confirmation of such telecopy has been received by the sender, (ii) if given by mail, 5 days after such communication is deposited in the mail, certified or registered with return receipt requested, addressed as aforesaid or (iii) if given by any other means, when delivered at the addresses specified in this Section or on the signature pages hereof; provided that any notice given pursuant to Section 1 hereof shall be effective only upon receipt.

*Section 13.9. Counterparts.* This Agreement may be executed in any number of counterparts, and by the different parties hereto on separate counterpart signature pages, and all such counterparts taken together shall be deemed to constitute one and the same instrument.

*Section 13.10. Successors and Assigns.* This Agreement shall be binding upon the Borrowers and their successors and assigns, and shall inure to the benefit of the Agent and each of the Lenders and the benefit of their respective successors and assigns, including any subsequent holder of any of the Obligations. The Borrowers may not assign any of their rights or obligations under any Loan Document without the written consent of all of the Lenders.

*Section 13.11. Participants.* Each Lender shall have the right at its own cost to grant participations (to be evidenced by one or more agreements or certificates of participation) in the Loans made and Reimbursement Obligations and/or Revolving Credit Commitments held by such Lender at any time and from time to time to one or more other Persons; provided that no such participation shall relieve any Lender of any of its obligations under this Agreement, and, provided, further that no such participant shall have any rights under this Agreement except as provided in this Section, and the Agent shall have no obligation or responsibility to such participant. Any agreement pursuant to which such participation is granted shall provide that the granting Lender shall retain the sole right and responsibility to enforce the obligations of the Borrowers under this Agreement and the other Loan Documents including, without limitation, the right to approve any amendment, modification or waiver of any provision of the Loan Documents, except that such agreement may provide that such Lender will not agree to any modification, amendment or waiver of the Loan Documents that would reduce the amount of or postpone any fixed date for payment of any Obligation in which such participant has an interest. Any party to which such a participation has been granted shall have the benefits of Section 1.11 and Section 10.3 hereof. The Borrowers authorize each Lender to disclose to any participant or prospective participant under this Section any financial or other information pertaining to the Borrowers, *provided that* such participant or prospective participant agrees to keep such information confidential.

*Section 13.12. Assignments.* (a) Each Lender shall have the right at any time, with the prior consent of the Agent and, so long as no Event of Default then exists, the Borrowers (which consent of the Borrowers shall not be unreasonably withheld) to sell, assign, transfer or negotiate all or any part of its rights and obligations under the Loan Documents (including, without limitation, the indebtedness evidenced by the Notes then held by such assigning Lender, together with an equivalent percentage of its obligation to make Loans and participate in Letters of Credit) to one or more commercial banks or other financial institutions or investors, provided that, unless otherwise agreed to by the Agent, such assignment shall be of a fixed percentage (and not by its terms of varying percentage) of the assigning Lender's rights and obligations under the Loan Documents; *provided, however*, that, (i) prior to any such assignment, the affected Lender shall offer to the Agent a right of first refusal for the Loans or portion of the Loans to be assigned, on substantially the same terms as offered to the prospective transferee, which right of first refusal the Agent shall accept in writing within ten (10) Business Days of its receipt of notice or else the Agent shall be deemed to have declined the assignment, and (ii) except as otherwise agreed by the Borrowers and the Agent, in order to make any such assignment (A) unless the assigning Lender is assigning all of its Revolving Credit Commitments, outstanding Loans and interests in Letters of Credit Obligations, the assigning Lender shall retain at least \$5,000,000 in unused Revolving Credit Commitments, outstanding Loans and interests in Letters of Credit, (B) each assignment shall be in an amount of \$1,000,000 and in integral amounts of \$500,000 thereafter except for (x) assignments to Affiliates of the assigning Bank and (y) assignments from one Bank to another, (C) the assignee Lender shall have Revolving Credit Commitments, outstanding Loans and interests in Letters of Credit of at least \$5,000,000, (D) each such assignment shall be evidenced by a written agreement (substantially in the form attached hereto as **Exhibit J** or in such other form acceptable to the Agent) executed by such assigning Lender, such assignee Lender or Lenders, the Agent and, if required as provided above, the Borrowers, which agreement shall specify in each instance the portion of the Obligations which are to be assigned to the assignee Lender and the portion of the Revolving Credit Commitments of the assigning Lender to be assumed by the assignee Lender, and (E) the assigning Lender shall pay to the Agent a processing fee of \$3,500 and any out-of-pocket attorneys' fees and expenses incurred by the Agent in connection with any such assignment agreement. Any such assignee shall become a Lender for all purposes hereunder to the extent of the rights and obligations under the Loan Documents it assumes and the assigning Lender shall be released from its obligations, and will have released its rights, under the Loan Documents to the extent of such assignment. The address for notices to such assignee Lender shall be as specified in the assignment agreement executed by it. Promptly upon the effectiveness of any such assignment agreement, the Borrowers shall execute and deliver replacement Notes to the assignee Lender and the assigning Lender in the respective amounts of their Loans (or assigned principal amounts, as applicable) after giving effect to the reduction occasioned by such assignment (all such Notes to constitute "Notes" for all purposes of the Loan Documents), and the assignee Lender shall thereafter surrender to the Borrowers its old Notes. The Borrowers authorize each Lender to disclose to any purchaser or prospective purchaser of an interest in the Loans and interest in Letters of Credit owed to it or its Commitments under this Section any financial or other information pertaining to the Borrower or any Subsidiary, *provided that* such purchaser or prospective purchaser agrees to keep such information confidential.

(b) Any Lender may at any time pledge or grant a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any such pledge or grant to a Federal Reserve Bank, and this Section shall not apply to any such pledge or grant of a security interest; *provided that* no such pledge or grant of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or secured party for such Lender as a party hereto; *provided further, however*, the right of any such pledgee or grantee (other than any Federal Reserve Bank) to further transfer all or any portion of the rights pledged or granted to it, whether by means of foreclosure or otherwise, shall be at all times subject to the terms of this Agreement.

*Section 13.13. Amendments.* Any provision of this Agreement or the other Loan Documents may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by (a) the Borrowers, (b) the Required Lenders, and (c) if the rights or duties of the Agent are affected thereby, the Agent; *provided that*:

(i) no amendment or waiver pursuant to this Section 13.13 shall (A) change any Commitment or Percentage of any Lender without the consent of such Lender or (B) reduce the amount of or postpone the date for any scheduled payment of any principal of or interest on any Loan or of any Reimbursement Obligation or of any fee payable hereunder without the consent of the Lender to which such payment is owing or which has committed to make such Loan or Letter of Credit (or participate therein) hereunder; and

(ii) no amendment or waiver pursuant to this Section 13.13 shall, unless signed by each Lender, increase the aggregate Revolving Credit Commitments of the Lenders, change the definition of Required Lenders, change the financial covenants set forth in Sections 8.22, 8.23 or 8.24, change the definition of Borrowing Base, change the definition of Applicable Rate, change the provisions of this Section 13.13, release the obligations of the Borrowers or any material part of the Collateral (except as otherwise provided for in the Loan Documents), or affect the number of Lenders required to take any action hereunder or under any other Loan Document; *provided, further*, notwithstanding the provisions set forth above no Lender consent shall be required in connection with the release of any Liens on Property sold by the Borrowers if such sale is permitted pursuant to Section 8.10

hereof or has been consented to pursuant to this Section 13.13.

*Section 13.14. Headings.* Section headings used in this Agreement are for reference only and shall not affect the construction of this Agreement.

*Section 13.15. Costs and Expenses; Indemnification.* (a) The Borrowers agree to pay all reasonable costs and expenses of the Agent in connection with the preparation, negotiation, syndication, and administration of the Loan Documents, including, without limitation, the reasonable fees and disbursements of counsel to the Agent not to exceed \$30,000, in connection with the preparation and execution of the Loan Documents, and any amendment, waiver or consent related thereto, whether or not the transactions contemplated herein are consummated. The Borrowers further agree to indemnify the Agent, each Lender, and their respective directors, officers, employees, agents, financial advisors, and consultants against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all reasonable expenses of litigation or preparation therefor, whether or not the indemnified Person is a party thereto, or any settlement arrangement arising from or relating to any such litigation) which any of them may pay or incur arising out of or relating to any Loan Document or any of the transactions contemplated thereby or the direct or indirect application or proposed application of the proceeds of any Loan or Letter of Credit, other than those which arise from the gross negligence or willful misconduct of the party claiming indemnification. The Borrowers, upon demand by the Agent or a Lender at any time, shall reimburse the Agent or such Lender for any legal or other expenses incurred in connection with investigating or defending against any of the foregoing (including any settlement costs relating to the foregoing) except if the same is directly due to the gross negligence or willful misconduct of the party to be indemnified. The obligations of the Borrowers under this Section shall survive the termination of this Agreement.

(b) The Borrowers unconditionally agree to forever indemnify, defend and hold harmless, and covenants not to sue for any claim for contribution against, the Agent and the Lenders for any damages, costs, loss or expense, including without limitation, response, remedial or removal costs, arising out of any of the following: (i) any presence, release, threatened release or disposal of any hazardous or toxic substance or petroleum by any Borrower or otherwise occurring on or with respect to its Property (whether owned or leased), (ii) the operation or violation of any Environmental Law, whether federal, state, or local, and any regulations promulgated thereunder, by any Borrower or otherwise occurring on or with respect to its Property (whether owned or leased), (iii) any claim for personal injury or property damage in connection with any Borrower or otherwise occurring on or with respect to its Property (whether owned or leased), and (iv) the inaccuracy or breach of any environmental representation, warranty or covenant by any Borrower made herein or in any other Loan Document evidencing or securing any Obligations or setting forth terms and conditions applicable thereto or otherwise relating thereto, except for damages arising from the willful misconduct or gross negligence of the party claiming indemnification. This indemnification shall survive the payment and satisfaction of all Obligations and the termination of this Agreement, and shall remain in force beyond the expiration of any applicable statute of limitations and payment or satisfaction in full of any single claim under this indemnification. This indemnification shall be binding upon the successors and assigns of the Borrowers and shall inure to the benefit of Agent and the Lenders directors, officers, employees, agents, and collateral trustees, and their successors and assigns.

*Section 13.16. Set-off.* In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence of any Event of Default, each Lender and each subsequent holder of any Obligation is hereby authorized by the Borrowers at any time or from time to time, without notice to the Borrowers or to any other Person, any such notice being hereby expressly waived, to set-off and to appropriate and to apply any and all deposits (general or special, including, but not limited to, indebtedness evidenced by certificates of deposit, whether matured or unmatured, but not including trust accounts, and in whatever currency denominated) and any other indebtedness at any time held or owing by that Lender or that subsequent holder to or for the credit or the account of the Borrowers, whether or not matured, against and on account of the Obligations of the Borrowers to that Lender or that subsequent holder under the Loan Documents, including, but not limited to, all claims of any nature or description arising out of or connected with the Loan Documents, irrespective of whether or not (a) that Lender or that subsequent holder shall have made any demand hereunder or (b) the principal of or the interest on the Loans or Notes and other amounts due hereunder shall have become due and payable pursuant to Section 9 and although said obligations and liabilities, or any of them, may be contingent or unmatured. Any Lender that set-offs or applies any such amount shall notify the Borrowers of such act promptly after it is taken, but any Lender's failure to give such notice shall not create any liability to any of the Lenders.

*Section 13.17. Entire Agreement.* The Loan Documents constitute the entire understanding of the parties thereto with respect to the subject matter thereof and any prior agreements, whether written or oral, with respect thereto are superseded hereby.

*Section 13.18. Governing Law.* This Agreement and the other Loan Documents, and the rights and duties of the parties hereto, shall be construed and determined in accordance with the internal laws of the State of South Carolina.

*Section 13.19. Severability of Provisions.* Any provision of any Loan Document which is unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction. All rights, remedies and powers provided in this Agreement and the other Loan Documents may be exercised only to the extent that the exercise thereof does not violate any applicable mandatory provisions of law, and all the provisions of this Agreement and other Loan Documents are intended to be subject to all applicable mandatory provisions of law which may be controlling and to be limited to the extent necessary so that they will not render this Agreement or the other Loan Documents invalid or unenforceable.

*Section 13.20. Excess Interest.* Notwithstanding any provision to the contrary contained herein or in any other Loan Document, no such provision shall require the payment or permit the collection of any amount of interest in excess of the maximum amount of interest permitted by applicable law to be charged for the use or detention, or the forbearance in the collection, of all or any portion of the Loans or other obligations outstanding under this Agreement or any other Loan Document ("*Excess Interest*"). If any Excess Interest is provided for, or is adjudicated to be provided for, herein or in any other Loan Document, then in such event (a) the provisions of this Section shall govern and control, (b) no Borrower or endorser shall be obligated to pay any Excess Interest, (c) any Excess Interest that the Agent or any Lender may

have received hereunder shall, at the option of the Agent, be (i) applied as a credit against the then outstanding principal amount of Obligations hereunder and accrued and unpaid interest thereon (not to exceed the maximum amount permitted by applicable law), (ii) refunded to the Borrowers, or (iii) any combination of the foregoing, (d) the interest rate payable hereunder or under any other Loan Document shall be automatically subject to reduction to the maximum lawful contract rate allowed under applicable usury laws (the "*Maximum Rate*"), and this Agreement and the other Loan Documents shall be deemed to have been, and shall be, reformed and modified to reflect such reduction in the relevant interest rate, and (e) no Borrower or endorser shall have any action against the Agent or any Lender for any damages whatsoever arising out of the payment or collection of any Excess Interest.

*Section 13.21. Construction.* Nothing contained herein shall be deemed or construed to permit any act or omission which is prohibited by the terms of any Collateral Document, the covenants and agreements contained herein being in addition to and not in substitution for the covenants and agreements contained in the Collateral Documents.

*Section 13.22. Lender's Obligations Several.* The obligations of the Lenders hereunder are several and not joint. Nothing contained in this Agreement and no action taken by the Lenders pursuant hereto shall be deemed to constitute the Lenders a partnership, association, joint venture or other entity.

*Section 13.23. Confidentiality.* Agent and each Lender agree to keep all financial reports and other material, non-public information regarding Borrowers and their Subsidiaries and their operations, assets, and existing and contemplated business plans in a confidential manner; it being understood and agreed by Borrowers that Agent and any Lender may make disclosures (i) to counsel for and other advisors, accountants, and auditors to Lenders, (ii) reasonably required by any *bona fide* potential or actual assignee or participant in connection with any contemplated or actual assignment or transfer by a Lender of an interest herein or any participation interest in such Lender's rights hereunder, (iii) of information that has become public by disclosures made by Persons other than Agent or any Lender, its Affiliates, assignees, transferees, or participants, or (iv) as required or requested by any court, governmental or administrative agency, pursuant to any subpoena or other legal process, or by any law, statute, regulation, or court order; provided, however, that, unless prohibited by applicable law, statute, regulation, or court order, Agent or the affected Lender shall notify Borrowers of any request by any court, governmental or administrative agency, or pursuant to any subpoena or other legal process for disclosure of any such non-public material information concurrent with, or where practicable, prior to the disclosure thereof; provided further, that any disclosures pursuant to the preceding clauses (i) and (ii) shall be made subject to the recipient of the disclosures agreeing to be bound by the confidentiality provisions hereof.

*Section 13.24 Synalloy as Administrative Borrower.* Each Borrower hereby irrevocably appoints Synalloy Corporation as the borrowing agent and attorney-in-fact for all Borrowers (the "Administrative Borrower"), which appointment shall remain in full force and effect unless and until Agent shall have received prior written notice signed by each Borrower that such appointment has been revoked and that another Borrower has been appointed Administrative Borrower. Each Borrower hereby irrevocably appoints and authorizes the Administrative Borrower (i) to provide Agent and Lenders with all notices with respect to Borrowings and Letters of Credit obtained for the benefit of any Borrower and all other notices and instructions under this Agreement and (ii) to take such action as the Administrative Borrower deems appropriate on its behalf to obtain Borrowings and Letters of Credit and to exercise such other powers as are reasonably incidental thereto to carry out the purposes of this Agreement. It is understood that the handling of the Loans and Collateral of Borrowers in a combined fashion, as more fully set forth herein, is done solely as an accommodation to Borrowers in order to utilize the collective borrowing powers of Borrowers in the most efficient and economical manner and at their request, and that neither Agent nor any Lender shall incur liability to any Borrower as a result hereof. Each Borrower expects to derive benefit, directly or indirectly, from the handling of the Loans and the Collateral in a combined fashion since the successful operation of each Borrower is dependent on the continued successful performance of the integrated group. To induce Agent and Lenders to do so, and in consideration thereof, each Borrower hereby jointly and severally agrees to indemnify Agent and each Lender harmless against any and all liability, expense, loss or claim of damage or injury, made against Agent or any Lender by any Borrower or by any third party whosoever, arising from or incurred by reason of (a) the handling of the Loans and Collateral of Borrowers as herein provided, (b) Agent's or any Lender's relying on any instructions of the Administrative Borrower, or (c) any other action taken by Agent or any Lender hereunder or under the other Loan Documents, except that Borrowers will have no liability to Agent, any Lender or any Affiliate, officer, director, agent or employee thereof under this Section 13.24 with respect to any liability that has been finally determined by a court of competent jurisdiction to have resulted solely from the gross negligence or willful misconduct of such Person.

*Section 13.25. USA Patriot Act Notice.* Each Lender and the Agent (for itself and not on behalf of any Lender) hereby notifies each Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub.L.107-56 assigned into law October 26, 2001) (the "Act"), is required to obtain, verify and record information that identifies each Borrower, which information includes the name and address of such Borrower and other information that would allow such Lender or Agent, as applicable, to identify such Borrower in accordance with the Act.

*Section 13.26. Submission to Jurisdiction; Waiver of Jury Trial.* The Borrower and the Guarantors hereby submit to the nonexclusive jurisdiction of the United States District Court for South Carolina and of any South Carolina State court sitting in the City of Greenville for purposes of all legal proceedings arising out of or relating to this Agreement, the other Loan Documents or the transactions contemplated hereby or thereby. The Borrowers irrevocably waive, to the fullest extent permitted by law, any objection which they may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum. The Borrowers, the Agent, and the Lenders hereby irrevocably waive any and all right to trial by jury in any legal proceeding arising out of or relating to any Loan Document or the transactions contemplated thereby.

[SIGNATURES OMITTED]

**Exhibit A**

**Notice of Payment Request**

[Date]

[Name of Lender]

[Address]

Attention:

Reference is made to the Credit Agreement, dated as of \_\_\_\_\_, 2005 among Synalloy Corporation, et al., the Lenders party thereto, and Carolina First Bank, as Agent (the "Credit Agreement"). Capitalized terms used herein and not defined herein have the meanings assigned to them in the Credit Agreement. [The Borrowers have failed to pay their Reimbursement Obligation in the amount of \$\_\_\_\_\_. Your Revolver Percentage of the unpaid Reimbursement Obligation is \$\_\_\_\_\_] or [\_\_\_\_\_ has been required to return a payment by the Borrowers of a Reimbursement Obligation in the amount of \$\_\_\_\_\_. Your Revolver Percentage of the returned Reimbursement Obligation is \$\_\_\_\_\_.]

[SIGNATURES OMITTED]

**Exhibit B**

**Notice of Borrowing**

Date: , \_\_\_\_

To: Carolina First Bank, as Agent for the Lenders parties to the Credit Agreement dated as of \_\_\_\_\_, 2005 (as extended, renewed, amended or restated from time to time, the "Credit Agreement"), among Synalloy Corporation, et al., certain Lenders which are signatories thereto, and Carolina First Bank, as Agent.

Ladies and Gentlemen:

The undersigned, Borrowers (the "Borrowers"), refers to the Credit Agreement, the terms defined therein being used herein as therein defined, and hereby gives you notice irrevocably, pursuant to Section 1.5 of the Credit Agreement, of the Borrowing specified below:

1. The Business Day of the proposed Borrowing is \_\_\_\_\_, \_\_\_\_.
2. The aggregate amount of the proposed Borrowing is \$\_\_\_\_\_.
3. The Borrowing is being advanced under the Revolving Credit.
4. The duration of the Interest Period for the Loans included in the Borrowing shall be \_\_\_\_\_ months.

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the proposed Borrowing, before and after giving effect thereto and to the application of the proceeds therefrom:

(a) the representations and warranties of the Borrowers contained in Section 6 of the Credit Agreement are true and correct as though made on and as of such date (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date); and

- a. no Default or Event of Default has occurred and is continuing or would result from such proposed Borrowing.

[SIGNATURES OMITTED]

**Exhibit C**

**Notice of Continuation/Conversion**

Date: \_\_\_\_\_, \_\_\_\_

To: Carolina First Bank, as Agent for the Lenders parties to the Credit Agreement dated as of \_\_\_\_\_, 2005 (as extended, renewed, amended or restated from time to time, the "Credit Agreement") among Synalloy Corporation, et al., certain Lenders which are signatories thereto, and Carolina First Bank, as Agent.

Ladies and Gentlemen:

The undersigned Borrowers (the "Borrowers"), refers to the Credit Agreement, the terms defined therein being used herein as therein defined, and hereby gives you notice irrevocably, pursuant to Section 1.5 of the Credit Agreement, of the [conversion] [continuation] of the Loans specified herein, that:

1. The conversion/continuation Date is \_\_\_\_\_, \_\_\_\_.
2. The aggregate amount of the Revolving Loans to be [converted] [continued] is \$\_\_\_\_\_.

3. The duration of the Interest Period for the Revolving Loans included in the [conversion] [continuation] shall be \_\_\_\_\_ months.

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the proposed conversion/continuation date, before and after giving effect thereto and to the application of the proceeds therefrom:

(a) the representations and warranties of the Borrowers contained in Section 6 of the Credit Agreement are true and correct as though made on and as of such date (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date); and

a. no Default or Event of Default has occurred and is continuing, or would result from such proposed [conversion] [continuation].

[SIGNATURES OMITTED]

**Exhibit D-1**

**Revolving Note**

U.S. \$ \_\_\_\_\_, \_\_\_\_\_

For Value Received, the undersigned Borrowers (the "*Borrowers*"), hereby promise to pay, jointly and severally, to the order of \_\_\_\_\_ (the "*Lender*") on the Revolving Credit Termination Date of the hereinafter defined Credit Agreement, at the principal office of Carolina First Bank, as Agent, in Greenville, South Carolina, in immediately available funds, the principal sum of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) or, if less, the aggregate unpaid principal amount of all Revolving Loans made by the Lender to the Borrowers pursuant to the Credit Agreement, together with interest on the principal amount of each Revolving Loan from time to time outstanding hereunder at the rates, and payable in the manner and on the dates, specified in the Credit Agreement.

This Note is one of the Revolving Notes referred to in the Credit Agreement dated as of \_\_\_\_\_, 2005, among the Borrowers, Carolina First Bank, as Agent, and the Lenders party thereto (the "*Credit Agreement*"), and this Note and the holder hereof are entitled to all the benefits and security provided for thereby or referred to therein, to which Credit Agreement reference is hereby made for a statement thereof. All defined terms used in this Note, except terms otherwise defined herein, shall have the same meaning as in the Credit Agreement. This Note shall be governed by and construed in accordance with the internal laws of the State of South Carolina.

Voluntary prepayments may be made hereon, certain prepayments are required to be made hereon, and this Note may be declared due prior to the expressed maturity hereof, all in the events, on the terms and in the manner as provided for in the Credit Agreement.

The Borrowers hereby waive demand, presentment, protest or notice of any kind hereunder.

[SIGNATURES OMITTED]

**Exhibit D-2**

**Swing Note**

U.S. \$ \_\_\_\_\_, \_\_\_\_\_

For Value Received, the undersigned, Borrowers (the "*Borrowers*"), hereby promise to pay, jointly and severally, to the order of \_\_\_\_\_ (the "*Lender*") on the Revolving Credit Termination Date of the hereinafter defined Credit Agreement, at the principal office of Carolina First Bank, as Agent, in Greenville, South Carolina, in immediately available funds, the principal sum of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) or, if less, the aggregate unpaid principal amount of all Swing Loans made by the Lender to the Borrowers pursuant to the Credit Agreement, together with interest on the principal amount of each Swing Loan from time to time outstanding hereunder at the rates, and payable in the manner and on the dates, specified in the Credit Agreement.

This Note is the Swing Note referred to in the Credit Agreement dated as of \_\_\_\_\_, 2005, among the Borrower, the Lenders party thereto, and Carolina First Bank, as Agent for the Lenders (the "*Credit Agreement*"), and this Note and the holder hereof are entitled to all the benefits and security provided for thereby or referred to therein, to which Credit Agreement reference is hereby made for a statement thereof. All defined terms used in this Note, except terms otherwise defined herein, shall have the same meaning as in the Credit Agreement. This Note shall be governed by and construed in accordance with the internal laws of the State of South Carolina.

Voluntary prepayments may be made hereon, certain prepayments are required to be made hereon, and this Note may be declared due prior to the expressed maturity hereof, all in the events, on the terms and in the manner as provided for in the Credit Agreement.

The Borrower hereby waives demand, presentment, protest or notice of any kind hereunder.

[SIGNATURES OMITTED]

**Exhibit D-3**

**Term Note**

U.S. \$ \_\_\_\_\_, \_\_\_\_\_

For Value Received, the undersigned Borrowers (the "*Borrowers*"), hereby promise to pay, jointly and severally, to the order of \_\_\_\_\_ (the "*Lender*") on the Term Credit Termination Date of the hereinafter defined Credit Agreement, at the principal office of Carolina First Bank, as Agent, in Greenville, South Carolina, in immediately available funds, the principal sum of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) or, if less, the aggregate unpaid principal amount of all Term Loans made by the Lender to the Borrowers pursuant to the Credit Agreement, together with interest on the principal amount of each Term Loan from time to time outstanding hereunder at the rates, and payable in the manner and on the dates, specified in the Credit Agreement.

This Note is one of the Term Notes referred to in the Credit Agreement dated as of \_\_\_\_\_, 2005, among the Borrowers, Carolina First Bank, as Agent, and the Lenders party thereto (the "*Credit Agreement*"), and this Note and the holder hereof are entitled to all the benefits and security provided for thereby or referred to therein, to which Credit Agreement reference is hereby made for a statement thereof. All defined terms used in this Note, except terms otherwise defined herein, shall have the same meaning as in the Credit Agreement. This Note shall be governed by and construed in accordance with the internal laws of the State of South Carolina.

This Note shall be repaid in accordance with the terms of the Credit Agreement.

Voluntary prepayments may be made hereon, certain prepayments are required to be made hereon, and this Note may be declared due prior to the expressed maturity hereof, all in the events, on the terms and in the manner as provided for in the Credit Agreement.

The Borrowers hereby waive demand, presentment, protest or notice of any kind hereunder.

[SIGNATURES OMITTED]

**Exhibit E**

**Authorized Representative Certificate**

(See Resolutions)

**UNANIMOUS CONSENT**

**OF THE BOARD OF DIRECTORS**

**OF SYNALLOY CORPORATION**

The undersigned, being all the Directors of Synalloy Corporation, a Delaware corporation, do hereby take the following actions by unanimous consent in lieu of a meeting and adopt the following resolutions in accordance with Section 141(f) of the General Corporation Law of the State of Delaware.

RESOLVED, That the Company approves the entering into of a Senior Credit Facility with Carolina First Bank (and a financial institution acceptable to the Company) in the principal amount of \$27 million on the terms and conditions generally set forth in the attached Summary of Terms & Conditions. As security for such Senior Credit Facility, the Company will pledge as collateral certain of its assets as set forth in the Security section of the attached Summary and agrees to the guarantee of the obligations owed under the Senior Credit Facility by the subsidiaries of the Company.

BE IT FURTHER RESOLVED, That the Vice President, Finance of the Company is authorized (1) to execute and deliver on behalf of the Company a loan agreement, notes, collateral documentation and other documents as may be necessary to effectuate this Senior Credit Facility on the terms generally set forth in the attached Summary, together with such changes and modifications as such officer shall determine to be in the interests of the Company and its subsidiaries, and (2) to approve the involvement of a second financial institution as a lender under the Senior Credit Facility.

We direct this consent be filed with the Minutes of the meetings of the Board of Directors of the Company.

Dated: October 25, 2005

[SIGNATURES OMITTED]

**Exhibit F**

**Borrowing Base Certificate**

(See Attached)

Carolina First Bank, as Agent

**Borrowing Base Certificate**

Synalloy Corporation Date:

2155 West Croft Circle Period Ending Date:

Spartanburg, SC 29302

1. SEGMENT Bristol Metals Bristol Metals Chemical Segment TOTALS

Accounts Receivable

Gross AR per Aging \$ - \$ - \$ -

Less Non-Primes:

Excess Aging (>90 days)	-		-		-
Credits In Excess Aging	-		-		-
Intercompany	-		-		-
Unapplied Cash	-		-		-
	-		-		-
Total Non Primes	-		-		-

Eligible AR -

Advance Rate 85.00% 85.00%

Available A/R \$ - \$ - \$

Finished Goods & Finished Goods &

Raw Materials Work-In-Process Raw Materials

\$ -	\$ -	\$ -		\$ -
------	------	------	--	------

Less Non-Primes:

Market Reserves	-	-	-		-
Other Reserves	-	-	-		-
Consigned	-	-	-		-
Paid By Customer	-	-	-		-
Total Non-Primes	-	-	-		-

**1. Eligible Inventory - - - -**

Advance Rate 60.00% 30.00 50.00%

\$ -

**Exhibit G**

**Eligible Chemicals Inventory Locations and  
Eligible Metal Inventory Locations**

**See Attached**

Exhibit G

Eligible Chemicals Inventory Locations

Synalloy Corporation

2155 West Croft Circle

Spartanburg, SC 29302

Manufacturers Chemicals, L.P.

4325 Old Tasso Road

Cleveland, TN 37312

Manufacturers Chemicals, L.P.

1330 Coronet Drive

Dalton, GA 30720

Organic Pigments Corporation

209 King Street

Greensboro, NC 27406

Eligible Metals Inventory Locations

Bristol Metals, L.P.

390 Bristol Metals Road

Bristol, TN 37620

**Exhibit H**

**Security Agreement**

**SECURITY AGREEMENT**

THIS SECURITY AGREEMENT ("Agreement"), dated effective as of December 13, 2005, by and among **Synalloy Corporation, Bristol Metals, L.P., Synalloy Metals, Inc., Manufacturers Soap & Chemical Company, Manufacturers Chemical, L.P., Metchem, Inc., and Organic-Pigments Corporation** (collectively hereinafter referred to as "Debtor") and **Carolina First Bank**, 104 South Main Street, Greenville, South Carolina 29601 (hereinafter referred to as "Agent"), as agent for itself and other lenders (the "Lenders") named in that certain

Credit Agreement dated of even date herewith among Synalloy Corporation, Bristol Metals, L.P., Manufacturers Chemical, L.P., Agent, Lenders named therein, and other parties named therein (the "Loan Agreement"). (The designation Debtor, and Agent as used herein shall include said parties, their successors and assigns, and shall include singular, plural, masculine, feminine, or neuter as required by context). All capitalized terms used, but not otherwise defined herein shall have the meaning set forth in the Loan Agreement.

#### RECITAL OF PURPOSE

This Agreement is executed in contemplation of (i) the Lenders extending to Synalloy Corporation, Bristol Metals, L.P., Synalloy Metals, Inc., Manufacturers Soap & Chemical Company, Manufacturers Chemical, L.P., Metchem, Inc., and Organic-Pigments Corporation, jointly and severally, credit under that certain \$7,000,000.00 term loan, and (ii) the Lenders extending to Synalloy Corporation, Bristol Metals, L.P., Synalloy Metals, Inc., Manufacturers Soap & Chemical Company, Manufacturers Chemical, L.P., Metchem, Inc., and Organic-Pigments Corporation, jointly and severally, credit under that certain \$20,000,000.00 revolving line of credit, from time to time, (all of the aforementioned, collectively, the "Loans" and all of the aforementioned borrowers, collectively, the "Borrower") pursuant to the Loan Agreement. All advances under the Loans and all existing credit arrangements and future extensions of credit of any kind or nature whatsoever, however and whenever arising, whether direct or contingent, by Lenders or Agent to Borrower, or any one or more of them, and any other Obligations to Lenders or Agent from Borrower, or any one or more of them, shall be secured by the security interest granted under this Agreement.

#### SECURITY INTEREST

The Debtor hereby grants to the Agent a first priority perfected security interest in the items of Collateral shown on Schedule A attached hereto (the "Collateral"), whether now owned or hereafter acquired, wherever located. Debtor hereby acknowledges that Lenders and Agent would be unwilling to extend the Loans to Borrower without this Agreement.

#### OBLIGATIONS SECURED

The security interest granted secures all existing and future obligations of Borrower, or any of them, to the Lenders and Agent or any of their respective assignees and participants including, but not limited to, the Loans, any now existing or hereafter arising promissory notes of any one or more of the Borrower to any Lender or Agent, hedge agreement, swap agreements, or other interest rate protection agreement entered into between Borrower, or any one or more of them, and any Lender or Agent, or any affiliate thereof, whether now existing or hereafter entered into, including but not limited to, any agreement providing for an interest rate or commodity swap, cap, floor, or collar, or any combination of, or option with respect to, these or similar transactions, for the purpose of hedging any one or more Borrower's exposure to fluctuations in interest rates (a "SWAP"), guarantees, loan agreements, open accounts, extensions under lines of credit, the payment for all goods, and the performance of all now existing or hereafter arising obligations owing by such Borrower to the Lenders (collectively, "Obligations"). This Agreement shall continue until the filing of a termination statement of record, notwithstanding the fact that from time to time any one or more of the Borrower may not be indebted to any Lender or the Agent.

#### UCC FINANCING STATEMENTS

Debtor hereby authorizes Agent to prepare and file any financing statements Agent deems necessary to perfect its first priority security interests in the Collateral pledged hereby and any continuation statements or amendments it deems necessary to protect or continue such security interests. Debtor agrees that a carbon, photographic or other reproduction of this Agreement with respect to the Collateral shall be sufficient as a financing statement and may be filed as such by Agent and that Agent may exercise any financing statement filed pursuant to this paragraph either in its own name or in that of Debtor.

#### USE AND DISPOSITION OF COLLATERAL

Until an Event of Default hereunder, the Debtor may use the Collateral in any lawful manner not inconsistent with this Agreement, the Loan Agreement or with the terms or conditions of any policy of insurance thereon and also may sell or otherwise dispose of the Collateral in the ordinary course of business as permitted in the Loan Agreement. A sale in the ordinary course of business does not include a transfer in partial or total satisfaction of a debt. Except for sales or other dispositions in the ordinary course of business or as otherwise provided in the Agreement, the Debtor shall not sell, encumber, or in any manner dispose of any of the Collateral, unless consented to by the Agent in writing.

The Agent at all times, following reasonable notice and during normal business hours, shall have a license to enter upon any premises where any tangible items of Collateral are located or where any record of an intangible item of Collateral may be maintained, and in connection therewith, the Debtor assigns to the Agent all right, title and interest of the Debtor in and to any leases or other agreements between the Debtor and various persons having in their possession any or all of the Collateral, and such persons may rely upon this Agreement or a copy hereof as authority of the Agent for entry upon said premises to the same extent and for the same purpose as the Debtor may enter thereupon. Notwithstanding the assignment of all right, title and interest of the Debtor in and to such agreements, the Debtor agrees to remain bound to the party having possession of the Collateral for the performance of all obligations with respect to such Collateral, and the entry of the Agent under the terms of this Agreement upon such premises shall not constitute an acceptance by the Agent of any obligation of the Debtor to any person having possession of such Collateral.

#### LEASE OF RECORDS

Debtor hereby leases to Agent, and Agent hires from Debtor, for a term which shall be effective so long as the Loans or other Obligations secured hereby are owing to the Agent by Debtor and until Debtor has no further obligation to Agent under the Loan Agreement or any other Loan Document, all of Debtor's present and future books of Accounts, computer printouts, magnetic, digital and laser tapes and disks, computer and electronic storage media, computer software programs, trial balance records, ledgers and cabinets in which they are located,

reflected or maintained, in any way relating to the Collateral, and all present and future supporting evidence and documents relating thereto in the form of written applications, credit information, account cards, payment records, trial balances, correspondence, delivery receipts, certificates and the like, as well as the past and current information stored in computer software programs for and on Debtor's behalf by third parties. If an Event of Default occurs, then, in addition to all of the other rights and remedies of Agent herein, Agent will have the right forthwith or at any time thereafter to remove from Debtor's premises, or any other location, all of the foregoing and keep and retain the same in Agent's possession until the Loans and other Obligations secured hereby shall have been fully paid and discharged and the Agent has no further obligation under the Loan Agreement. The provisions of this paragraph shall not be deemed to diminish or contravene the security interest of Agent in Debtor's General Intangibles or in the property, materials, and interests described in this paragraph but shall be deemed to be in addition to any rights Agent may have with respect to Debtor's grant of a security interest in its General Intangibles to the Agent.

#### LICENSE OF RIGHTS

Agent is hereby granted a license or other right to use, without charge, Debtor's labels, patents, copyrights, rights of use of any name, trade secrets, tradenames, trademarks and advertising matter or any property of a similar nature as it pertains to the Collateral, in advertising for sale and in selling any Collateral, and Debtor's rights under all licenses and all franchise agreements shall inure to Agents benefit.

#### SPECIAL PROVISIONS REGARDING EQUIPMENT

Part of the Equipment pledged by this Agreement may constitute motor vehicles and other vehicles subject to registration under the motor vehicle title registration statutes of South Carolina or other states, and with respect to which the security interest of Agent therein is required to be registered on the vehicle title certificate. If requested by Agent, Debtor agrees to execute and deliver on a timely basis all such title certificates and instruments as shall be necessary to convey to the Agent a first priority perfected security interest in all such motor vehicles and other Equipment.

Part of the Equipment may be affixed to real estate owned or leased by Debtor and may constitute fixtures under the Uniform Commercial Code. Debtor agrees that any such fixtures located on real property mortgaged to Agent shall be included within the meaning of Equipment as used and defined herein and that Agent is hereby granted a security interest in and a lien upon such fixtures.

#### REPRESENTATIONS, WARRANTIES AND COVENANTS

The Debtor represents, warrants and covenants as follows:

1. Subject to any limitations stated in writing herein or in connection herewith, all information furnished by the Debtor to Agent or the Lenders concerning the Collateral was, is, or will be at the time the same is furnished, accurate and complete in all material respects.
2. The Debtor has good and marketable title to the Collateral free and clear of all liens, security interests or encumbrances.
3. The offices where the Debtor keeps its records concerning the Collateral are located at the Debtors' principal places of business as set forth on Exhibit A. The Debtor will not remove any such records from the Debtor's principal places of business without the written consent of the Agent.
4. Synalloy Corporation and Metchem, Inc. are corporations organized and existing and in good standing under the laws of the State of Delaware. Bristol Metals, L.P. and Manufacturers Chemicals, L.P. are limited partnerships organized and existing and in good standing under the laws of the State of Tennessee. Synalloy Metals, Inc. and Manufacturers Soap & Chemical Company are corporations organized and existing and in good standing under the laws of the State of Tennessee. Organic-Pigments Corporation is a corporation organized and existing and in good standing under the laws of the State of North Carolina. Debtor will not change its state of organization without 30 days prior written notice to the Agent.
5. The Collateral is used for business purposes.
6. The Debtor is authorized to execute and deliver this Agreement and incur the Obligations, which it secures and will secure; and this Agreement and the Obligations do not conflict with any provisions of any existing indenture, contract or agreement of the Debtor.
7. The Collateral currently is situated at the locations on Exhibit A attached hereto and incorporated herein by reference. Except as otherwise permitted hereunder, the Debtor will not remove any of the Collateral from the location described on Exhibit A without the written consent of the Agent except in the ordinary course of business as herein elsewhere provided.
8. The Debtor covenants that, except in the ordinary course of business or as otherwise permitted hereunder or under the Loan Agreement, the Collateral will not be transferred, voluntarily or involuntarily, without the Debtor's giving prior written notice to the Agent.
9. The Debtor covenants that the Collateral will not be used in violation of any federal, state or local statute, law or ordinance.
10. Debtor agrees to execute all such further writings, documents and instruments and to do all such things and acts as may be necessary or appropriate or as may be reasonably requested by the Agent to implement and carry out the provisions of this Agreement. Without limiting the generality of the foregoing, where any of the Collateral may be perfected by possession, and where the Agent in the exercise of its discretion determines to perfect by that method, Debtor agrees to do all such things as may be

necessary to place the Collateral in the control and custody of Agent.

11. Debtor shall promptly notify Agent should Debtor obtain any "commercial tort claim" (as defined in the Code) and take such steps as may be requested by Agent to further evidence and perfect Agent's security interest in the same.

#### TAXES, ASSESSMENTS AND GOVERNMENTAL CHARGES

**Debtor hereby warrants that there are currently no past-due taxes, assessments or governmental charges of any kind, which are owing by it on any of the Collateral. The Debtor covenants that it will pay promptly when due all taxes, assessments, and governmental charges imposed upon it or its properties, including without limitation, real and personal property taxes and use taxes. Additionally, on the demand of Agent, Debtor will pay any and all taxes, charges and fees arising in relation to or stemming from the creation, perfection, preservation and continuation of any security interest in the Collateral, whenever arising.**

#### INDEMNIFICATION

In the event any governmental body, instrumentality, entity or agency determines at any time that any tax, charge, fee and/or penalty is due and owing with regard to the creation, perfection, preservation, or continuation of the security interest intended to be created hereunder or assesses such amounts against Agent or Debtor, Agent may pay such tax, fee, charge and/or penalty on behalf of Debtor or require Debtor to pay such tax, fee, charge and/or penalty in full on demand. In the event Agent pays such tax, fee, charge and/or penalty on behalf of Debtor, Debtor hereby agrees to indemnify Agent in full for any such amounts and any costs, fees or charges related thereto, including, without limitation any and all attorney fees or other legal costs. Any such taxes, fees, charges and/or penalties paid by Agent hereunder shall be deemed an advance secured by the Collateral until paid in full and shall be afforded the same protection as advances made under any loan secured by this Agreement.

#### MAINTENANCE AND PRESERVATION OF COLLATERAL

The Debtor will maintain and preserve the Collateral in good order and condition and will not permit the Collateral to be wasted or destroyed. The Debtor will use all reasonable and diligent efforts to collect all accounts receivable and notes receivable when due. Additionally, on demand of Agent, the Debtor will pay any and all taxes, charges and fees arising in relation to or stemming from the creation, perfection, preservation and continuation of any security interest in the Collateral, whenever arising.

#### NO OTHER SECURITY INTEREST OR FINANCING STATEMENTS

Except with the prior written consent of the Agent as set forth on Schedule B hereto, or otherwise permitted under the Loan Agreement, the Debtor will not permit or suffer to exist any other security interest in or lien upon the Collateral or any financing statement covering the Collateral to be on file in any public office except those in favor of Agent or those approved by Agent prior to the date hereof. The Debtor will defend the Collateral against all claims and demands of all persons at any time claiming the same or any interest therein. The Agent, however, may contest any claims made against the Debtor in the name of the Debtor wherein the security hereunder would by an adverse decision be impaired, and the Agent may charge to the Debtor its expenses in defending any such claims.

#### INSURANCE

Debtor will keep the Collateral insured in amounts with companies, and against such risks as provided in the Loan Agreement.

#### RECORDS, REPORTS, EXAMINATIONS, INSPECTIONS, ETC.

Debtor will at all times keep accurate and complete records of the Collateral, and the Agent or its agents shall have the right to call at Debtor's place or places of business as provided in the Loan Agreement.

#### COSTS AND EXPENSES PAID BY AGENT

In the event Agent determines that Debtor does not maintain insurance on the Collateral as required by this Agreement or any other Loan Document, at its option, Agent may pay for insurance on the Collateral. Further, Debtor hereby agrees that at its option, the Agent may discharge taxes, Liens, security interests or other encumbrances at any time levied or placed on the Collateral and may pay for the maintenance and preservation of the Collateral. Debtor agrees to reimburse Agent, on demand, for any payment made or expense incurred by Agent pursuant to the foregoing authorization, including, without limitation, attorney's fees. Any payment so made or expense so incurred by the Agent shall be added to the indebtedness of the Debtor to the Agent and shall be secured by this Agreement until paid in full.

#### ATTORNEY IN FACT

Debtor hereby irrevocably designates, makes, constitutes and appoints Agent (and all Persons designated by Agent) as Debtor's true and lawful attorney (and agent-in-fact) and Agent, or Agent's agent, may, during such time as an Event of Default shall have occurred and is continuing, without notice to Debtor and in either Debtor's or Agent's name, but at the cost and expense of Debtor:

1. At such time or times hereafter as Agent, in its sole discretion, may determine, endorse Debtor's name on any checks, notes, acceptances, drafts, money orders or any other evidence of payment or proceeds of the Collateral which come into the possession of Agent or under Agent's control; and

2. At such time or times as Agent or its agent in its sole discretion may determine: (i) settle, adjust, compromise, discharge or release any of the Collateral; (ii) sell or collect any of the Collateral upon such terms, and for such amounts and at such time or times as Agent deems advisable; (iii) take possession, in any manner, of any item of payment or proceeds relating to any Collateral and apply the same to the Obligations; (iv) prepare, file and sign Debtor's name to a proof of claim in bankruptcy or to any notice of lien, assignment or satisfaction of lien or similar document in connection with any of the Collateral; (v) receive, open and dispose of all mail addressed to Debtor and to notify postal authorities to change the address for delivery thereof to such address as Agent may designate; (vi) execute in Debtor's name or in Agent's name U.C.C. financing statements and other instruments evidencing the pledge of the Collateral to Agent for filing with various governmental entities; (vii) endorse the name of Debtor upon any of the items of payment or proceeds relating to any Collateral and deposit the same to the account of Agent or any other Agent on account of the Obligations; (viii) endorse the name of Debtor upon any chattel paper, document, instrument, invoice, freight bill, bill of lading or similar document or agreement relating to any Collateral; (ix) use the information recorded on or contained in any data processing equipment and computer hardware and software relating to any Collateral and to which Debtor has access; (x) make and adjust claims under policies of insurance; and (xi) for and in the name of Debtor to give instructions and direct any bank or financial institution in which proceeds of the Collateral are deposited to turn over said proceeds to Agent; and (xii) do all other acts and things necessary, in Agent's determination, to fulfill Debtor's obligations under this Agreement.

#### WAIVER

Debtor hereby releases and waives any and all actions, claims, causes of action, demands and suits which it may ever have against the Agent as a result of any possession, collection, settlement, compromise or sale by Agent of any of the Accounts upon the occurrence of an Event of Default hereunder, notwithstanding the effect of such possession, collection, settlement, compromise or sale upon the business of Debtor. Said waiver shall include all causes of action and claims which may result from the exercise of the power of attorney conferred upon Agent hereinafter excluding those resulting from gross-negligence or intentional malfeasance of Agent. The failure at any time or times hereafter to require strict performance by Debtor of any of the provisions, warranties, terms and conditions contained in this Agreement or any other agreement, document or instrument now or hereafter executed by Debtor, and delivered to the Agent, shall not waive, affect, or diminish any right of the Agent thereafter to demand strict compliance and performance therewith and with respect to any other provisions, warranties, terms and conditions contained in such agreements, documents or instruments, and any waiver of default shall not waive or affect any other default, whether prior or subsequent thereto, and whether the same are of a different type. None of the warranties, conditions, provisions and terms contained in the Agreement or any other agreement, document or instrument now or hereafter executed by Debtor and delivered to the Agent shall be deemed to have been waived by any act or knowledge of the Agent, its agents, representatives, officers or employees, but only by an instrument in writing signed by an officer of the Agent and directed to the Debtor specifying such waiver.

#### EVENTS OF DEFAULT

There shall be a default under this Agreement upon the happening on any of the following events (each an "Event of Default"):

1. If there shall be any default by the Debtor in the due observance or performance of any covenants, terms or conditions contained herein, or breach by the Debtor or the material falseness of any representation or warranty of the Debtor herein.
2. If there shall be any "Event of Default" as defined in the Loan Agreement or a default or event of default under any other Loan Document (as defined in the Loan Agreement), which is not cured within the applicable grace period, if any.
3. In any such event and at any time thereafter, the Agent may declare all Obligations secured hereby to be immediately due and payable without presentment, demand, protest or other notice of dishonor of any kind, all of which are hereby expressly waived. No delay in accelerating the maturity of any obligation as aforesaid or in taking any other action with respect to any Event of Default shall affect the rights of the Agent later to take such action with respect thereto, and no waiver as to one Event of Default shall affect rights as to any other Event of Default.

#### REMEDIES

1. If any Event of Default shall occur, the Agent may exercise and shall have any and all rights and remedies accorded to it by the South Carolina Uniform Commercial Code, as provided in the Loan Agreement and other Loan Documents and as otherwise provided at law or in equity.
2. In addition to the foregoing remedies, following an Event of Default the Agent may enter upon the premises where any of the Collateral may be located and take possession of the same, and after first taking inventory of said Collateral, dispose of it in the following manner:
  - a. In the event the Collateral consists partially, or totally, of items which are perishable or threaten to rapidly decline in value or is of a type customarily sold on a recognized market, the Agent may sell said inventory at such time or times and in such manner as it deems economically feasible. The inventory may be sold in bulk, lots, or in the ordinary course of business of the Debtor; and
  - b. The Agent may sell all or any part of any Collateral to any person, including the Agent, at a price determined by a disinterested appraiser. The Agent shall give the Debtor ten (10) days notice of a sale of Collateral, other than Collateral described in subsection (a) hereinabove. It is the intent and purpose of this paragraph that the business operated by the Debtor will not be interrupted by default and the value of Collateral thereby be impaired. It is expressly agreed that a sale

under the provisions of this paragraph is commercially reasonable. The Agent shall apply all proceeds realized from the sale of any Collateral in accordance with the provisions of the South Carolina Uniform Commercial Code, and this Agreement. The Debtor shall remain liable to the Agent for any deficiency.

#### MISCELLANEOUS PROVISIONS

1. The provisions of this Agreement may be amended, or compliance with this agreement waived, at any time by the written agreement of the Agent and the Debtor.
2. The Debtor shall do, make, execute and deliver all such additional and further acts, things, deeds, assurances, and instruments as the Agent reasonably may require for the purpose of more completely vesting in and assuring to the Agent its rights hereunder and in or to the Collateral.
3. Any notice(s) furnished hereunder shall be made as required in the Loan Agreement.
4. All rights of the Agent and all of the rights, remedies and duties of the Agent and the Debtor shall be governed by the laws of the State of South Carolina.
5. To the extent of any inconsistency in the terms of this Agreement and the Loan Agreement, the terms of the Loan Agreement shall prevail.

[Signature Page Attached]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written, under seal, which execution may be by counterparts, all of which together shall constitute the Agreement.

[SIGNATURES OMITTED]

#### **EXHIBIT A**

-

#### **COLLATERAL LOCATIONS**

##### Eligible Chemicals Inventory Locations

Synalloy Corporation

2155 West Croft Circle

Spartanburg, SC 29302

Manufacturers Chemicals, L.P.

4325 Old Tasso Road

Cleveland, TN 37312

Manufacturers Chemicals, L.P.

1330 Coronet Drive

Dalton, GA 30720

Organic Pigments Corporation

209 King Street

Greensboro, NC 27406

##### Eligible Metals Inventory Locations

Bristol Metals, L.P.

390 Bristol Metals Road

**SCHEDULE A**

**COLLATERAL DESCRIPTION**

**SCHEDULE A - COLLATERAL DESCRIPTION**

All of Debtors' right, title and interest in the following personal property (each capitalized term as defined in Article 9 of the South Carolina Uniform Commercial Code), wherever located and whether now owned by any Debtor or hereafter acquired, including but not limited to:

(i) all Accounts, Inventory, Goods (including, without limitation, Equipment and Fixtures), Investment Property, Instruments, Chattel Paper, Letter of Credit Rights, Deposit Accounts, General Intangibles, Documents and Supporting Obligations; The Fixtures referred to herein are attached to the property described on Exhibit A attached hereto and made a part hereof (the "Real Estate").

(ii) all money deposits and all funds held on deposit or otherwise under control of the Secured Party, its agents or any correspondence of the Secured Party;

(iii) all parts, accessions to, replacements, substitutions, profits, products and cash and non-cash proceeds of any of the foregoing (including insurance proceeds payable by reason of loss or damage thereto) in any form and wherever located, and shall also include all written or electronically recorded books and records related to any such collateral and other rights related thereto.

(iv) any and all buildings and improvements now or hereafter erected on, under or over the Real Estate (the "Improvements");

(v) any and all fixtures, machinery, equipment and other articles of real, personal or mixed property, belonging to Debtor, at any time now or hereafter installed in, attached to or situated in or upon the Real Estate, or the buildings and improvements now or hereafter erected thereon, or used or intended to be used in connection with the Real Estate, or in the operation of the buildings and improvements, plant, business or dwelling situate thereon, whether or not such real, personal or mixed property is or shall be affixed thereto, and all replacements, substitutions and proceeds of the foregoing (all of the foregoing herein called the "Service Equipment"), including without limitation: (i) all appliances, furniture and furnishings; all articles of interior decoration, floor, wall and window coverings; all office, restaurant, bar, kitchen and laundry fixtures, utensils, appliances and equipment; all supplies, tools and accessories; all storm and screen windows, shutters, doors, decorations, awnings, shades, blinds, signs, trees, shrubbery and other plantings; (ii) all building service fixtures, machinery and equipment of any kind whatsoever; all lighting, heating, ventilating, air conditioning, refrigerating, sprinkling, plumbing, security, irrigating, cleaning, incinerating, waste disposal, communications, alarm, fire prevention and extinguishing systems, fixtures, apparatus, machinery and equipment; all elevators, escalators, lifts, cranes, hoists and platforms; all pipes, conduits, pumps, boilers, tanks, motors, engines, furnaces and compressors; all dynamos, transformers and generators; (iii) all building materials, building machinery and building equipment delivered on site to the Real Estate during the course of, or in connection with any construction or repair or renovation of the buildings and improvements; (iv) all parts, fittings, accessories, accessions, substitutions and replacements therefor and thereof; and (v) all files, books, ledgers, reports and records relating to any of the foregoing;

(vi) any and all leases, subleases, tenancies, licenses, occupancy agreements or agreements to lease all or any portion of the Real Estate, Improvements, Service Equipment or all or any other portion of the property (both real and personal (the "Property")) and all extensions, renewals, amendments, modifications and replacements thereof, and any options, rights of first refusal or guarantees relating thereto (collectively, the "Leases"); all rents, income, receipts, revenues, security deposits, escrow accounts, reserves, issues, profits, awards and payments of any kind payable under the Leases or otherwise arising from the Real Estate, Improvements, Service Equipment or all or any other portion of the Property including, without limitation, minimum rents, additional rents, percentage rents, parking, maintenance and deficiency rents (collectively, the "Rents"); all of the following personal property (collectively referred to as the "Contracts"): all accounts, general intangibles and contract rights (including any right to payment thereunder, whether or not earned by performance) of any nature relating to the Real Estate, Improvements, Service Equipment or all or any other portion of the Property or the use, occupancy, maintenance, construction, repair or operation thereof; all management agreements, franchise agreements, utility agreements and deposits, building service contracts, maintenance contracts, construction contracts and architect's agreements; all maps, plans, surveys and specifications; all warranties and guaranties; all permits, licenses and approvals; and all insurance policies, books of account and other documents, of whatever kind or character, relating to the use, construction upon, occupancy, leasing, sale or operation of the Real Estate, Improvements, Service Equipment or all or any other portion of the Property;

(vii) any and all estates, rights, tenements, hereditaments, privileges, easements, reversions, remainders and appurtenances of any kind benefiting or appurtenant to the Real Estate, Improvements or all or any other portion of the Property; all means of access to and from the Real Estate, Improvements or all or any other portion of the Property, whether public or private; all streets, alleys, passages, ways, water courses, water and mineral rights relating to the Real Estate, Improvements or all or any other portion of the Property; all rights of Debtor as declarant or unit owner under any declaration of condominium or association applicable to the Real Estate, Improvements or all or any other portion of the Property including, without limitation, all development rights and special declarant rights; and all other claims or demands of Debtor, either

at law or in equity, in possession or expectancy of, in, or to the Real Estate, Improvements or all or any other portion of the Property (all of the foregoing described in this subsection (vii) herein called the "Appurtenances"); and

(viii) any and all "proceeds" of any of the above-described Real Estate, Improvements, Service Equipment, Leases, Rents, Contracts and Appurtenances, which term "proceeds" shall have the meaning given to it in the Uniform Commercial Code, as amended, (the "Code") of the State in which the Property is located (collectively, the "Proceeds") and shall additionally include whatever is received upon the use, lease, sale, exchange, transfer, collection or other utilization or any disposition or conversion of any of the Real Estate, Improvements, Service Equipment, Leases, Rents, Contracts and Appurtenances, voluntary or involuntary, whether cash or non-cash, including proceeds of insurance and condemnation awards, rental or lease payments, accounts, chattel paper, instruments, documents, contract rights, general intangibles, equipment and inventory.

### **Exhibit I**

#### **Compliance Certificate**

To: Carolina First Bank, as Agent under, and the Lenders party to, the Credit Agreement described below

This Compliance Certificate is furnished to the Agent and the Lenders pursuant to that certain Credit Agreement dated as of \_\_\_\_\_, 2005 among us (the "*Credit Agreement*"). Unless otherwise defined herein, the terms used in this Compliance Certificate have the meanings ascribed thereto in the Credit Agreement.

The Undersigned hereby certifies that:

1. I am the duly elected \_\_\_\_\_ of Borrowers;
2. I have reviewed the terms of the Credit Agreement and I have made, or have caused to be made under my supervision, a detailed review of the transactions and conditions of the Borrowers during the accounting period covered by the attached financial statements;
3. The examinations described in paragraph 2 did not disclose, and I have no knowledge of, the existence of any condition or the occurrence of any event which constitutes a Default or Event of Default during or at the end of the accounting period covered by the attached financial statements or as of the date of this Compliance Certificate, except as set forth below;
4. The financial statements required by Section 8.5 of the Credit Agreement and being furnished to you concurrently with this Compliance Certificate are true, correct and complete as of the date and for the periods covered thereby; and
5. The Schedule I hereto sets forth financial data and computations evidencing the Borrowers' compliance with certain covenants of the Credit Agreement, all of which data and computations are, to the best of my knowledge, true, complete and correct and have been made in accordance with the relevant Sections of the Credit Agreement.

Described below are the exceptions, if any, to paragraph 3 by listing, in detail, the nature of the condition or event, the period during which it has existed and the action which the Borrowers have taken, is taking, or proposes to take with respect to each such condition or event:

The foregoing certifications, together with the computations set forth in Schedule I hereto and the financial statements delivered with this Certificate in support hereof, are made and delivered this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

[SIGNATURES OMITTED]

### **Schedule I**

#### **to Compliance Certificate**

#### **Synalloy Corporation**

#### **Compliance Calculations**

**for Credit Agreement dated as of \_\_\_\_\_, 2005**

Calculations as of \_\_\_\_\_, \_\_\_\_\_

#### **A. Consolidated Fixed Charge Ratio (Section 8.22)**

B. Consolidated Tangible Net Worth (Section 8.23)

C. Consolidated Total Liabilities to Tangible Net Worth Ratio (Section 8.24)

D. Consolidated Leverage Ratio (Applicable Margins)

**Exhibit J**

**Assignment and Acceptance**

Dated \_\_\_\_\_, \_\_\_\_\_

Reference is made to the Credit Agreement dated as of \_\_\_\_\_, 2005 (the "*Credit Agreement*") among Synalloy Corporation, the Lenders (as defined in the Credit Agreement) and Carolina First Bank, as Agent for the Lenders (the "*Agent*"). Terms defined in the Credit Agreement are used herein with the same meaning.

\_\_\_\_\_ (the "*Assignor*") and \_\_\_\_\_ (the "*Assignee*") agree as follows:

1. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, a \_\_\_\_\_% interest in and to all of the Assignor's rights and obligations under the Credit Agreement as of the Effective Date (as defined below), including, without limitation, such percentage interest in the Assignor's Revolving Credit Commitments as in effect on the Effective Date and the Loans, if any, owing to the Assignor on the Effective Date and the Assignor's Percentage of any outstanding L/C Obligations.
2. The Assignor (i) represents and warrants that as of the date hereof (A) its Revolving Credit Commitment is \$ \_\_\_\_\_, (B) the aggregate outstanding principal amount of Loans made by it under the Credit Agreement that have not been repaid is \$ \_\_\_\_\_ and a description of the interest rates and interest periods of such Loans is attached as Annex 1 hereto, and (C) the aggregate principal amount of Assignor's Percentage of outstanding L/C Obligations is \$ \_\_\_\_\_; (ii) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim, lien, or encumbrance of any kind; (iii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement or any other instrument or document furnished pursuant thereto; and (iv) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrowers or the performance or observance by the Borrowers of any of their respective obligations under the Credit Agreement or any other instrument or document furnished pursuant thereto.
3. The Assignee (i) confirms that it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered to the Lenders pursuant to Section 8.5(a) thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (ii) agrees that it will, independently and without reliance upon the Agent, the Assignor or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iii) appoints and authorizes the Agent to take such action as Agent on its behalf and to exercise such powers under the Credit Agreement and the other Loan Documents as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto; (iv) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement are required to be performed by it as a Lender; and (v) specifies as its lending office (and address for notices) the offices set forth beneath its name on the signature pages hereof.
4. As consideration for the assignment and sale contemplated in Annex 1 hereof, the Assignee shall pay to the Assignor on the Effective Date in Federal funds an amount equal to \$ \_\_\_\_\_\*. It is understood that commitment and/or letter of credit fees accrued to the Effective Date with respect to the interest assigned hereby are for the account of the Assignor and such fees accruing from and including the date hereof are for the account of the Assignee. Each of the Assignor and the Assignee hereby agrees that if it receives any amount under the Credit Agreement which is for the account of the other party hereto, it shall receive the same for the account of such other party to the extent of such other party's interest therein and shall promptly pay the same to

such other party.

5. The effective date for this Assignment and Acceptance shall be \_\_\_\_\_, (the "Effective Date"). Following the execution of this Assignment and Acceptance, it will be delivered to the Agent for acceptance and recording by the Agent and, if required, the relevant Borrower.

6. Upon such acceptance and recording, as of the Effective Date, (i) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and Acceptance, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement.

7. Upon such acceptance and recording, from and after the Effective Date, the Agent shall make all payments under the Credit Agreement in respect of the interest assigned hereby (including, without limitation, all payments of principal, interest and commitment fees with respect thereto) to the Assignee. The Assignor and Assignee shall make all appropriate adjustments in payments under the Credit Agreement for periods prior to the Effective Date directly between themselves.

8. In accordance with Section 13.12 of the Credit Agreement, the Assignor and the Assignee request and direct that the Agent prepare and cause the Borrowers to execute and deliver to the Assignee the relevant Notes payable to the Assignee in the amount of its Revolving Credit Commitments and new Notes to the Assignor in the amount of its Revolving Credit Commitments after giving effect to this assignment.

1. This Assignment and Acceptance shall be governed by, and construed in accordance with, the laws of the State of South Carolina.

[SIGNATURES OMITTED]

**Annex I**

**to Assignment and Acceptance**

Principal Amount	Type of Loan	Interest Rate	Maturity Date
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**Schedule 1**

**Commitments**

Name of Lender	Revolving Credit Commitment	Term Loan Commitment	Swing Line Commitment
Carolina First Bank	\$12,000,000	\$4,200,000	\$3,000,000
Regions Bank	\$8,000,000	\$2,800,000	\$-0-
Total	\$20,000,000	\$7,000,000	\$3,000,000

**Schedule 4.1**

**Life Insurance Assignments**

Insurer	Policy Number	Insured
General American	1821425	Benjamin M. Smith
General American	1820009	Robert Stockwell Davies
General American	1820007	Donald Ray Bain
General American	1820005	Porter Clarke Blackman

General American	1820003	Erwin Collins Thornton
General American	1820001	William Armstrong Coleman

**Schedule 6.2**

**Subsidiaries**

**See Attached**

Schedule 6.2

Subsidiaries

<b>Company</b>	<b>Organizational Form</b>	<b>Jurisdiction of Organization</b>	<b>Ownership</b>
Synalloy Metals, Inc.	Corporation	Tennessee	100 Shares of common stock; 100% owned by Synalloy Corporation
Bristol Metals, L.P	Limited Partnership	Tennessee	1% general partner being Synalloy Metals, Inc.; 99% limited partner being Delmet, Inc.
Manufacturers Soap & Chemical Company	Corporation	Tennessee	100 shares of common stock; 100% owned by Synalloy Corporation
Manufacturers Chemicals, L.P.	Limited Partnership	Tennessee	1% general partner being Manufacturers Soap & Chemical Company; 99% limited partner being Delsoap, Inc.
Organic Pigments	Corporation	North Carolina	70 shares of common stock; 100% owned by Synalloy Corporation
Metchem, Inc.	Corporation	Delaware	100 shares of common stock; 100% owned by Synalloy Corporation
Delmet, Inc.	Corporation	Delaware	100 shares of common stock; 100% owned by Synalloy Metals, Inc.

Delsoap, Inc.	Corporation	Delaware	100 shares of common stock; 100% owned by Manufacturers Soap and Chemical Company
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**Schedule 6.21**

**Trade Relations**

None

**Schedule 8.7(b)**

**Existing Debt**

1. Debt owed to Wells Fargo Foothills, Inc. pursuant to July 26, 2002 Credit Agreement, as amended.

**Schedule 8.8(f)**

**Permitted Liens**

1. Liens granted to Wells Fargo Foothill, Inc. which are subject to Pay-off and Release letter
2. Liens set forth on attached UCC financing statements

**THIS AGREEMENT IS SUBJECT TO ARBITRATION PURSUANT TO S.C.CODE ANN. paragraph 15-48-10 ET SEQ., CODE OF LAWS OF SOUTH CAROLINA, 1976 (AS AMENDED).**

**IF THE SOUTH CAROLINA UNIFORM ARBITRATION ACT IS DEEMED NOT TO APPLY, THIS AGREEMENT IS SUBJECT TO ARBITRATION PURSUANT TO THE FEDERAL ARBITRATION ACT, TITLE 9, SECTION 1 ET. SEQ., UNITED STATES CODE (AS AMENDED).**

**EMPLOYMENT AGREEMENT**

This Agreement is effective upon its execution by and between Synalloy Corporation, a corporation organized under the laws of the State of Delaware (the "Corporation"), and Ronald H. Braam a resident of Cleveland, Tennessee (the "Employee"). Upon execution, this Agreement replaces in its entirety all existing employment agreements and benefit agreements between the parties except that the Bonus for 2005 provided for in the existing agreement shall be due the Employee and as provided for in Section 4 hereof.

W I T N E S S E T H:

That in consideration of the agreements hereinafter contained, the parties hereto agree as follows:

1. Employment. The Corporation agrees to employ the Employee and the Employee agrees to serve as Chief Executive Officer and President of the Corporation, and in such other capacities as the Board of Directors of the Corporation (the "Board") may designate from time to time for a period of one year beginning January 1, 2006, the effective date of this agreement. At the end of the first year of this agreement and on each anniversary thereafter, this agreement shall be automatically extended for one year unless either party gives notice of intent to cancel this agreement ninety days prior to an automatic extension date. During the term of his employment, the Employee shall devote his full time, attention, skill and efforts to the performance of his duties for the Corporation.
2. Compensation. The Corporation shall pay the Employee during the term of his employment hereunder a base salary of Two Hundred Thousand and 00/100ths Dollars (\$200,000.00) per year together with compensation payable as provided in Paragraph 3 below, unless forfeited by the occurrence of any of the events of forfeiture specified in Paragraph 7 below. Salary shall be payable monthly or on a less frequent basis by mutual agreement.
3. Bonus. In addition to the base salary provided for in Paragraph 2 above, for each fiscal year during which Employee serves as Chief Executive Officer of Corporation and provided Employee is in the employ of the Corporation on the last day of such fiscal year (except as provided in paragraphs 5 and 6 hereof), the Employee shall be entitled to a bonus equal to five percent (5%) of income before income taxes, "Pre-tax Income", in excess of an amount equal to ten percent (10%) of average shareholders' equity. Payments will be made within two and one-half months of the fiscal year-end subject to completion of the annual audit of financial statements for the fiscal year in which the incentive is earned.

As used in this Agreement, the term "Pre-tax Income" shall mean the consolidated income before income taxes as generally reflected in the Corporation's internal Statement of Earnings. It is intended that "Pre-tax Income" shall be before income taxes of the Corporation, before the bonus-compensation payable under this Agreement and before income and expenses not resulting from normal operations, including but not limited to, gains and losses from the sale or other disposition of capital assets and environmental expenses related to preexisting conditions not resulting from recent operations. The Corporation's Compensation Committee shall have sole discretion to determine which other items of income and expense are included in and/or excluded from "Pre-tax Income" and its determination shall be final, binding and conclusive upon the parties hereto. The Corporation may at any time or times change or discontinue any or all of its present or future operations, or may close, sell or move any one or more of its plants, facilities or divisions, or may undertake any new or other operations, or may take any and all other steps which the Board, in its exclusive judgment, shall deem advisable or desirable for the Corporation, and if any such action taken by the Corporation or its Board adversely affects "Pre-tax Income" as hereinabove defined, the Employee shall have no claim or recourse by reason of any such action.

4. Other Benefits. Employee shall be eligible to participate in all employee benefits plans in accordance with the terms of such plans. Corporation and Employee are parties to an agreement dated February 6, 2003 which provide for certain benefits to the parties thereto. This agreement does not change or modify any provision of that agreement, a copy of which is attached hereto.
5. Disability. If because of illness, physical or mental disability, or other incapacity, certified by a physician acceptable to the Corporation, Employee shall fail to render the services provided for by this Agreement, or if Employee contracts an illness or injury, certified by a physician acceptable to the Corporation, which will permanently prevent the performance by him of the services provided for by this Agreement, then the "base salary" provided for in Paragraph 2 hereof shall continue until the next anniversary date of this Agreement but in no event less than three (3) months, with the bonus-compensation for that fiscal year to be prorated to the date Employee's disability commenced.
6. Death. If the Employee dies during the term of this Agreement, then the "base salary" provided for in Paragraph 2 hereof shall continue until the next anniversary date of this Agreement but in no event less than three (3) months, which "base salary" shall be paid to the estate of Employee, with the bonus-compensation for that fiscal year to be prorated to the date of Employee's death. In the event of Employee's death and the termination of this Agreement on the terms of this paragraph, all other obligations of the Corporation under this Agreement shall cease and terminate.
7. Termination for Cause. Nothing in this Agreement shall be construed to prevent the Corporation from terminating Employee's

employment hereunder at any time for cause. Fraud, dishonesty, gross negligence, willful misconduct, misappropriation, embezzlement, material violation of any code of conduct adopted by the Board, excessive absences from work, entry of any order by the Securities and Exchange Commission pursuant to Section 21C of the Securities Exchange Act of 1934 or Section 8A of the Securities Act of 1933 prohibiting Employee from serving as an officer or director of an issuer that has a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 or that is required to file reports pursuant to Section 15(d) of that Act, or the like, or any act or omission deemed by the Board to have been disloyal to the Corporation shall constitute cause for termination. Termination for cause pursuant to this paragraph shall not constitute a breach of this Agreement by the Corporation.

8. Covenant Not to Compete. Employee agrees during the term of employment and for a period of one (1) year after his employment terminates for any reason, the Employee will not, without the prior written approval of the Board, become an officer, employee, agent, partner, or director of any business enterprise which competes with the Corporation and its affiliates for customers, orders, supply sources, or contracts in those businesses in which the Corporation and its affiliates were engaged on the date his employment terminated, unless, Employee's activities for such business enterprise are limited in such a way that Employee is not engaged, directly or indirectly, in competition with the Corporation or its affiliates for customers, orders, supply sources or contracts. Employee acknowledges that the Corporation is a leader in the chemical and metals businesses in which it manufactures and has substantial customer relationships throughout the continental United States.

Employee further agrees that at no time during his employment or thereafter will he divulge, communicate or use to the detriment of the Corporation any of the Corporation's confidential information, data, trade secrets, sale methods, customer lists, supply sources, or other proprietary information.

9. Severability. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision hereof.
10. Arbitration. Any controversy or claim arising out of, or relating to this Agreement, or the breach thereof, shall be settled by arbitration in the City of Spartanburg, State of South Carolina, in accordance with the rules then obtaining of the American Arbitration Association, and judgment upon the award rendered may be entered in any Court having jurisdiction thereof.
11. Notices. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing, and if sent by registered or certified mail to his residence in the case of Employee, or to its Executive Offices in the case of the Corporation.
12. Benefit. This Agreement, in accordance with its terms and conditions, shall inure to the benefit of and be binding upon the Corporation, its successors and assigns, including but not limited to any corporation which may acquire all or substantially all of the Corporation's assets and business, or with or into which the Corporation may be consolidated or merged, and Employee, his heirs, executors, administrators, and legal representatives, provided that the obligations of the Employee hereunder may not be delegated. Employee agrees, however, that any such sale or merger shall not be deemed a termination hereunder provided that the Employee's operational duties are not substantially reduced as a result thereof.
13. Choice of Law. This Agreement shall be construed in accordance with and governed by the laws of the State of South Carolina.
14. Entire Agreement. This instrument contains the entire agreement of the parties hereto. It may not be changed orally, but only by an agreement in writing.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year below written.

[SIGNATURES OMITTED]

## **PREAMBLE**

This Agreement dated February 16, 2004 is entered into by, between, and limited solely to Bristol Piping Systems, (Employer) and the United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry of the United States and Canada Local Union No. 538 (Local Union 538). All provisions of this agreement shall remain in full force and effect through February 15, 2009 and at midnight on said date this contract shall expire.

## **WITNESSETH**

WHEREAS, the Employer agrees that during the period of this collective bargaining Agreement it will, when employing employees within the bargaining unit represented by Local Union 538, adhere to the wage scale and working conditions which appear within this agreement and are a part hereof, and

WHEREAS, Local Union 538 agrees that during the period of this Agreement that those employees within the bargaining unit of Local Union 538 who work for the Employer will do so on the basis of the wage scale and working conditions which appear in this Agreement and are a part hereof.

NOW, THEREFORE, for and in consideration of the mutual promises and agreements herein contained the parties hereto agree as follows:

## **ARTICLE I**

### **DEFINITION OF EMPLOYER**

The term "Employer" as used in the Agreement shall be deemed to include only Bristol

Piping Systems, 390 Bristol Metals Road, Bristol, Tennessee which the parties specifically recognize and acknowledge as a

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separate and distinct "Employer". "Employer" as used in the Agreement does not

include nor does this Agreement extend to Bristol Metals, L.P. , or any parent, subsidiary, affiliate or any other entity in any manner related to Bristol Piping Systems.

## **ARTICLE II**

### **MANAGEMENT RIGHTS**

The management of the Employer's business, including, but not limited to, the direction of the working force, the right to hire, to plan, direct, control and schedule all operations (including the scheduling of the work force), the right to establish quality standards or facilities is the sole and exclusive prerogative and responsibility of the Employer as is the right to make and enforce rules of operation and conduct. Except as expressly limited in this Agreement, nothing contained herein shall be deemed to limit the Employer in any way in this exercise of the regular and customary functions of management.

## **ARTICLE III**

### **AUTHORIZATION OF AGENTS**

**Section 1:** It is stipulated and agreed that only the below named officers of the union, either individually or collectively, are the authorized officers and agents of the Union and shall be the only ones to be recognized by the Employer as being authorized to act for or on behalf of the Union in any manner whatsoever under the terms of this Agreement. The actions, declarations or conduct of any person except those herein named, whether performance is made with respect to the Union or not, shall not be considered to be the act of any officer or agent of the Union, and shall not constitute any authorized act for and on behalf of the Union, nor will the employees of the Union recognize these persons as the Union's officers or agents for that purpose, and their actions in that respect shall not be binding upon the Union, nor shall they form the cause of or basis of any liability of any nature whatsoever on the part of the Union.

2

The authorized officer is the Business Agent of Local Union 538, or his successor.

**Section 2:** It is further stipulated and agreed that the authority of an officer of

the Union to act for the Union, as stated above, may be revoked at any time, if a registered letter to that effect, signed by the duly authorized Union officer under the seal of the Union, is received by the Employer.

## **ARTICLE IV**

### **WORKING RULES**

The working rules shall be those prescribed by the Union and agreed to by the Employer as set forth in this Agreement.

## ARTICLE V

### EMPLOYMENT

The Business Manager of the Local Union shall furnish the Company with all employees.

1. Selection of applicants for jobs shall be on a nondiscriminatory basis, and shall not be based on, or in any way affected by, Union membership, by-laws, rules, regulations, constitutional provisions, or other aspects or obligations of Union membership, policy or requirements.

2. The Employer retains the right to reject any applicants sent to it by the Union and to recall any specific employee currently on lay-off if employed by the Company any time in the preceding eighteen (18) months.

3. The parties to this Agreement agree to post in places where notices to employees or applicants for employment are customarily posted, all provisions relating to the functioning of this hiring arrangement, including a statement to the effect that the furnishing of employees to the Employer by the Local Union in no way entails the obligation to be a member of the Union.

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4. The designation of and determination of the number of foremen is the sole responsibility of the Employer. The foreman shall handle all duties normally assigned a foreman such as under the direction of management supervising the work force covered

under this agreement. The foreman shall be permitted to handle tools and in such

instances his duties are slow, he shall be allowed to work with his tools.

## ARTICLE VI

### UNION SECURITY

If the laws of Tennessee are amended to permit union security provisions, the parties will meet on thirty-(30) days' written notice to negotiate on the subject.

## ARTICLE VII

### HOURS OF WORK AND OVERTIME

**Section 1:** The normal workweek commences 12:01 a.m., Sunday and ends midnight the following Saturday.

**Section 2:** The Employer retains the right to schedule employees as needed, specifically including the scheduling of shift work and/or the scheduling of four (4) consecutive ten (10) hour days at straight time.

**Section 3:** Time and one-half the regular base rate shall be paid for Saturdays and all hours worked over eight (8) in one day, or ten (10) in one day if the posted work schedule is 4 - 10's in lieu of 5 - 8's. Double the regular base rate shall be paid for all hours worked over twelve (12) in one day. The Employer will be solely responsible for scheduling all shifts.

**Section 4:** The Employer retains the right to require overtime work.

**Section 5:** Sundays, Christmas, Labor Day, Fourth of July, Thanksgiving, Memorial Day, and New Year's Day shall be considered Holidays, and all work done on these days shall be done at the rate of double time.

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**Section 6:** Under no circumstances will pyramiding or duplication of compensation by reason of any overtime or premium pay provision of this Agreement be permitted. Hours paid for but not worked shall not be counted as hours worked in the computation of daily or weekly overtime.

## ARTICLE VIII

### RATES OF PAY

**Section 1:** The rates of pay for journeymen employed at the stainless shop shall be as indicated on Attachment G.

**Section 2:** The rates of pay for journeymen, apprentices, and metal trades employed on carbon steel work shall be equal to 95% of pay rate at stainless shop.

**Section 3:** The wage scale for apprentices shall be as indicated:

First Year	40% of journeyman pay
Second Year	50% of journeyman pay
Third Year	60% of journeyman pay
Fourth Year	70% of journeyman pay
Fifth Year	80% of journeyman pay

**Section 4:** The wage scale for metal trades shall be as indicated:

First Year First 160 Hours	40% of journeyman pay
First Year After 160 Hours	40% of journeyman pay plus \$1.00 per hour
After 1 year	55% of journeyman pay

**Section 5:** Total hourly compensation for journeymen employed on stainless steel shall be as indicated on Attachment G.

**Section 6:** The wage scale for Foreman shall be \$1.00 per hour above that of Journeyman scale.

**Section 7:** The wage scale for a General Foreman shall be \$1.75 per hour above that of journeyman scale.

**Section 8:** The wage scale for a person assigned to perform Maintenance in the shop will be as follows:

First Year	80% of journeyman pay
Second Year	80% of journeyman pay
Third Year	80% of journeyman pay
Fourth Year	85% of journeyman pay
Fifth Year	90% of journeyman pay

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**Section 9:** The wage scale for a metal trades journeyman certified to Level II and performing NDE in the shop will be paid 55% of the building trades journeyman rate plus \$1.50 per hour.

**Section 10:** Any change in rate as a result of moving up in classification will take effect the first day of Bristol Piping Systems fiscal month following the change in classification.

## **ARTICLE IX**

### **HEALTH AND WELFARE FUND**

**Section 1:** The Employer agrees to contribute for all employees designated as eligible in this Agreement to a Health and Welfare Trust Fund. The aforesaid contribution shall be remitted on a monthly basis to the Johnson City Plumbers and Steamfitters Local Union 538 Health and Welfare Trust Fund. The contribution shall be as indicated on Attachment G.

**Section 2:** Eligible employees to whom Health and Welfare payments shall be paid are all Journeymen, Apprentices, and Metal Tradesmen covered by this Agreement; however, only those Metal Tradesmen that have been employed over 2,080 hours by Bristol Piping Systems will be eligible.

**Section 3:** The contributions of the Employer to the Health and Welfare Fund shall be used exclusively to provide Group Life Insurance, Accidental Death and

Dismemberment Insurance, Medical Expense Insurance and Temporary Disability

Benefits to eligible employees and their families, in such form and the amount as the

Trustees of the Health and Welfare Fund may determine and the organization and administration expenses of the Health and Welfare Fund.

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**Section 4:** Health and Welfare contribution can be changed once annually (at the Contract anniversary date); and total hourly

compensation will not exceed the

total hourly compensation shown in Attachment G. Any changes in contribution will take effect the first day of Bristol Piping Systems fiscal month following the receipt of the 30-day notice.

**Section 5:** The said Health and Welfare Fund shall be administered by an Agreement and Declaration of Trust administered jointly by an equal number of Representatives of the Employer and the Union which total number shall be four (4) and which Agreement and Declaration of Trust shall conform to all requirements of law. A copy of the said Agreement and Declaration of Trust, together with any amendments thereto, shall be considered part of this Agreement as though set forth here at length.

**Section 6:** Said Health and Welfare payments shall be paid by the Employer by the 20<sup>th</sup> of each month for the preceding month.

**Section 7:** The Employer shall begin payments upon completion of all details by and upon notification from the Trustees, retroactive to the effective date of this Agreement.

## ARTICLE X

### PLUMBERS AND PIPEFITTERS NATIONAL PENSION FUND

The undersigned Employer and Union agree that the Employer shall make pension contributions to the National Pension Fund in accordance with the terms of this agreement on behalf of those employees who are covered by the National Pension Fund pursuant to the Collective Bargaining Agreement.

1. (a) Commencing with the 15<sup>th</sup> day of February, 2004, and for the duration of the current Collective Bargaining Agreement between the said parties, and any renewals or extensions thereof, the Employer agrees to make payments to the Plumbers and Pipefitters National Pension Fund for each Employee who is covered by the Plan in each classification listed below in accordance with the said Collective Bargaining Agreement, as shown on Attachment G.

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Any classification of Employees who are excluded from the Plan pursuant to good faith

bargaining and for whom contributions are not required by the collective bargaining agreement shall not participate in the Plan. Persons in such excluded classifications shall not be considered "Employees" for purposes of the Plan and this Standard Form of Participation Agreement.

(b) The Employer shall make the contributions set out in subparagraph 1 (a) for each hour or portion thereof, for which an Employee is paid or entitled to payment for performance of duties for the Employer. (Each overtime hour shall be counted as one regular hour for which contributions are payable.)

(c) Contributions as set out in subparagraph 1 (a) above shall be paid starting with the Employee's first day of employment in a job classification covered by the Collective Bargaining Agreement.

(d) The payments to the Pension Fund required above shall be made to the "Plumbers and Pipefitters National Pension Fund" which was established under an Agreement and Declaration of Trust, dated July 23, 1968 and restated December 13, 1978. The Employer, by signing this Standard Form of Participation Agreement or by signing a Collective Bargaining Agreement providing for participation in the Plumbers and Pipefitters National Pension Fund, agrees to be bound by all of the terms and conditions of the Restated Agreement and Declaration of Trust thereby ratifies, accepts and designates as its representatives the Employer Trustees then serving as such and authorizes said Employer Trustees to designate additional Employer Trustees and successor Employer Trustees in accordance with the terms and conditions thereof and authorizes the Trustees to adopt amendments to the Restated Agreement and Declaration of Trust. The Employer hereby acknowledges receipt of a copy of the Restated Agreement and Declaration of Trust in effect when this Agreement is signed.

2. It is agreed that the Pension Plan adopted by the Trustees of the said Pension Fund shall at all times conform with the requirements of the Internal Revenue Code so as to enable the Employer at all times to treat contributions to the Pension Fund as a deduction for income tax purposes.

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3. It is agreed that all contributions shall be made at such time and in such manner as the Trustees require, and the Trustees shall have the authority to retain an

accountant or accounting firm to perform payroll audits of the Employer to determine whether the correct amount of contributions have been made or to determine whether contributions have been made on behalf of all Employees covered by the plan.

4. If an Employer fails to make contributions to the Pension Fund within 20 days of the end of the month during which the work was performed, the Union shall have the right to take whatever steps are necessary to secure compliance, any provision of the Collective Bargaining Agreement to the contrary notwithstanding, and the Employer shall be liable for all costs and expenses for collecting the payments due, together with attorneys' fees, interest on the unpaid contributions of 12% per annum, and liquidated

damages of 10% of the unpaid contributions. The employer's liability for payment hereunder shall not be subject to the grievance or arbitration procedure or the "no-strike" clause provided under the Collective Bargaining Agreement.

5. The parties agree that this Participation Agreement shall be considered a part of the Collective Bargaining Agreement between the undersigned parties.

6. The expiration date of the present Collective Bargaining Agreement between the undersigned parties is the 15<sup>th</sup> day of February, 2009. Copies of the collective Bargaining Agreement and all renewal or extension agreements will be furnished promptly to the Pension Fund Office and, if not consistent with this Participation Agreement, can be used by the Trustees as the basis for termination of participation of the Employer.

7. Pension contribution can be changed once annually (at the Contract anniversary date); and total hourly compensation will not exceed the total hourly compensation shown in Attachment G. Any changes in contribution will take effect the first day of Bristol Piping Systems fiscal month following the receipt of the 30-day notice

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## ARTICLE XI

### EDUCATIONAL TRUST FUND

The Employer and the Union do hereby agree to be bound by all the terms of the

Educational Trust Fund Agreement dated January 1, 1965, entitled "Agreement

And Declaration of Trust for the Development of Skills of Journeymen and Apprentices in the Plumbing and Pipefitting Industry". The Employer agrees to pay and contribute to the Local Apprenticeship Training Fund the amount indicated:

Effective February 15, 2004, \$.26/hr. for each Journeyman, Apprentice and Metal Tradesman.

Educational contribution can be changed once annually (at the Contract anniversary date); and total hourly compensation will not exceed the total hourly compensation shown in Attachment G. Any changes in contribution will take effect the first day of Bristol Piping Systems fiscal month following the receipt of the 30-day notice.

## ARTICLE XII

### SHOP STEWARDS

**Section 1:** A shop steward may be appointed by the Business Manager.

**Section 2:** In the event of a reduction in force, the shop steward shall be the last man laid off, except the foreman and/or superintendent, providing he is qualified to perform the work available.

## ARTICLE XIII

### BUILDING TRADES APPRENTICES

There shall be no limit as to the number of building trades apprentices employed in the shop; however, the following ratios (journeymen to apprentices) shall not be exceeded in the following areas of skill:

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Fit-Up	3 to 1
Tacking for Fit-Up	3 to 1
Welding	3 to 1

Fifth year, second six (6) months' apprentices will be considered as journeyman for the purposes of calculating ratios.

## ARTICLE XIV

### REPORTING AND CALL IN PAY

**Section 1:** Any employee within the bargaining unit of the Union reporting for work at the regular starting time and for whom no work is provided, shall receive two hours call in pay at the prevailing rate of wages, unless he has been notified at the end of the last preceding shift not to report to work.

**Section 2:** Any employee who reports for work and for whom work is provided shall receive not less than four hours pay. If four or more hours are worked in any one day he shall receive pay for the number of hours he worked in excess of four hour minimum

unless the employee leaves work of his own accord. This exception does not apply to the two hour reporting time.

## **ARTICLE XV**

### **SAFETY AND HEALTH MEASURES**

**Section 1:** Adequate and proper equipment shall be furnished by the Employer for the protection of the health and safety of all employees within the bargaining unit who are employed by the Employer. Plant and Safety Rules (Attachments A & B) shall be strictly adhered to by all employees and will be enforced by the Employer.

**Section 2:** All tools and equipment used by journeymen shall be furnished by the Employer, including welding gloves and hoods, and other tools required for welding. Further, each fit-up table will be assigned the hand tools required to perform the work required (Attachment D). These hand tools will be signed for by a fitter assigned to the

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table. This employee shall be responsible for their safekeeping and care. Failure of this responsibility by the employee shall result in the cost of the item being deducted from his next paycheck up to a maximum of \$50.00 in any 12 month period. If tool loss becomes excessive, the Employer reserves the right to renegotiate the maximum yearly amount.

**Section 3:** The Employer and Local Union 538 agree to meet once a quarter,

as a minimum, to discuss safety and health measures and any other matters to the benefit of both. The attendees representing Local Union 538 will be as such to represent all departments in the shop.

## **ARTICLE XVI**

### **CODE OF BUSINESS CONDUCT AND RELATED POLICIES**

The Code of Business Conduct of Synalloy Corporation (Attachment H) contains the specific corporate policies adopted by the Board of Directors that relates to the legal and ethical standards of conduct of employees and agents of the Company. All employees are required to comply with the Code of Business Conduct and sign the Certificate of Compliance.

## **ARTICLE XVII**

### **GRIEVANCE PROCEDURE**

All disputes and controversies as to the meaning or interpretation of any provision of this Agreement shall be treated as a grievance and disposed of in accordance with the following steps:

1. The aggrieved employee shall first discuss the grievance with the Steward and Plant Superintendent.
2. Failing settlement at the first step within 72 hours of the presentation of the first step, the Steward shall attempt settlement with the Plant Manager.

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3. Failing settlement at the second step within 72 hours of the presentation of the second step, the Business Representative of the Local and the Shop Steward shall

attempt settlement with the Plant Manager.

4. In the event a grievance shall not have been adjusted to the satisfaction of either party through the steps of the above procedure, then arbitration may be invoked within fifteen (15) calendar days from the determination of the third step by either party requesting the Federal Mediation and Conciliation Service provided a panel of arbitrators. Unless mutually agreed by the parties, the arbitrator selected may hear only one (1) grievance. The arbitrator shall not be empowered to rule contrary to, to amend, to add to, or eliminate any of the provisions of this Agreement. The decision of the arbitrator shall be final. The expense incident to the services of an arbitrator shall be paid equally by the Employer and Local Union 538.

## **ARTICLE XVIII**

### **NO STRIKE, NO LOCKOUT**

During the life of this Agreement, there shall be no strikes, work stoppages, sympathy strikes, slow downs or other impeding of work on the part of the Union and no lockouts by the Employer.

## **ARTICLE XIX**

### **SAVINGS CLAUSE AND TERMINATION OF AGREEMENT**

**Section 1:** The parties to this Agreement in reaching a mutual understanding believe that they have done so in full compliance

with Federal, State and Local laws, but if any provision of this Agreement or the application of any provision is invalid or in violation of Federal, State, or Local laws, as determined by a court, board or agency of competent jurisdiction, then such provision or the application of the same shall be ineffectual, void and within application, however, the remainder of this agreement shall not be affected thereby.

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**Section 2:** This Agreement shall be effective from February 15, 2004 until February 15, 2009 and from year-to-year thereafter unless either party gives notice of its intent to terminate or modify this Agreement no more than ninety (90) days nor less than fifteen (15) days prior to February 15, 2004.

[SIGNATURES OMITTED]

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## **ATTACHMENT A**

### **PLANT RULES**

The purpose of these rules is to define for everyone the level of conduct which is expected of Bristol Piping Systems employees in their relationships with the Employer as well as with their fellow employees, and to publicize such rules widely so as to encourage individual self-discipline and thereby eliminate any need for the imposition of penalties.

These rules have been established to encourage efficiency and safety of operation in our plant which, in turn, leads to the operation of a successful business enterprise, which can furnish all of us a pleasant, rewarding and secure place to earn a livelihood for ourselves and our families.

In general, the prescribed discipline for violations of Plant Rules is corrective and gives the employee ample opportunity to work within its framework; however, violation of some rules under certain circumstances is considered so serious that discharge is necessary.

### **GROUP I**

Violations of the following rules will be considered cause for disciplinary action up to and including discharge for the 9<sup>th</sup> offense.

1. Possessing, or having present within one's body, or being under the influence of intoxicating beverages or non-prescribed, controlled substances, including drugs, while on the job or on Employer's premises. Further, the Employer may require employees to undergo appropriate related tests. Attachment B, outlining the employer's testing policy, is a part of these Plant Rules.

2. Stealing or attempting to steal property from any individual on Employer's premises, or stealing or attempting to steal property from the Employer.

3. Willful ringing of the clock card of another employee, permitting someone else to ring your clock card, or tampering with clock cards or clocks.

A1

4. Falsifying information on time records, production counts, or other Employer records.

5. Bodily assault to any person on Employer's property.

6. Repeated or deliberate violation of Plant Rules.

7. Unauthorized absence from the job during working hours or unauthorized absence from the Company premises during working hours. Attendance Policy (Attachment D) and Vacation Policy (Attachment E) will apply.

8. Deliberate abuse or destruction of Employer's property.

9. Failure to punch clock card at the beginning and end of the shift or failure to punch out and in when leaving the Employer's premises during an employee's scheduled shift hours.

10. Immoral or indecent conduct.

11. Violation of safety rules or common safety practices.

12. Refusal to follow a foreman's instructions. (An employee must always follow the instructions give, Exception: Where immediate compliance would endanger his life or limbs.)

13. Unauthorized possession of concealed weapons on Employer's premises at any time.

14. Threatening, intimidating, coercing or interfering with employees or supervision.

**GROUP II**

Violation of the following rules can be as serious as violations of rules in Group I; however, some violations are considered less serious. Accordingly, violations of these rules will be cause for disciplinary action as prescribed below and will be dependent upon the serious of the offense.

1<sup>st</sup> Offense - Verbal or written reprimand up to and including 2 weeks lay-off.

2<sup>nd</sup> Offense - Disciplinary lay-off up to and including discharge.

3<sup>rd</sup> Offense - Discharge.

15. Misuse, abuse or destruction of Employer's property or any property on Employer's premises through negligence or carelessness.

A2

16. Abusive language to any employee or supervision.

17. The uttering or publishing of false, vicious or malicious statements concerning the Employer or any employee of the Employer.

18. Smoking in restricted areas, tobacco chewing and spitting in any area.

19. Chronic absenteeism or chronic tardiness. (An employee is tardy when he is not clocked in and at his work station when the shift starting signal is sounded.)

20. Overstaying vacation or leave of absence.

21. Garnishments.

22. Soliciting of funds, signatures, chances, memberships or similar solicitations during actual working time; the distribution of literature in the working areas of the plant, or during actual working time.

23. Unauthorized posting or removal of notices, signs or writings from bulletin boards.

24. Punching in more than seven (7) minutes before or punching out more than seven (7) minutes after an employee's shift.

Starting to work ahead of or working after the end of an employee's scheduled starting or quitting time, unless ordered to do so by a supervisor. Employees must not enter the plant at times other than their regularly scheduled shift hours without permission of the Employer. (Check at the office.)

- 25. Running, scuffling, throwing articles, or horseplay of any kind on Employer's property.
- 26. Failure to report occupational injury promptly to immediate supervisor.
- 27. Failure to open for inspection on request when leaving premises anything capable of concealing Employer's property.
- 28. Entering any department other than the one to which assigned without permission of your departmental supervision and the supervision of the department you wish to enter except when on Employer's business.
- 29. Carelessness or inattention to job duties resulting in faulty work, scrap or damage to equipment.

A3

- 30. Lining up at the time clock in the department before the signal is sounded for lunch period or prior to the signal at the end of the shift. Employees must be at their work stations.
- 31. Wasting time or loitering on any Employer property during working hours.
- 32. Abuse of break periods.

The above rules cover the more common problems, which are likely to occur. The published rules are not intended to be all inclusive. We feel it is reasonable to expect the same standard of behavior in our work relationship in the plant that is expected outside the plant in any other phase of community life.

The Employer shall, as it becomes necessary, publish additional rules or change the above rules. When it becomes necessary to publish additional rules or change the published rules, such rules will be discussed with the Business Agent and/or Shop Steward before being published.

A4

## **ATTACHMENT B**

### **TESTING POLICY FOR INTOXICATING BEVERAGES,**

### **NON-PRESCRIBED CONTROLLED SUBSTANCES, AND DRUGS**

- 1. Any employee suspected of being under the influence of alcohol or drugs will be tested, not to exceed once per calendar

month.

2. Any employee involved in an accident, which requires medical attention will be tested. This test will not be counted as a probable cause test outlined in Paragraph 1.
3. The Employer reserves the right to test any or all new hires.
4. Refusal of the test will be considered an admission of guilt and the employee will be terminated.
5. The mere presence of non-prescribed controlled substances or drugs is just cause for termination for the first offense.
6. The presence of .05% or higher alcohol content is just cause for termination for the first offense.
7. Two specimens will be taken. If one specimen is positive and the employee requests a re-test, the second specimen will be tested. If the second test is positive, the employee will pay for the second test.
8. First offenders of either a positive test or a refusal to take the test will be eligible for re-hire if, after 90 days, evidence of a new negative test from an Employer-approved laboratory is presented. This test will be paid for the employee.
9. Second offenders of either a positive test or a refusal to take the test will not be eligible for re-hire.
10. The laboratory used to perform the test will be at the sole discretion of the Employer.

B1

### **ATTACHMENT C**

#### **SAFETY REGULATIONS**

The records show that more than half of all accidents are really the fault of the man hurt. You can do more to keep yourself from accidental injury than all the efforts of your supervisors combined. It has been well said that a man's best safeguard is about nine inches above his shoulders, that's - his own mind. You and your family suffer most if you are hurt. Make yourself familiar with the following rules and put them in practice.

1. Keep yourself in physical condition to do a day's work.
2. Listen to the foreman's instructions and have them clearly in mind before starting work.
3. Good housekeeping must be practiced. All material is to be kept stacked neatly and on trucks or skids; aisles are to be kept clear at all times.
4. Keep your mind on your job. Alertness prevents accidents.
5. Always use all safeguards provided.
6. Report unsafe conditions to your safety committee.
7. Do not "fool" or scuffle while at work.
8. Report all injuries promptly. Get immediate first aid.
9. Wear clothes suited to the job - safety shoes - gloves as needed. Use goggles and other protective equipment. Safety glasses must be worn by everyone in the manufacturing area.
10. In the grinding area, full face shields must be worn at all times. This applies to anyone who does any type of grinding anywhere in the shop. All grinding discs must be inspected by the stock room clerk before issuing, and the grinding operator must also check before using.
11. Portable partitions must be used to the best advantage to block the flow of grinding sparks.

## C1

- 12.** Grinders and sanders will be handled with care. They are not to be dropped or laid on the blade or rock at any time. When the operator leaves the area for any reason he will place his machine on brackets provided for this purpose. All grinders must be properly guarded.
- 13.** At the pickling tank, proper rubber gloves, boots, goggles and aprons must be worn at all times. In addition, full face shields must be worn when handling concentrated acid.
- 14.** Gloves must be worn when handling sheets or any other material that would have any chance of cutting a man seriously. Welders must wear the safety type helmet in order to avoid eye injuries when the helmet is lifted.
- 15.** Pile and un-pile material with care. Handling material is the greatest accident producer on this job. When you see nails sticking up in boards, bend them over or remove them.
- 16.** When working with another man, be sure he knows what you are going to do before you drop a load or do anything, which might injure him. Good team work promotes safety.
- 17.** Get help for lifting heavy objects. Learn to lift the correct way.
- 18.** Never try to oil, clean or adjust machinery while it is in motion.
- 19.** Do not wear ragged sleeves, loose coats, flowing ties or loose jumpers while working around machines.
- 20.** Do not get under loads, which are being carried by cranes.
- 21.** Do not hoist a load until it is securely made fast and balanced.
- 22.** Do not use improper or broken tools; they are dangerous.
- 23.** Never start machinery, operate valves, or change electric switches until you know by personal investigation that it is safe.
- 24.** Do not look at welders or cutters while they work. You might ruin your eyes. Properly shield welding areas from flash-burn hazards to other employees.
- 25.** Do not fix electrical equipment of any kind unless your work requires it.
- 26.** Never turn compressed air on anyone, nor on yourself; it is extremely dangerous.

## C2

- 27.** Do not use scaffolding without guardrails and toeboards. Anyone working under scaffolding must wear head protection. Never use portable electric tools that are improperly grounded.
- 28.** Use respirator for any abrasive blasting, or in any confined area.
- 29.** Full face shields, safety gloves and wrist protectors must be worn when operating saws.

Any employee who disregards these safety rules will be given a written reprimand for the first offense. For the second offense, the employee will be given a written reprimand and will be penalized by being sent home for up to five days without pay. For the third offense, the employee will be subject to discharge.

C3

**ATTACHMENT D**

**HAND TOOLS ASSIGNED TO EACH FIT-UP TABLE**

1	50' Tape Measure
1	25' Tape Measure
1	8" Vise Grips
2	Carpenter Squares
1	6" Level
1	2' Level
1	4' Level
1	Prick Punch
1	Chisel
1	Hammer
1	Hacksaw
1	Adjustable Wrench
1	Protractor and Blade
1	Pry Bar

**ATTACHMENT E**

**ATTENDANCE POLICY**

In order to maintain efficient production schedules, we must insist on punctual attendance of all our employees. While most of our employees do have good attendance records, some have attendance records well below acceptable standards.

Employees are expected to be at their workstations at the start of their scheduled shift.

Each unexcused absence for an entire day will count as one occurrence; being late or leaving early will count as half an occurrence.

An excused absence is an absence caused by a reason acceptable to the Company, such as a death in the family, jury duty, vacations, accidents, and illness accompanied by a doctor's excuse. Each instance of tardiness, leaving before the end of scheduled shift, and absence will be handled individually and extenuating circumstances will be considered by the Company.

Within any three-month period:	Disciplinary action:
Two (2) occurrences	Verbal warning
Three (3) occurrences	Written warning
Four (4) occurrences	Three (3) days off
More than four occurrences	Discharge

Employees who fail to provide notice for three successive workdays shall be considered as quitting voluntarily.

Any employee discharged for having more than four occurrences will be eligible for re-hire after six months.

**ATTACHMENT F**

**VACATION POLICY**

Bristol Piping Systems recognizes the need for employee vacations to provide a change from the routine of work, to spend time with their families, or special occasions. Bristol Piping Systems reserves the right to deny vacation request, due to production schedules, or failure to follow this policy to its full extent.

1. Employees must obtain a vacation request from his/her foreman.
2. Employees will complete and submit the vacation request to their foreman for approval and signature.
3. Once approved it will be submitted to the plant superintendent for approval and signature.
4. Once approved, a copy will be returned to the employee, a copy will be sent to human resources, and it will be posted on the vacation scheduling board.
5. All vacation requests must be submitted to the plant superintendent at least 14 days prior to the beginning of the requested vacation, except under extenuating circumstances.

**ATTACHMENT G**

**PAY SCALE**

<u>Periods</u>	<u>Total Journeyman Compensation</u>
2/16/2004 thru 2/13/2005	\$26.20 per hour worked
2/14/2005 thru 2/12/2006	\$27.05 per hour worked
2/13/2006 thru 2/11/2007	\$27.90 per hour worked
2/12/2007 thru 2/10/2008	\$28.75 per hour worked
2/11/2008 thru 2/15/2009	\$29.60 per hour worked

Notes:

1. These rates apply to Journeymen only. All Apprentices and Metal Tradesmen wage rates will be as outlined in Article VIII.
2. These rates are all inclusive and include wages, health and welfare, pension, and training.
3. Health and welfare contributions for Apprentices and Metal Tradesmen shall be the same as for Journeymen except there will be no contribution for Metal Tradesmen until they have worked 2080 hours at Bristol Piping Systems.
4. Pension contribution for Apprentices will be a maximum of \$0.15 per hour.
5. Pension contribution for Metal Tradesmen will be as follows:

Up to 4160 hours worked at Bristol Piping Systems:	0
4161 thru 10400 hours worked at Bristol Piping Systems:	\$.25 per hour
Over 10400 hours worked at Bristol Piping Systems:	\$2.00 per hour

6. For the purposes of calculating hours worked to determine pension and health and welfare contributions, any person not employed at Bristol Piping Systems in the previous twenty-four months will be considered a new hire with no hours accumulated.

**ATTACHMENT H**

**SYNALLOY CORPORATION**

**CODE OF BUSINESS CONDUCT AND RELATED POLICIES**

The Code of Business Conduct of Synalloy Corporation contains the specific Corporate Policies adopted by the Board of Directors that relate to the legal and ethical standards of conduct of employees and agents of the Company. The following Corporate Policies constitute the Code of Business Conduct and govern the conduct of business by the Company:

I. General Policy Regarding Laws and Business Conduct . . . . .	2
II. Business Ethics . . . . .	3
A. Commercial Bribery . . . . .	3
B. Fraud and Similar Irregularities . . . . .	4
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**This policy is subject to amendment upon issuance of final SEC regulations.**

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**I. GENERAL POLICY REGARDING LAWS AND BUSINESS CONDUCT**

The Code of Conduct is the umbrella policy to the Synalloy Code of Business Conduct and Related Policies and is intended to supplement this policy. The Synalloy Code of Business Conduct and Related Policies outlines Company policies and procedures that address day-to-day business operations and conduct. The Code of Conduct is incorporated herein and made a part of the Synalloy Corporation Code of Business Conduct and Related Policies.

The purpose of this General Policy Regarding Laws and Business Conduct is to provide a general statement regarding the Company's expectations as to the legal and ethical nature of conduct of the Company's employees, directors, officers, financial officers, temporary employees, independent contractors, and agents (referred to thereafter as "Employee" or "Employees") while acting on the Company's behalf and to provide for the administration of the Company's Code of Conduct ("Code").

Moreover, this policy is intended to enhance the qualifications of the Code as a program that, under the United States Sentencing Guidelines, is reasonably designed, implemented and enforced so as to be generally effective in preventing and detecting criminal conduct.

The Audit Committee shall be responsible for the administration of the Code. The Audit Committee shall establish procedures and delegate authority to senior management, comprised of corporate officers and divisional presidents, in order to discharge this responsibility. The Audit Committee will oversee and review the Code periodically and make recommendations to the Board of Directors.

**Waivers of the Code of Conduct**

The Chief Executive Officer shall have the authority to grant waivers to Employees except senior officers and any such waivers shall be reported to the Audit Committee. The Board of Directors shall have the sole responsibility and authority to grant a waiver of any item of this Code to any senior officers and any such waiver shall be reported to the shareholders of the Company.

**Introduction**

The Code covers a wide range of business practices and procedures. It does not cover every issue that may arise, but it sets our basic principles to guide all employees of the Company. Company Employees must demonstrate honesty and sound ethical behavior in all business transactions and personal integrity in all dealings with other and seek to avoid even the appearance of improper behavior. The Code applies to Employees of the Company as defined in second paragraph of the General Policy Regarding Laws and Business Conduct on page 2.

Employees must operate within the bounds of all laws applicable to the Company's business. If a law conflicts with a policy in this Code, you must comply with the law. Further, if a local custom or policy conflicts with this Code, you must comply with the Code. Managers must ensure that employees who report to them read this Code and understand the importance of complying with it and with applicable laws. If employees have questions about these conflicts, they should ask their supervisor how to handle the situation.

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It is the policy of the Company not to discriminate against employees, stockholders, directors, officers, customers or suppliers on account of race, color, age, sex, religion or national origin. All persons shall be treated with dignity and respect and they shall not

be unreasonably interfered with in the conduct of their duties and responsibilities.

### **Contact Persons to Ask Questions or Report Violations**

Employees may report violations of this code and of applicable laws in confidence and without fear of retaliation. The Company does not permit retaliation of any kind against employees of good faith reports of such violations, (except that appropriate action may be taken against an Employee if such individual is one of the wrongdoers).

In the event of questions regarding compliance or to report a violation, Employees should follow the normal chain of command as outlined in the Complaint Procedure in the Employee Handbook. However, if the violation is of an alleged serious breach of business ethics involving bribery, fraud, antitrust, conflict of interest, accounting irregularities, improper use and disclosure of inside information, confidential or proprietary information, or other serious matter involving an Employee or a case where it may not be appropriate to discuss an issue with a supervisor, the Employee should contact the Corporate Secretary in Spartanburg at extension 536 or the Chairman of the Audit Committee at the Spartanburg office at extension 532. This is a confidential voicemail accessible only by the Audit Committee members.

## **II. BUSINESS ETHICS**

### **A. Commercial Bribery**

The Company prohibits the payment or transfer of Company funds or assets to suppliers or customers in the form of bribes, kickbacks or other payoffs and prohibits Company employees and agents from participating in such schemes or from receiving such bribes, kickbacks or other payoffs. The purpose of business entertainment and gifts in a commercial setting is to create good will and sound working relationships, not to gain unfair advantage with customers. Employees are prohibited from providing or receiving anything of value directly or indirectly for the purpose of obtaining or rewarding favorable treatment, including influencing a procurement action. Employees having influence on procurement decisions must be careful to avoid actual or potential conflicts of interest and may be required to certify from time-to-time that they have not violated and do not know of any other employee who has violated these prohibitions. Employees should discuss with divisional Presidents any gifts or proposed gifts to ascertain whether they are appropriate.

Bribes, kickbacks and payoffs include, but are not limited to: gifts of other than nominal values; cash payments by Employees or third persons, such as suppliers, customers or consultants, who are reimbursed by the Company; the uncompensated use of Company services, facilities or property except as may be authorized by the Company; loans, loan guarantees or other extensions of credit (except from lending institutions at prevailing rates).

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This policy does not prohibit expenditures of nominal amounts for meals and entertainment of suppliers and customers that are an ordinary and customary business expense, if they are otherwise lawful. These expenditures should be included on expense reports and approved under standard Company procedures.

### **B. Fraud & Similar Irregularities**

This policy establishes and communicates the Company's policy regarding the prohibition, recognition, reporting and investigation of suspected fraud, defalcation, misappropriation and other similar irregularities.

Employees are prohibited from engaging in fraud which includes dishonest or fraudulent act, misrepresentation, conversion to personal use of cash, securities, supplies or any other Company asset, unauthorized handling or reporting of Company transactions; defalcation, embezzlement, forgery, misappropriation of assets, falsification of Company records or financial statement for personal or other reasons, Any Employee who becomes aware of a fraudulent activity should report it immediately following the procedures addressed above under the section entitled "Contact Persons to Ask Questions or Report Violations."

The above list is not all-inclusive but intended to be representative of situations involving fraud. Fraud may be perpetrated not only by Company Employees, but by agents and other outside parties as well. All such situations require specific action by the Company.

The Company's Chief Financial Officer shall be notified of suspected significant Fraud (more than \$5,000 of estimated loss), and, without regard to amount of loss, any Fraud involving an officer of the Company.

Fraud investigations (involving more than \$5,000 of estimated loss), and any Fraud, without regard to amount of loss involving an officer of the Company, will be reported to the Audit Committee of the Board of Directors.

### **C. Antitrust**

The Company strictly forbids formal or informal agreements or understandings with competitors where the purpose is to influence prices, terms or conditions of sale, volumes of production, production restrictions, allocations to markets or limitations of quality.

Employees are strictly forbidden to exchange information with competitors and potential competitors regarding production scheduling, distribution and pricing, terms or conditions of sale, quality limitations, production volumes and/or restrictions, interaction with customers, market share or any other information in violation of antitrust laws.

Employees are not permitted to join any trade association on behalf of the Company unless their supervisor, in conjunction with the division President, has determined that the association serves an important and proper business purpose and that counsel adequately supervises all of its activities. Employees should periodically review trade association memberships with their managers to determine their ongoing value.

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#### **D. Sensitive Transactions**

This policy advises Employees of the Company's position regarding sensitive transactions and requires that transactions are executed, and access to assets is permitted, only in accordance with management's authorization.

The U.S. Foreign Corrupt Practices Act prohibits giving anything of value, directly to officials of foreign governments or foreign political candidates, in order to obtain or retain business. It is strictly prohibited to make illegal payment to government officials of any country.

In addition, the U.S. government has a number of laws and regulations regarding business gratuities, which may be accepted by U.S. government personnel. The promise, offer or delivery to an official or employee of the U.S. government of a gift, favor or other gratuity in violation of these rules would not only violate Company policy but could also be a criminal offense. State and local governments, as well as foreign governments, may have similar rules.

#### **E. Conflicts of Interest**

This policy establishes guidelines and procedures regarding timely and proper disclosure of possible conflicts of interests that an employee may have in connection with job duties and responsibilities in order that management may review and approve each situation as necessary to protect the best interests of the Company and its responsibilities as a public company.

A "conflict of interest" exists when a person's private interest interferes or conflicts in any way with the interest of the Company. A conflict situation can arise when an Employee takes actions or has interest that may make it difficult to perform his or her Company work objectively and effectively. Conflicts of interest may also arise when an Employee, or members of his or her family, receives improper personal benefits or profits in a significant personal transaction involving the Company as a result of his or her position in the Company. Loans to, or guarantees of obligations of, Employees and their family members may create conflicts of interest.

"Members of an Employee's family" refer to the Employee's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, any person living in the same home with the employee or any business associate of the Employee.

It is almost always a conflict of interest for a Company employee to work simultaneously for a competitor, customer or supplier. Employees are not allowed to work for a competitor as a consultant or board member. The best policy is to avoid any direct or indirect business connection with our customers, suppliers or competitors, except on behalf of the Company.

If an Employee owns stock in a competitor and/or a supplier, it may or may not be a conflict of interest; however, Employee should report it to his supervisor.

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Sometimes, a conflict of interest will develop accidentally or unexpectedly, and the appearance of a conflict of interest can also easily arise. If an Employee feels that he/she has a conflict, actual, potential or apparent, he/she should report all pertinent details in writing to his/her manager. The presence of a conflict does not necessarily mean that the proposed activity will be prohibited. An Employee's responsibility is to fully disclose all aspects of the conflict to the appropriate manager and remove himself/herself from the decision-making process.

Employees will be required to indicate whether they have a conflict of interest and, if so, disclose such conflicts of interest annually on the Certificate of Compliance form. The Corporate Secretary will be responsible for notifying the Audit Committee of the Board of Directors of any significant exceptions.

### **III. ACCOUNTING CONTROLS, PROCEDURES & RECORDS**

This policy establishes guidelines and procedures related to keeping books and records that in reasonable detail accurately and fairly reflect the Company's transactions and dispositions of assets. The Company shall maintain a system of internal accounting controls to ensure reliability and adequacy of its books and records and proper recording of all transactions including dispositions of assets.

Accurate and reliable financial and business records are of critical importance in meeting the Company's financial and business obligations. The Company has established guidelines and procedures related to keeping books and records that in reasonable detail accurately and fairly reflect the Company's transactions and dispositions of assets. The Company shall maintain a system of internal accounting controls to ensure reliability and adequacy of its books and records and proper recording of all transactions including dispositions of assets. No undisclosed or unrecorded fund or asset may be maintained or established for any purpose. The Company's financial records must be retained in accordance with its retention policies and all applicable laws and regulations.

As a public company, Synalloy is required to disclose through proper channels accurate and complete information regarding the Company and its results of operations on a timely basis.

The Company will not tolerate "leaks" or unauthorized disclosures of corporate information to members of the press or financial community. The Chief Financial Officer must authorize all communications to the press or financial community.

## **Policy**

1. Authorization. The only transactions to be entered into by the Company are those that are executed in accordance with management's specific authorization or established, formalized policies and procedures. The Board of Directors approves that officers and other authorized employees of the Company are authorized, on behalf of this Company, and in its name to sign, draw, endorse, accept and negotiate checks, drafts, notes, money transfers or other orders for the payment of money; to demand, collect and receive any and all sums of money, securities, documents and property which may be due or belonging to the company; execute and deliver and

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electronic funds transfer agreement, open bank accounts in the name and in behalf of this Company, to sign and execute all legal documents, contracts, and to transact

such business deemed necessary to conduct the routine affairs of the Company. Only the Chief Executive Officer and the Chief Financial Officer can commit to any contracts over 12 months.

2. Approval. No transaction will be recorded in the accounts of the Company unless it is within the scope of written policies and procedures or is specifically and formally approved by an appropriate and designated employee. Such approval requires the determination that the transaction (i) has been authorized in accordance with this Corporate Policy and (ii) is supported by documentary evidence to verify the validity of the transaction.

3. Accounting. All transactions entered into by the Company will be recorded in the accounts of the Company in accordance with normal, standard procedures. Each entry will be coded into an account that accurately and fairly reflects the true nature of the transaction.

4. Reporting. All transactions that have been accounted for in accordance with this Corporate Policy will be accumulated and processed in a manner that will permit preparation of financial statements, reports and data for purposes of internal, public and regulatory reporting. Such statements, reports and data must be in a form sufficient to reflect accurately and fairly the results of transactions entered into by the Company and to permit proper accountability for assets.

5. Responsibility. The implementation and maintenance of internal accounting controls, procedures and records that are adequate in all respects to satisfy the requirements of this policy will be the primary responsibility of the Chief Financial Officer.

6. Auditing. Compliance with the provisions and requirements of this policy will be tested and evaluated by the Company's Chief Financial Officer and external auditors. All control failures regarding this policy will be reported to the Audit Committee so that deficiencies can be corrected and assurance of compliance with the terms of this policy maintained.

## **Procedure**

1. The Company will continuously evaluate its internal accounting controls, procedures and records to ensure compliance with the requirements of this policy. Such evaluation will be documented in a form suitable for inspection by outside parties, such as regulatory authorities, if the need arises.

2. The Company will take action to remedy any deficiency in internal accounting controls, procedures and records to ensure continuing compliance with the requirements of this policy.

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3. The external audit staff, in coordination with the Company's Chief Financial Officer, will ascertain that its audit scope, procedures and programs are adequate (i) for the purposes of testing and evaluating internal accounting controls, procedures and records and (ii) for complete reporting of deficiencies in internal accounting controls, procedures and records.

4. On or before March 31 of each year, the external auditor and the Company's Chief Financial Officer will prepare a written summary applicable to the preceding fiscal year which sets forth financial management's evaluation of the Company's internal accounting controls, procedures and records. Such a summary will consider financial management's overall evaluation and results of audits performed during the year, internal and external. For deficiencies noted in the evaluation, remedial action in progress or contemplated will be set forth in the summary. The summary will be addressed to the Audit Committee of the Board of Directors.

5. The Company will maintain the following policies to support requirements in this section:

III-1 Purchasing Policy

III-2 Employee Business Expense Policy

III-3 Capital Expenditure Policy

III-4 Gifts and Entertainment Policy

III-5 Document Retention Policy

III-6 Compensation Policy

#### **IV. USE AND DISCLOSURE OF INSIDE INFORMATION**

Employees who have access to confidential information are not permitted to use or share that information for stock trading purposes or for any other purposes except the conduct of our business. All non-public information about the Company, which includes information about other companies that is obtained during the course of employment, should be considered confidential information. To use non-public information for personal financial benefit or to "tip" others who might make an investment decision on the basis on this information is not only unethical but also illegal. If you have any questions, please contact the Corporate Secretary.

In general, it is a violation of United States federal securities Laws for any person to buy or sell securities if he or she is in possession of material nonpublic information relating to those securities. Information is "material" if it could affect a reasonable person's decision whether to buy, sell or hold securities. Information is "nonpublic information" if it has not been publicly disclosed. Furthermore, it is illegal for any person in possession of material nonpublic information to provide other people with such information or recommend that they buy or sell securities. (This is called "tipping.") In such case, both the person who provides and the person who receives the information may be held liable.

A violation of the United States federal insider trading Laws can expose a person to criminal fines of up to three times the profits earned (or losses avoided) and imprisonment for up to ten years, in addition to civil penalties of up to three times the profits earned (or losses

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avoided), and injunctive actions. The securities Laws also subject controlling persons to civil penalties for illegal insider trading by employees. Controlling persons include the Company and may also include directors, officers and supervisory personnel. These persons may be subject to fines up to the greater of \$1,000,000 or three times the profits earned (or losses avoided) by the inside trader.

No preferential treatment will be given to any shareholder, potential investor or security analyst; therefore, the release to any such person of any material financial or operating data relating to the Company must be available to all such persons in compliance with SEC Regulation FD.

No financial data regarding the Company will be released to the public or members of the press or financial community except as authorized by the Chief Financial Officer. Due to the sensitive nature of investor relations and federal regulations relating thereto, all interviews with shareholders, potential investors and security analysts must be authorized by the Chief Financial Officer.

If information of a material nature regarding corporate activities, developments or discussions becomes or threatens to become known to outsiders, the Company is required to make prompt and thorough disclosure of such information to the public. Corporate matters subject to such treatment include negotiations leading to acquisitions and mergers, stock splits, the making of arrangements preparatory to an exchange or tender offer, changes in dividend rates or earnings, calls for redemption, new contracts, products or discoveries and other material developments.

Reference is made to Policy #IV-1 "Policy and Procedures for SEC Section 16 Reporting Persons"

#### **V. CONFIDENTIAL OR PROPRIETARY INFORMATION**

Employees must maintain the confidentiality of confidential or proprietary information entrusted to them by the Company or its customers, suppliers, or joint venture partners except when the disclosure is authorized by the corporate management or required by laws or regulations. Confidential information includes all non-public information that might be of use to competitors, or harmful to the Company or its customers, if disclosed. It also includes information that suppliers and customers have entrusted to the

Company. The obligation to preserve confidential information continues even after employment ends. No confidential information obtained during an Employee's work at a former employer should be brought on Company premises or used in the Employee's work at the Company.

All key managers under incentive plan must sign a non-compete confidentiality agreement in order to participate in the plan.

Reference is made to Policy #V-1: "Key Management Confidentiality Agreement."

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## **VI. ENVIRONMENTAL, HEALTH AND SAFETY**

The Company pledges to protect the environment and the health and safety of employees, the users of our products and the communities in which we operate.

The Company strives to provide each employee with a safe and healthful work environment. Each Employee has responsibility for maintaining a safe and healthy workplace for all Employees by following safety and health rules and practices and reporting accidents, injuries and unsafe equipment, practices or conditions.

The management of Environmental, Health and Safety goals is accomplished through two specific programs: Environmental Program and the Health and Safety Program.

### **1. Environmental Program**

#### **a. Responsibility**

Senior Management will have the ultimate responsibility for adopting, supporting and committing resources to a plan that ensures that the Company's facilities will be operating in an environmentally sound manner.

The Environmental Manager will be responsible for informing Senior Management of the requirements for the operation of the Company's facilities in compliance with all local, state and federal regulations. The Environmental Manager is responsible for the development of procedures for implementation by the facilities to ensure compliance with requirements and Company policies. The environmental Manager will obtain the services of consulting licensed professional (with pre-approval from the Audit Committee) where these services are necessary or required.

#### **b. Regulatory Compliance**

Procedures have been developed and implemented to obtain the necessary facility operating permits required by federal, state or local governments, commissions or districts. An annual regulatory review is conducted to determine compliance with existing laws and regulations and evaluate future compliance issues, if necessary.

#### **c. Pollution Prevention**

A pollution prevention plan has been developed to reduce the impacts of our operations on the environment. Specific procedures have been developed to

eliminate, reduce or minimize potentially harmful emission to the air, land and water.

#### **d. Risk Management / Emergency Response**

The Company accepts the responsibility for identifying and managing the risks associated with hazardous operations and material by adhering to

Company safety, health and environmental policies that require us to make environmental, health and safety considerations a priority in our current operations and our planning and development of new products. Our facilities

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employ a team of specifically trained employees including environmental and safety staff, engineers,

chemists, production supervisors and production employees whose use industry accepted methods for analyzing, reviewing and minimizing risks involved with our operations. From this analysis,

specific detailed operating procedures are developed, and training on these procedures are conducted for all employees.

Should an emergency involving hazardous materials occur, our emergency response plans are designed to warn and protect both our employees and the community. This plan has been reviewed with both the local fire department and emergency response personnel.

#### e. Education and Training

Education and training on environmental awareness is conducted to ensure that employees are aware of the Company's responsibilities and requirements for protecting the environment. Training is conducted on Company policies and procedures in place for compliance with Federal, State and local rules, regulations and policies. Training is conducted for management and non-management employees.

Reference is made to Policy #VI-1 - "The Synalloy Environmental Policy Manual."

## 2. Health and Safety Program

The Company is sincerely interested in the health, safety and welfare of each employee. Aside from a personal concern, the Company realizes that accidents also weaken employee morale, which in turn affects the job performance and customer relations of each employee. Therefore, it is the policy of this Company to insure each employee of a safe working environment. To accomplish this goal, the Company requires that each employee report any unsafe working condition to his/her supervisor. The Safety Manager has developed training programs for new employees and periodic mandatory training for all employees on a continuing basis. The Safety Manager along with the Safety Committee conducts routine audits of the facilities and checks for unsafe conditions. The Company also provides employees with proper safety equipment and monitors the use and condition of the equipment to ensure proper use.

### **Industrial Hygiene Statement**

#### *Physicals*

The Company will contract with a reputable medical agency to perform needed physical testing and monitoring of identified employees on an annual basis or as required by OSHA standards/programs or as directed by other government agencies. These tests, specific for identified employees, may include Hearing tests, Urine Cytology and Pulmonary Function tests.

#### *Environmental and Employee Exposure Monitoring*

The Company will test and monitor as required by OSHA employee's exposure to substances regulated by an OSHA standard. If there is reason to believe that

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exposure levels for a substance exceed the action level or the permissible exposure level, appropriate employee and/or area monitoring will be performed. If results of monitoring are outside acceptable levels, then the specific operations involved will be discontinued until compliance can be achieved. Environmental monitoring may occur if it is considered necessary to verify acceptable air concentrations after emissions or spills

Reference is made to policy #VI-2 - "Synalloy Health and Safety Policy Manual."

## **VII. USE OF COMPANY RESOURCES**

Company property may not be sold, loaned, given away, or disposed of, without proper authorization. All company assets must be used for proper purposes during employment with Synalloy. Improper use includes unauthorized personal use of the Company's assets, including computer equipment and software, data, vehicles, tools and equipment. Upon leaving employment with the Company, all Company property must be returned.

The company provides information systems, including, among other things, telephone, voicemail, email, computers databases, internal networks, on-line services and Internet access, for employees' use at the Company. Synalloy reserves the right to monitor, search, access and review all information in its systems, including information that employees may consider personal.

Upon hire, each new employee will be issued an "Electronic Information and Communication Systems Policy" and sign a Notice of Receipt that becomes a part of his/her personnel file. If Employee has any doubts about a particular use or issue pertaining to electronic communications he/she should check with Company management before proceeding. The Company reserves the right to modify and/or interpret this policy at any time.

Employees who abuse the privilege of access to the company's information and communication systems are subject to disciplinary action which could include removal from access to specific system(s) or, should the violation warrant, immediate termination of employment.

Reference is made to policy #VII-1 - "Electronic Information and Communication Systems Policy"

## **VIII. PATENTS AND TRADEMARKS**

Besides its people, the Company's most important assets are its trademarks and trade secrets. All employees must disclose to the Company in writing and in reasonable detail, any and all inventions, improvements, developments, technical information, skill and know-how, patentable and unpatentable, which are made, discovered or developed by an employee in the course of, or as a result of performance of work by the employee for the Company, or any customer of the Company, without any obligation on the part of the Company, or any customer of the Company, to make any payment therefore. The employee will, at the request of the Company and at the expense of the Company, but without other consideration, execute or cause to be executed all documents and do or cause to be done all acts which may be necessary or desirable to confirm in the Company

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all right, title and interest throughout the world in and to such developments, and to enable and assist the Company to procure, maintain, enforce and defend patents, petty patents, copyright, and other applicable statutory protection throughout the world on all developments which may be patentable or copyrightable.

## **IX. POLITICAL CONTRIBUTIONS AND ACTIVITIES**

The Company encourages participation of its employees in the political process. To protect itself from legal or appearance problems, the Company takes seriously its obligations under lobby laws, gift laws, and laws pertaining to political contributions. The Board of Directors must approve in advance any use of Company resources for political campaigns or fundraising.

## **X. GENERAL EMPLOYEE CONDUCT**

The purpose of this General Employee Conduct Policy is to provide guidelines regarding the Company's expectations of employees and setting forth a summary of the personnel policies, benefits, and procedures.

The Company has two Employee Handbooks - one for Hourly Employees and one for Salaried Employees. Upon hire, each new employee will be issued a Handbook and sign a Notice of Receipt of Handbook that becomes a part of his/her personnel file. The Company will issue periodic updates or amendments as needed to notify employees of changes in policy.

Reference is made to policy #X-1 - "Synalloy Corporation Salaried Employee Handbook" and X-2 - "Synalloy Corporation Hourly Employee Handbook."

The Company has agreements with certain collective bargaining units as set forth in the following documents that are incorporated by reference:

- Agreement between Bristol Metals, L.P. and United Steelworkers of America Local 4586
- Agreement between Bristol Piping Systems and The United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry of the US and Canada, Local 538
- Agreement between Teamsters Local Union No. 549 and Bristol Metals, L.P.

## **XI. FOLLOW THROUGH**

The Company's Code is intended to encompass all the Company's activities and emphasizes the importance of employees attaining the highest quality business conduct and solid business ethics.

Employees are required to report any conduct they believe in good faith to be an actual or apparent violation of the Code. The Company strongly encourages Employees to work with their managers in making such reports and, in addition, provides to employees the right to report such violations directly to the Corporate Secretary or the Chairman of the Audit Committee. Prompt reporting of violations is in the best interest of everyone. Reports by

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Employees will be handled as confidentially as possible. No employee will suffer retaliation by the Company because of a report made in good faith.

All managers are to maintain an "open door" policy with regard to Employee questions including those of business conduct and ethics. Employees are reminded to raise a question of moral standard or ethical behavior before it happens, rather than afterwards.

Reports or unethical or illegal activities will be investigated. A final determination will be reached, and appropriate corrective action

taken whenever cases of possible misconduct are reported.

Every Employee's cooperation is required in assuring that violations of this Code are called to the attention of those who should be informed. It must be clearly understood that adherence to these policies carries the highest priority.

### **Compliance and Discipline**

Though the Company is confident that it can count on every Employee to do his or her part, the Company would be remiss if it did not state categorically that deviations from its business conduct standards will not be tolerated. Disciplinary action will be taken against any individual violating these standards. Specifically, disciplinary action will be taken against any Employee who is found to have authorized, condoned, participated in or concealed actions that are in violations of these standards; against any manager who disregards or approves a violation, or who, through lack of diligence in supervision, fails to prevent or report violations; and against managers who retaliate, directly or indirectly, or encourage others to retaliate, against any employee who reports a potential violation of these standards. Because these standards are very important to the Company's corporate values, any deviation from these values may result in termination of employment.

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### **CERTIFICATE OF COMPLIANCE**

I, hereby certify that I have received, reviewed and understand the Synalloy Corporation Code of Conduct.

Signature:

Social Security #:

Date:

Complete the above data, sign and return within 7 days of receipt of document(s).

**Conflict of Interest Statement - Before completing this section, please read Section II-E of the Code titled "Conflicts of Interest."**

I have no conflicts of interest

Please list any potential conflicts of interest below.

Sign-off by manager (if an employee discloses a potential conflict of interest, a copy of this Certificate will be sent to the manager for his/her approval.)

Manager's Name:

## **Synalloy Corporation**

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

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

Synalloy Metals, Inc., formerly Bristol Metals, Inc., a Tennessee corporation

Manufacturers Soap and Chemicals Company, a Tennessee corporation

Organic-Pigments Corporation, a North Carolina corporation

Metchem, Inc., a Delaware corporation

## CERTIFICATIONS

I, Ronald H. Braam, certify that:

1. I have reviewed this annual report on Form 10-K of Synalloy Corporation;
  2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
  4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
    - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
  5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
    - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    - a. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.
- Date: March 27, 2006      /s/ Ronald H. Braam  
 Ronald H. Braam  
 Chief Executive Officer

Exhibit 31

## CERTIFICATIONS

I, Gregory M. Bowie, certify that:

1. I have reviewed this annual report on Form 10-K of Synalloy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 27, 2006      /s/ Gregory M. Bowie

Gregory M. Bowie

Chief Financial Officer

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

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

Date: March 27,  
2006

/s/ Ronald H. Braam

Ronald H. Braam

Chief Executive  
Officer

/s/ Gregory M. Bowie

Gregory M. Bowie

Chief Financial Officer

March 27, 2006

Securities and Exchange Commission

Filing Desk: Stop: 1-4

450 Fifth Street, NW

Washington, DC 20549

Re: File # 0-19687

CIK #: 0000095953

Form 10-K for Period Ended December 31, 2005

Dear Sir or Madam:

Attached is the filing of the Company's Form 10-K for the period ended December 31, 2005.

If you have any questions, please call me at (864) 596-1536.

Sincerely yours,

Cheryl C. Carter  
Corporate Secretary