

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from _____ to _____

COMMISSION FILE NUMBER 0-19687

Synalloy

Synalloy Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

57-0426694

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

4510 Cox Road, Suite 201, Richmond, Virginia

(Address of principal executive offices)

23060

(Zip Code)

(864) 585-3605

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated Filer Accelerated filer Non-accelerated filer (Do not check if smaller reporting company)
Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes No

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

The number of shares outstanding of the registrant's common stock as of November 3, 2017 was 8,728,498.

Synalloy Corporation

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PART I

Item 1. FINANCIAL STATEMENTS

Synalloy Corporation
Condensed Consolidated Balance Sheets
(Unaudited)

	Sep 30, 2017	Dec 31, 2016
Assets		
<i>Current assets</i>		
Cash and cash equivalents	\$ 15,410	\$ 62,873
Accounts receivable, less allowance for doubtful accounts of \$236,000 and \$82,000, respectively	30,312,586	18,028,946
Inventories, net	70,506,055	60,799,509
Prepaid expenses and other current assets	9,048,905	7,272,569
Indemnified contingencies - see Note 11	—	11,339,888
Total current assets	109,882,956	97,503,785
Property, plant and equipment, net of accumulated depreciation of \$49,135,440 and \$45,219,309 respectively	34,967,728	27,324,092
Goodwill	6,003,525	1,354,730
Intangible assets, net of accumulated amortization of \$9,885,902 and \$8,148,162, respectively	11,490,767	12,308,838
Deferred charges, net and other non-current assets	88,689	146,618
Total assets	\$ 162,433,665	\$ 138,638,063
Liabilities and Shareholders' Equity		
<i>Current liabilities</i>		
Accounts payable	\$ 24,769,264	\$ 16,684,508
Accrued expenses	9,779,911	16,087,434
Total current liabilities	34,549,175	32,771,942
Long-term debt	26,722,960	8,804,206
Deferred income taxes	1,576,515	1,609,492
Long-term deferred gain, sale-leaseback	6,016,918	6,267,623
Long-term portion of earn-out liability	3,119,856	—
Other long-term liabilities	756,806	592,245
<i>Shareholders' equity</i>		
Common stock, par value \$1 per share - authorized 24,000,000 shares; issued 10,300,000 shares	10,300,000	10,300,000
Capital in excess of par value	35,069,410	34,714,206
Retained earnings	58,261,200	57,936,533
	103,630,610	102,950,739
Less cost of common stock in treasury: 1,583,107 and 1,630,690 shares, respectively	13,939,175	14,358,184
Total shareholders' equity	89,691,435	88,592,555
<i>Commitments and contingencies - See Note 11</i>		
Total liabilities and shareholders' equity	\$ 162,433,665	\$ 138,638,063

Note: The condensed consolidated balance sheet at December 31, 2016 has been derived from the audited consolidated financial statements at that date.

See accompanying notes to condensed consolidated financial statements.

Synalloy Corporation
Condensed Consolidated Statements of Operations
(unaudited)

	Three Months Ended		Nine Months Ended	
	Sep 30, 2017	Sep 30, 2016	Sep 30, 2017	Sep 30, 2016
Net sales	\$ 54,595,924	\$ 34,297,231	\$ 148,310,548	\$ 105,515,911
Cost of sales	49,759,304	29,792,812	127,892,423	92,295,722
Gross profit	4,836,620	4,504,419	20,418,125	13,220,189
Selling, general and administrative expense	6,587,791	5,814,655	18,925,593	17,041,216
Acquisition related costs	37,402	1,034	782,397	76,091
(Gain) loss on sale-leaseback	(83,568)	2,455,347	(250,705)	2,455,347
Operating (loss) income	(1,705,005)	(3,766,617)	960,840	(6,352,465)
Other expense (income)				
Interest expense	279,598	272,987	715,131	822,426
Change in fair value of interest rate swaps	(8,497)	(115,328)	(33,000)	276,512
Earn-out adjustment	62,804	—	145,200	—
Other, net	(316,158)	—	(316,158)	—
(Loss) income from continuing operations before income taxes	(1,722,752)	(3,924,276)	449,667	(7,451,403)
(Benefit from) provision for income taxes	(516,000)	(1,316,000)	125,000	(1,893,000)
Net (loss) income from continuing operations	(1,206,752)	(2,608,276)	324,667	(5,558,403)
Net loss from discontinued operations, net of tax	—	—	—	(99,334)
Net (loss) income	\$ (1,206,752)	\$ (2,608,276)	\$ 324,667	\$ (5,657,737)
Other comprehensive loss, net of tax:				
Unrealized gains on available for sale securities, net of tax	—	—	366,346	—
Reclassification adjustment for gains included in net income, net of tax	(366,346)	—	(366,346)	—
Other comprehensive loss	(366,346)	—	—	—
Comprehensive (loss) income	\$ (1,573,098)	\$ (2,608,276)	\$ 324,667	\$ (5,657,737)
Net (loss) income per common share from continuing operations:				
Basic	\$ (0.14)	\$ (0.30)	\$ 0.04	\$ (0.64)
Diluted	\$ (0.14)	\$ (0.30)	\$ 0.04	\$ (0.64)
Net loss per common share from discontinued operations:				
Basic	\$ —	\$ —	\$ —	\$ (0.01)
Diluted	\$ —	\$ —	\$ —	\$ (0.01)
Net (loss) income per common share:				
Basic	\$ (0.14)	\$ (0.30)	\$ 0.04	\$ (0.65)
Diluted	\$ (0.14)	\$ (0.30)	\$ 0.04	\$ (0.65)
Weighted average shares outstanding:				
Basic	8,716,893	8,658,361	8,696,884	8,644,437
Dilutive effect from stock options and grants	—	—	17,030	—
Diluted	8,716,893	8,658,361	8,713,914	8,644,437

See accompanying notes to condensed consolidated financial statements.

Synalloy Corporation
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended	
	Sep 30, 2017	Sep 30, 2016
Operating activities		
Net income (loss)	\$ 324,667	\$ (5,657,737)
Loss from discontinued operations, net of tax	—	99,334
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation expense	3,916,131	3,322,115
Amortization expense	1,827,171	1,844,840
Amortization of debt issuance costs	40,829	58,681
Deferred income taxes	(32,978)	(1,124,386)
Gain on sale of available for sale securities	(310,043)	—
Provision for (reduction) of losses on accounts receivable	192,892	(51,531)
Provision for losses on inventories	500,338	460,726
Gain on sale of property, plant and equipment	2,279	2,294,917
Amortization of deferred gain on sale-leaseback	(250,705)	—
Straight line lease cost on sale-leaseback	304,898	—
Change in cash value of life insurance	—	1,502
Change in fair value of interest rate swaps	(33,000)	276,512
Issuance of treasury stock for director fees	287,475	330,000
Employee stock option and grant compensation	486,740	291,262
Changes in operating assets and liabilities:		
Accounts receivable	(12,476,532)	(2,130,955)
Inventories	(4,772,884)	4,198,000
Other assets and liabilities, net	10,179,835	(932,324)
Accounts payable	8,084,756	770,428
Accrued expenses	(7,900,999)	(142,533)
Accrued income taxes	(2,392,073)	(1,605,714)
Net cash (used in) provided by continuing operating activities	(2,021,203)	2,303,137
Net cash used in discontinued operating activities	—	(3,943,137)
Net cash used in operating activities	(2,021,203)	(1,640,000)
Investing activities		
Purchases of property, plant and equipment	(3,692,571)	(2,115,577)
Proceeds from sale of property, plant and equipment	1,048	22,215,362
Purchases of available for sale securities	(3,831,521)	—
Proceeds from sale of available for sale securities	4,141,564	—
Acquisition of the stainless pipe and tube assets of Marcegaglia USA, Inc.	(11,953,513)	—
Proceeds from life insurance policies	—	1,502,283
Net cash (used in) provided by investing activities	(15,334,993)	21,602,068
Financing activities		
Net borrowings from line of credit	17,918,754	6,566,157
Payments on long-term debt	—	(26,068,228)
Payments on capital lease obligation	(91,565)	(49,288)
Settlement of CRI interest rate swap	—	(290,427)
Payments on earn-out liability to MUSA sellers	(518,456)	—
Purchase of common stock	—	(253,889)
Net cash provided by (used in) financing activities	17,308,733	(20,095,675)
Decrease in cash and cash equivalents	(47,463)	(133,607)
Cash and cash equivalents at beginning of period	62,873	391,424
Cash and cash equivalents at end of period	\$ 15,410	\$ 257,817
Supplemental disclosure		
Cash paid during the year for:		
Interest	\$ 617,606	\$ 711,916
Income taxes	\$ 2,557,121	\$ 916,015

See accompanying notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

September 30, 2017

Unless indicated otherwise, the terms "Company," "we," "us," and "our" refer to Synalloy Corporation and its consolidated subsidiaries.

NOTE 1--BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included as required by Regulation S-X, Rule 10-01. Operating results for the three and nine-month periods ended September 30, 2017, are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2016.

NOTE 2--RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "*Revenue from Contracts with Customers (Topic 606)*", which changes the criteria for recognizing revenue. The standard requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard requires a five-step process for recognizing revenue including identifying the contract with the customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract and recognizing revenue when (or as) the entity satisfies a performance obligation. Two transition methods are available for implementing the requirements of ASU 2014-09: retrospectively for each prior reporting period presented or retrospectively with the cumulative effect of initial application recognized at the date of initial application. The FASB has issued several amendments to the standard, which are intended to promote a more consistent application of the principles outlined in the standard. The new standard is effective for the Company for annual periods in fiscal years beginning after December 15, 2017. The company will adopt the new guidance in the first quarter of 2018. The Company is currently assessing the impact the new standard will have on the consolidated financial statements as well as its business processes, internal controls, and accounting policies. As part of its assessment, the Company is reviewing its contract portfolio and identifying which attributes of its contracts are impacted by ASU 2014-09. Based on the preliminary assessment performed as of September 30, 2017, the company does not believe the standard will have a material impact on consolidated financial statements, other than for the disclosures required by the standard, as a result of the Company being a manufacturer that records revenue at a single point in time when control is transferred. The Company also has no significant long-term sales contracts, which would require revenue be recognized over a period of time in excess of one year. In addition, based on initial results of the preliminary assessment performed as of September 30, 2017, the company plans to apply the standard with the cumulative effect of initial application recognized at the date of initial application.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*," to increase the transparency and comparability of lease recognition and disclosure. The update establishes a right of use ("ROU") model which requires lessees to recognize lease contracts with a term greater than one year on the balance sheet as ROU assets and lease liabilities. Leases will be classified as either financing or operating which will determine expense classification and recognition. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and must be applied using the modified retrospective approach. Early adoption is permitted. While the Company expects ASU 2016-02 to add material ROU assets and lease liabilities to the consolidated balance sheets related to its current land and building operating leases, it is evaluating other effects that the new standard will have on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "*Improvements to Employee Share-Based Payment Accounting (Topic 718)*." The amendments in this updated guidance include changes to simplify the Codification for several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows and was effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. The Company implemented this standard on January 1, 2017 and it did not have a material effect on the Company's consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

September 30, 2017

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business" which provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for fiscal years beginning after December 15, 2017. The Company does not believe its implementation will have a material effect on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment," which requires an entity to no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019. The Company elected to early adopt the provisions of this ASU in the quarterly period ending March 31, 2017. The implementation of this ASU did not have a material effect on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting," which amends the scope of modification accounting for share-based payment arrangements, provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017. The Company does not believe its implementation will have a material effect on the Company's consolidated financial statements.

NOTE 3--INVENTORIES

Inventories are stated at the lower of cost or net realizable value. Cost is determined by either specific identification or weighted average methods. The components of inventories are as follows:

	Sep 30, 2017	Dec 31, 2016
Raw materials	\$ 36,226,019	\$ 31,973,073
Work-in-process	9,574,418	9,897,857
Finished goods	24,705,618	18,928,579
	<u>\$ 70,506,055</u>	<u>\$ 60,799,509</u>

NOTE 4--INTANGIBLE ASSETS AND DEFERRED CHARGES

Deferred charges and intangible assets totaled \$21,700,496 at September 30, 2017 and \$20,708,496 at December 31, 2016. Accumulated amortization of deferred charges and intangible assets totaled \$10,121,040 at September 30, 2017 and \$8,253,040 at December 31, 2016. Estimated amortization expense for the next five years is: remainder of 2017 - \$629,558; 2018 - \$2,344,404; 2019 - \$2,155,832; 2020 - \$1,997,565; 2021 - \$1,899,298; and thereafter - \$2,552,799.

NOTE 5--STOCK OPTIONS AND RESTRICTED STOCK

During the first nine months of 2017, no stock options were exercised by officers and employees of the Company. Stock compensation expense for the three and nine-month periods ended September 30, 2017 was \$156,502 and \$486,740, respectively, while stock compensation expense for the three and nine-month periods ended September 30, 2016 was \$102,004 and \$291,262, respectively.

**Notes to Condensed Consolidated Financial Statements
(Unaudited)**

September 30, 2017

On February 8, 2017, the Compensation & Long-Term Incentive Committee (the "Committee") of the Company's Board of Directors approved stock grants under the Company's 2015 Stock Awards Plan to certain management employees of the Company where 44,686 shares with a market price of \$12.30 per share were granted under the Plan. In connection with the stock awards amendment detailed in the following paragraph, these stock awards vest in 33 percent increments annually on a cumulative basis, beginning one year after the date of grant from shares held in treasury with the Company. In order for the awards to vest, the employee must be in the continuous employment of the Company since the date of the award. Any portion of an award that has not vested is forfeited upon termination of employment. The Company may terminate any portion of the award that has not vested upon an employee's failure to comply with all conditions of the award or the 2015 Stock Awards Plan. An employee is not entitled to any voting rights with respect to any shares not yet vested, and the shares are not transferable.

Effective May 1, 2017, the Company's Board of Directors approved the First Amendment to the 2015 Stock Awards Plan. The amendment grants the Committee the authority to establish and amend vesting schedules for stock awards made pursuant to the 2015 Stock Awards Plan. On May 9, 2017, the Committee approved the amendment of the vesting schedules for the May 5, 2016 and February 8, 2017 stock grants reducing the vesting period from five years to three years.

The diluted earnings per share calculations exclude the effect of potentially dilutive shares when the inclusion of those shares in the calculation would have an anti-dilutive effect. For the nine months ended September 30, 2017 and September 30, 2016 the Company had weighted average shares of common stock, in the form of stock grants and options, of 144,064 and 311,537, respectively, which were not included in the diluted earnings per share calculation as their effect was anti-dilutive.

NOTE 6--INCOME TAXES

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company is no longer subject to U.S. federal examinations for years before 2014 or state income tax examinations for years before 2012.

The effective tax rate was 30 percent and 28 percent for the three and nine-month periods ended September 30, 2017, respectively. The 2017 effective tax rate was lower than the statutory rate of 34 percent primarily due to state tax expense and other permanent differences, mainly the manufacturer's exemption. The effective tax rate was 34 percent and 25 percent for the three and nine-month periods ended September 30, 2016, respectively. The nine-month effective tax rate was lower than the 34 percent statutory rate primarily due to state tax expense and a one-time permanent difference relating to cash surrender proceeds on certain life insurance policies reducing the amount of tax benefit of the pre-tax loss for that period.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

September 30, 2017

NOTE 7--SEGMENT INFORMATION

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

	Three Months Ended		Nine Months Ended	
	Sep 30, 2017	Sep 30, 2016	Sep 30, 2017	Sep 30, 2016
Net sales				
Metals Segment	\$ 43,022,833	\$ 22,290,752	\$ 111,821,115	\$ 68,331,389
Specialty Chemicals Segment	11,573,091	12,006,479	36,489,433	37,184,522
	<u>\$ 54,595,924</u>	<u>\$ 34,297,231</u>	<u>\$ 148,310,548</u>	<u>\$ 105,515,911</u>
Operating (loss) income				
Metals Segment	\$ (1,323,801)	\$ (1,013,669)	\$ 2,479,963	\$ (3,434,725)
Gain (loss) on sale-leaseback	59,901	(2,226,037)	179,703	(2,226,037)
Total Metals segment	<u>(1,263,900)</u>	<u>(3,239,706)</u>	<u>2,659,666</u>	<u>(5,660,762)</u>
Specialty Chemicals Segment	1,126,994	1,417,116	3,725,030	3,949,453
Gain (loss) on sale-leaseback	23,667	(229,309)	71,002	(229,309)
Total Specialty Chemicals segment	<u>1,150,661</u>	<u>1,187,807</u>	<u>3,796,032</u>	<u>3,720,144</u>
Unallocated straight line lease cost	101,633	—	304,898	—
Unallocated corporate expenses	1,452,731	1,713,684	4,407,563	4,335,756
Acquisition related costs	37,402	1,034	782,397	76,091
Operating (loss) income	<u>(1,705,005)</u>	<u>(3,766,617)</u>	<u>960,840</u>	<u>(6,352,465)</u>
Interest expense	279,598	272,987	715,131	822,426
Change in fair value of interest rate swaps	(8,497)	(115,328)	(33,000)	276,512
Earn-out adjustment	62,804	—	145,200	—
Other income, net	(316,158)	—	(316,158)	—
(Loss) income from continuing operations				
before income taxes	<u>\$ (1,722,752)</u>	<u>\$ (3,924,276)</u>	<u>\$ 449,667</u>	<u>\$ (7,451,403)</u>
As of				
	Sep 30, 2017	Dec 31, 2016		
Identifiable assets				
Metals Segment	\$ 130,500,181	\$ 109,689,477		
Specialty Chemicals Segment	25,957,147	22,907,672		
Corporate	5,976,337	6,040,914		
	<u>\$ 162,433,665</u>	<u>\$ 138,638,063</u>		
Goodwill				
Metals Segment	\$ 4,648,795	\$ —		
Specialty Chemicals Segment	1,354,730	1,354,730		
	<u>\$ 6,003,525</u>	<u>\$ 1,354,730</u>		

Notes to Condensed Consolidated Financial Statements
(Unaudited)

September 30, 2017

NOTE 8--FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company makes estimates of fair value in accounting for certain transactions, in testing and measuring impairment and in providing disclosures of fair value in its condensed consolidated financial instruments. The Company determines the fair values of its financial instruments for disclosure purposes by maximizing the use of observable inputs and minimizing the use of unobservable inputs when measuring fair value. Fair value disclosures for assets and liabilities are grouped into three levels. The levels prioritize the inputs used to measure the fair value of the assets or liabilities. These levels are:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices that are observable for assets and liabilities, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are less active.

Level 3 - Unobservable inputs that are supported by little or no market activity for assets or liabilities and includes certain pricing models, discounted cash flow methodologies and similar techniques.

As of September 30, 2017 and December 31, 2016, the carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and borrowings under the Company's bank debt, which are based on variable interest rates, approximate their fair value.

During the third quarter of 2017, the Company sold all of its shares of Level 1 available for sales securities. Proceeds from the sale totaled \$4,141,564 which resulted in a realized gain of \$310,043 which is included in other income on the accompanying condensed consolidated statements of operations. As a result of the sale, unrealized gains, net of tax, of \$366,346 were reclassified out of accumulated other comprehensive income ("AOCI") with the realized gain on sale included in earnings which reduced the balance of AOCI to zero at September 30, 2017. The Company used the average cost method to determine the realized gain or loss for each transaction.

Estimates of fair value using levels 2 and 3 may require judgments as to the timing and amount of cash flows, discount rates, and other factors requiring significant judgment, and the outcomes may vary widely depending on the selection of these assumptions. The Company's most significant fair value estimates as of September 30, 2017 and December 31, 2016 relate to the purchase price allocation relating to the acquisition of the stainless steel operations of Marcegaglia USA, Inc. ("MUSA"), contingent consideration liability, testing goodwill for impairment, the interest rate swap, the nickel forward option contracts and disclosures of the fair values of financial instruments.

The Company has one interest rate swap contract, which is classified as a Level 2 financial instrument as it is not actively traded and is valued using pricing models that use observable market inputs. The fair value of the contract was an asset of \$64,285 and \$31,285 at September 30, 2017 and December 31, 2016, respectively. The interest rate swap was priced using discounted cash flow techniques which are corroborated by using non-binding market prices. Changes in its fair value were recorded to other income (expense) with corresponding offsetting entries to long-term assets or liabilities, as appropriate. Significant inputs to the discounted cash flow model include projected future cash flows based on projected one-month LIBOR and the average margin for companies with similar credit ratings and similar maturities. The fair value of this interest rate swap contract approximates its carrying value.

To manage the impact on earnings of fluctuating nickel prices, the Company enters into six-month forward option contracts, which are classified as Level 2. At September 30, 2017, the Company had contracts in place with notional quantities totaling approximately 2,100,000 pounds with strike prices ranging from \$3.49 to \$4.57 per pound. At December 31, 2016, the Company had contracts in place with notional quantities totaling approximately 340,000 pounds with strike prices ranging from \$3.92 to \$5.30 per pound. The fair value of the option contracts were an asset of \$172,030 and \$87,283 at September 30, 2017 and December 31, 2016, respectively. The fair value of the contracts was priced using discounted cash flows techniques based on forward curves and volatility levels by asset class determined on the basis of observable market inputs, when available. Changes in their fair value were recorded to cost of goods sold with corresponding offsetting entries to other current assets. The fair value of the forward option contracts approximates their carrying value.

The fair value of contingent consideration liabilities ("earn-out") resulting from the MUSA acquisition discussed in Note 9 is classified as Level 3. The fair value was estimated by applying the Monte Carlo Simulation approach using management's projection

Notes to Condensed Consolidated Financial Statements
(Unaudited)

September 30, 2017

of pounds shipped and price per unit. Each quarter-end the Company re-evaluates its assumptions and adjusts to the estimated present value of the expected payments to be made.

The following table presents a summary of changes in fair value of the Company's Level 3 liability during the period:

	Level 3 Inputs
Balance at December 31, 2016	\$ —
Fair value of the earn-out liability from the MUSA acquisition	4,663,783
Earn-out payments to MUSA sellers	(518,456)
Change in fair value during the period	145,200
Balance at September 30, 2017	\$ 4,290,527

There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 in the nine-month period ended September 30, 2017 or year ended December 31, 2016. During the first nine months of 2017, there have been no changes in the fair value methodologies used by the Company.

NOTE 9--ACQUISITIONS*Acquisition of the Stainless Pipe and Tube Assets of Marcegaglia USA, Inc.*

On December 9, 2016, the Company's subsidiary Bristol Metals, LLC ("BRISMET"), entered into a definitive agreement to acquire the stainless steel pipe and tube assets of MUSA located in Munhall, PA (the "Bristol Metals-Munhall") to enhance its on-going business with additional capacity and technological advantages. The transaction closed on February 28, 2017 and was funded through an increase to the Company's current credit facility (See Note 10). The purchase price for the transaction, which excludes real estate and certain other assets, totaled \$14,953,513. The assets purchased from MUSA include inventory, production and maintenance supplies and equipment. In accordance with the agreement, on December 9, 2016, BRISMET entered into an escrow agreement and deposited \$3,000,000 into the escrow fund. The deposit was remitted to MUSA at the close of the transaction and was reflected as a credit against the purchase price.

The transaction was accounted for using the acquisition method of accounting for business combinations. Under this method, the total consideration transferred to consummate the acquisition is allocated to the identifiable tangible and intangible assets acquired and liabilities assumed based on their respective fair values as of the closing date of the acquisition. The acquisition method of accounting requires extensive use of estimates and judgments to allocate the consideration transferred to the identifiable tangible and intangible assets, if any, acquired and liabilities assumed. Since the acquisition closed on February 28, 2017, the allocation of the consideration transferred in the consolidated financial statements is preliminary and will be adjusted upon completion of the final valuation of the assets acquired and liabilities assumed. Such adjustments could be significant. The final valuation is expected to be completed as soon as practicable but no later than twelve months after the closing date of the acquisition ("measurement period").

MUSA will receive quarterly earn-out payments for a period of four years following closing. Aggregate earn-out payments will be at least \$3,000,000, with no maximum. Actual payouts will equate to three percent of BRISMET's incremental revenue, if any, from the amount of small diameter stainless steel pipe and tube (outside diameter of ten inches or less) sold. At February 28, 2017, the acquisition date, the Company forecasted earn out payments to be \$4,063,204, which was discounted to a present value of \$3,604,330 using a discount rate applicable to future revenue offive percent. In determining the appropriate discount rate to apply to the contingent payments, the risk associated with the functional form of the earn-out, the credit risk associated with the payment of the earn-out and the methodology to quantify the earn-out were all considered. The fair value of the contingent consideration was estimated by applying the Monte Carlo Simulation approach using management's estimates of pounds shipped.

In the second quarter of 2017, Management adjusted the selling price used in the earn-out calculation associated with the MUSA Stainless Acquisition. Since this adjustment was determined within the measurement period, the beginning earn-out liability and goodwill were increased by \$1,059,453. Goodwill related to Bristol Metals-Munhall increased from \$3,589,342 to \$4,648,795 and the fair value on contingent consideration was increased from \$3,604,330 to \$4,663,783.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

September 30, 2017

The total purchase price was allocated to BRISMET's Munhall facility's net tangible and identifiable intangible assets based on their estimated fair values as of February 28, 2017. The finalization of these allocations is subject to change based on the results of the final review and acceptance of the independent appraiser's valuation report, which is expected to be completed within the measurement period. The fair value assigned to the customer list intangible will be amortized on an accelerated basis over 15 years. The excess of the consideration transferred over the fair value of the net tangible and identifiable intangible assets and liabilities is reflected as goodwill. Goodwill consists of manufacturing cost synergies expected from combining MUSA's laser mill capabilities acquired as part of Bristol Metals-Munhall with BRISMET's current operations. All of the goodwill recognized was assigned to the Company's Metals Segment and is expected to be deductible for income tax purposes.

The following table shows the initial estimate of value as reported at March 31, 2017 and revisions made during the second quarter of 2017:

	Initial estimate	Revisions	Revised estimate
Inventories	\$ 5,434,000	\$ —	\$ 5,434,000
Other current assets - production and maintenance supplies	1,548,701	—	1,548,701
Equipment	7,576,733	—	7,576,733
Customer list intangible	992,000	—	992,000
Goodwill	3,589,342	1,059,453	4,648,795
Contingent consideration	(3,604,330)	(1,059,453)	(4,663,783)
Other liabilities assumed	(582,933)	—	(582,933)
	<u>\$ 14,953,513</u>	<u>\$ —</u>	<u>\$ 14,953,513</u>

Bristol Metals-Munhall's results of operations since acquisition are reflected in the Company's consolidated statements of operations. The amount of Bristol Metals-Munhall's revenues and pre-tax loss included in the consolidated statements of operations for the three months ended September 30, 2017 was \$8,675,104 and \$621,881, respectively. For the nine-month period ended September 30, 2017, Bristol Metals-Munhall's revenues and pre-tax loss were \$17,087,030 and \$259,801, respectively. The following unaudited pro-forma information is provided to present a summary of the combined results of the Company's operations with Bristol Metals-Munhall as if the acquisition had occurred on January 1, 2016. The unaudited pro-forma financial information is for information purposes only and is not necessarily indicative of what the results would have been had the acquisition been completed on the date indicated above. The three months ended September 30, 2017 are not presented as those results already include Bristol Metal-Munhall's results.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

September 30, 2017

Pro-Forma (Unaudited)

	Three Months Ended Sep 30, 2016	
Pro-forma revenues	\$	40,172,000
Pro-forma net loss		(3,573,000)
Loss per share:		
Basic	\$	(0.41)
Diluted	\$	(0.41)

	Nine Months Ended			
	Sep 30, 2017		Sep 30, 2016	
Pro-forma revenues	\$	153,235,000	\$	122,117,000
Pro-forma net income (loss)		368,000		(7,347,000)
Earnings (loss) per share:				
Basic	\$	0.04	\$	(0.85)
Diluted	\$	0.04	\$	(0.85)

The pro-forma calculation excludes non-recurring acquisition costs of \$698,587 which were incurred by the Company during 2017. The stainless steel operations of MUSA's historical financial results were adjusted for both years to eliminate interest expense charged by the prior owner. Pro-forma net income was reduced for both years for the amount of amortization on MUSA's customer list intangible and an estimated amount of interest expense associated with the additional line of credit borrowings.

NOTE 10--LONG-TERM DEBT

Pursuant to the Credit Agreement in place with the Company's bank, the Company is subject to certain covenants including maintaining a minimum fixed charge coverage ratio and a limitation on the Company's maximum amount of capital expenditures per year, which is in line with currently projected needs. At September 30, 2017, the Company was in compliance with all debt covenants.

NOTE 11--CONTINGENCIES

The Company is from time-to-time subject to various claims, possible legal actions for product liability and other damages, and other matters arising out of the normal conduct of the Company's business.

In January 2014, a Metals Segment customer filed suit against Palmer and Synalloy and another unrelated defendant in Texas state court alleging breach of warranty, among other claims. The plaintiff's claim for damages did not state a dollar amount. This matter arose out of products manufactured and sold by Palmer prior to Synalloy's acquisition of all of Palmer's outstanding stock in August 2012. In August and September 2016, the parties to the lawsuit tried the matter in a bench trial in the District Court of Harris County, Texas, 333rd Judicial District (the "Court"). On December 31, 2016 (but made available to the parties to the lawsuit on January 3, 2017), the Court entered final judgment in favor of the Plaintiff and Synalloy and against Palmer. The Court ordered Palmer to pay the plaintiff approximately \$8,600,000 in damages, plus pre- and post-judgment interest, and approximately \$1,040,000 in attorneys' fees. The Court ruled Synalloy had no liability to the plaintiff. At December 31, 2016, the Company recorded \$11,000,000 in accrued expenses and current assets to reflect the legal liability and corresponding indemnified receivable due from the former shareholders of Palmer. Palmer filed a motion for a new trial with the Court at the end of January 2017, which the court denied. On June 30, 2017, the plaintiff entered into settlement agreements with Palmer/Synalloy and the former shareholders of Palmer, respectively, pursuant to which, the parties agreed to settle and release the judgment in full. On August 31, 2017, the former shareholders of Palmer satisfied the financial conditions specified in their settlement agreement with the plaintiff, and the plaintiff filed a Release of Final Judgment with the Court. Because the former shareholders of Palmer were contractually bound, pursuant to the Stock Purchase Agreement by and among Synalloy and the former shareholders dated August

**Notes to Condensed Consolidated Financial Statements
(Unaudited)**

September 30, 2017

10, 2012, to hold harmless and indemnify Synalloy and Palmer from any and all costs and damages, including the judgment described above and all associated attorneys' fees, arising out of this matter, neither Synalloy nor Palmer contributed to the payments required by the settlement agreements. The legal liability and corresponding indemnified receivable due from the former shareholders of Palmer were reduced to zero at August 31, 2017.

On March 11, 2016, in a suit filed by a Metals Segment customer against Synalloy Fabrication, LLC (discontinued operation), the United States District Court of Maryland (Baltimore Division) granted summary judgment regarding liability in favor of the plaintiff by ruling that an enforceable contract existed between the parties and the Company breached the agreement. As a result of this ruling, the remaining issue in the case was the amount of the plaintiff's damages. Consequently, the Company increased the facility closing liability to a level of \$3,000,000 for the estimated costs associated with this claim for the year ended December 31, 2015. In June 2016, the matter was settled for damages totaling \$3,100,000. As a result, the Company increased the facility closing liability and made a payment of \$2,500,000 in June 2016. The remaining balance of \$600,000 was paid in September 2016. The amount required to adjust the facility closing reserve as a result of the settlement is included in discontinued operations on the accompanying consolidated statements of operations.

Other than the matters discussed in this note, management is not currently aware of any other asserted or unasserted matters which could have a material effect on the financial condition or results of operations of the Company.

NOTE 12-- SALE LEASEBACK TRANSACTION

Rent expense for the sale-leaseback transaction entered into on September 30, 2016 totaled \$574,633 and \$1,723,898 for the three and nine-month periods ended September 30, 2017, respectively. Rent expense began in October 2016 and therefore no rent expense was recognized for the three and nine-month periods ended September 30, 2016. The amount of future minimum lease payments under the sale-leaseback transaction are as follows: remainder of 2017 - \$482,460; 2018 - \$1,939,489; 2019 - \$1,978,279; 2020 - \$2,017,845; 2021 - \$2,058,201; and thereafter - \$35,602,349. In accordance with the agreement, the amount of future lease payments as of September 30, 2017 includes a rent escalator equal to two percent.

Losses on the sale-leaseback transaction of \$2,455,347 were recognized and reflected in the accompanying condensed statement of operations for the three and nine-month periods ended September 30, 2016. In addition, transaction closing costs of \$102,000 were included in "Selling, general, and administrative expense" on the condensed statement of operations for the third quarter and nine months ended September 30, 2016. The deferred gain recognized on the sale-leaseback transaction is amortized on the straight-line method over the life of the lease of 20 years. Deferred gain amortization began in October 2016 and totaled \$83,568 and \$250,705 for the three and nine-month periods ended September 30, 2017. The current portion of the deferred gain of \$334,273 is included in "Accrued expenses" and the long-term portion of the deferred gain of \$6,016,918 is included in "Long-term portion of deferred gain on sale-leaseback" in the accompanying condensed consolidated balance sheets.

NOTE 13--SUBSEQUENT EVENTS

On October 4, 2017, the Company declared a \$0.13 cash dividend. The dividend totaling approximately \$1,100,000 was paid on November 6, 2017.

On October 30, 2017, the Company amended its Credit Agreement with its bank to increase the limit of the asset-based revolving line of credit by \$20,000,000 to a maximum of \$65,000,000 and extended the maturity date to October 30, 2020. None of the other provisions of the Credit Agreement were changed as a result of this amendment.

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

The following is management's discussion of certain significant factors that affected the Company during the three and nine-month periods ended September 30, 2017.

Consolidated net sales for the third quarter of 2017 were \$54,596,000, an increase of \$20,299,000 or 59 percent when compared to net sales for the third quarter of 2016 of \$34,297,000. Net sales for the first nine months of 2017 were \$148,311,000, an increase of \$42,795,000 or 41 percent when compared to the same period of the prior year. For the third quarter of 2017, the Company recorded net loss from continuing operations of \$1,207,000, or \$0.14 per share, compared to a net loss from continuing operations of \$2,608,000 or \$0.30 loss per share for the same quarter in the prior year. For the first nine months of 2017, net income from

continuing operations was \$325,000, or \$0.04 per share. This compares to a net loss from continuing operations of \$5,658,000, or \$0.64 loss per share for the first nine months of 2016.

The third quarter and first nine-month periods of 2017 include financial results in the Company's Metals Segment related to the acquisition of Bristol Metals-Munhall, which closed on February 28, 2017, including net sales of \$8,675,000 and \$17,087,000, respectively, operating losses of \$622,000 and \$260,000, respectively, and pretax acquisition transaction related charges totaling \$186,000 and \$1,188,000 respectively.

Metals Segment

Metals Segment net sales for the third quarter of 2017 totaled \$43,023,000, an increase of \$20,732,000 or 93 percent from the third quarter of 2016. Excluding Bristol Metals-Munhall, third quarter net sales were up 54 percent over the same period last year. Sales for the first nine months of 2017 were \$111,821,000, an increase of \$43,490,000 or 64 percent from 2016. Excluding Bristol Metals-Munhall, year to date net sales were up 39 percent. Each product line in the Metals Segment showed positive sales growth, including sequential quarterly gains, and gains against the prior year's quarter and on a year to date basis. Sales of seamless carbon pipe were up 84 percent over last year's third quarter and up 74 percent year to date. Sales were affected during the third quarter and first nine months of 2017 due to third quarter shipments and order activity across the businesses in the Metals Segment showing improvement over the first and second quarters and are summarized as follows:

	Sales Increase (decrease) from prior year period			Units shipped
	\$	%	Average selling price	
Third quarter				
Storage tank and vessel	\$ 3,116,000	68.7%	31.0%	37.7%
Seamless carbon steel pipe and tube	3,049,000	84.2%	13.8%	70.4%
Stainless steel pipe ⁽¹⁾	14,567,000	103.0%	(27.4)%	130.4%
Total third quarter change	<u>\$ 20,732,000</u>			
(1) Excluding Bristol Metals - Munhall	5,892,000	41.7%	(4.4)%	46.1%
First nine months				
Storage tank and vessel	\$ 5,770,000	40.6%	27.9%	12.7%
Seamless carbon steel pipe and tube	8,011,000	74.4%	4.5%	69.9%
Stainless steel pipe ⁽²⁾	29,709,000	68.5%	(6.2)%	74.7%
Total first nine months change	<u>\$ 43,490,000</u>			
(2) Excluding Bristol Metals - Munhall	12,622,000	29.1%	5.6%	23.5%

The Metals Segment's operating loss from continuing operations improved \$1,976,000 to a loss of \$1,264,000 for the third quarter of 2017 compared to a loss of \$3,240,000 for the third quarter of 2016. For the first nine months of 2017, operating income from continuing operations for the Metals Segment increased \$8,321,000 to an operating profit of \$2,660,000 compared to a loss of \$5,661,000 for the same period of 2016. Current year operating results were affected by the following factors:

- a) The addition of Bristol Metals-Munhall operations as noted above.
- b) Nickel prices and resulting surcharges for 304 and 316 alloys experienced a sharp decline in the third quarter when compared to the first half of 2017. Surcharges for both alloys declined by \$.13 per pound in the third quarter, generating Metals Segment inventory price changes losses of \$1,978,000, up from the prior year's inventory price changes losses of \$1,255,000. The current quarter's inventory price changes losses more than offset the first six months' inventory price changes gains of \$719,000, resulting in a year to date inventory price changes loss totaling \$1,259,000.
- c) Margins in the stainless steel business continued to be negatively impacted during 2017. Special alloy sales were at historically low levels due to a lower incidence of project work in the downstream energy markets. While special alloy shipments as a percentage of total sales at the Bristol facility improved marginally, the decline in shipments of larger diameter pipe (14 inches and up) offset any improvement in alloy mix.

- d) Operating income from both seamless carbon pipe and tube and storage tanks and vessels continued to show solid improvement over the prior year.
- e) A \$2,229,000 charge in the third quarter 2016 associated with the book loss on three Metal Segment properties sold as part of the sale-leaseback transaction closed in 2016 with no comparable loss recognized in 2017.

Specialty Chemicals Segment

Net sales for the Specialty Chemicals Segment in the third quarter of 2017 were \$11,573,000, representing a \$433,000 or four percent decrease from the same quarter of 2016. Net sales for the first nine months of 2017 were \$36,489,000, down \$696,000 or two percent from 2016 results. The third quarter sales decrease was comprised of a two percent decrease in pounds sold and a two percent decrease in average selling price when compared to the same period of the prior year. For the first nine months, pounds sold decreased four percent and average selling price increased two percent. Net sales were negatively impacted during the third quarter and first nine months of 2017 by:

- a) The loss of a single customer in the second half of 2016 that reduced sales in the first half of 2017 by \$2,100,000. There was no impact from this customer loss in the third quarter of this year.
- b) The ramp up of our new fire retardant customer at CRI Tolling has not gone as quickly as we had earlier projected. Shipments did commence in the second half of the third quarter and will continue to build into the fourth quarter of this year and the first quarter of 2018. Our agreement calls for an annual volume of 3 million pounds, the run rate, which we now expect to achieve in the first quarter of next year.
- c) We experienced some delays in receipt of raw materials coming out of the Houston area following Hurricane Harvey.

Operating income for the Specialty Chemicals Segment for the third quarter of 2017 decreased \$37,000 from the third quarter of 2016 to \$1,151,000. Operating income for the Specialty Chemicals Segment for the first nine months of 2017 amounted to \$3,796,000, a \$76,000 or two percent increase from the same period for 2016. Operating income in the third quarter and year to date was negatively impacted by an increase to the allowance for doubtful accounts of \$227,000 for one customer that became financially unstable during the quarter combined with higher legal fees of \$81,000. The decrease in operating income was partially offset by a \$229,000 charge in the third quarter 2016 associated with the book loss on two Specialty Chemicals Segment properties sold as part of the sale-leaseback transaction closed in 2016 with no comparable loss recognized in 2017.

Other Items

Consolidated selling, general and administrative expenses increased 13 percent to \$6,588,000, or 12.1 percent of sales, from \$5,815,000, 17.0 percent of sales, for the third quarter of 2017 compared to the third quarter of 2016. For the first nine months of 2017, consolidated selling, general and administrative expenses were \$18,926,000, or 12.8 percent of sales, an increase of eleven percent from \$17,041,000, or 16.2 percent of sales, for the first nine months of 2016. Approximately \$411,000 and \$783,000 of the increases arose from including Bristol Metals-Munhall's selling, general and administrative expenses in the third quarter and first nine months of 2017, respectively, with no comparable costs for 2016. The remainder of the change for both periods resulted from higher incentive based bonuses (up \$233,000 for the quarter and \$1,008,000 for the first nine months), increased sales commissions and wages (up \$193,000 for the quarter and \$337,000 for the first nine months) and an increase to the allowance for doubtful accounts (up \$256,000 for the quarter and \$224,000 for the first nine months) partially offset by lower professional fees (down \$101,000 for the quarter and \$220,000 for the first nine months), shelf registration costs (down \$5,000 for the quarter and \$145,000 for the first nine months) and lower travel expenses (down \$30,000 for the quarter and \$125,000 for the first nine months).

Acquisition costs for the third quarter of 2017 of \$186,000 (mainly in the Metals Segment cost of sales) and \$1,188,000 for the first nine months of 2017 (\$782,000 in unallocated SG&A and \$406,000 in Metals Segment cost of sales), resulted from costs associated with the Bristol Metals-Munhall acquisition.

Interest expense was \$279,000 and \$273,000 for the third quarter of 2017 and 2016, respectively. For the first nine months, interest expense decreased to \$715,000 for 2017 from \$822,000 for 2016.

Due to a higher projected sales of small diameter stainless-steel pipe and tube (outside diameter of ten inches or less) for the remainder of the measurement period, the earn-out liability resulting from the acquisition of Bristol Metals-Munhall was increased by \$63,000 and \$145,000 for the third quarter and first nine months of 2017.

The Company purchased 225,000 shares of a potential acquisition target for \$3,832,000 during the second quarter of 2017. During the third quarter of 2017, acquisition discussions were stopped and the Company sold all of their holdings, realizing a \$310,000 gain on the investment. As a result of the sale, unrealized gains, net of tax, of \$366,000 were reclassified out of accumulated other comprehensive income ("AOCI") with the realized gain on sale included in other income which reduced the balance of AOCI to zero at September 30, 2017. The Company used the average cost method to determine the realized gain or loss for each transaction.

The effective tax rate was 30 percent and 28 percent for the three-month and nine-month periods ended September 30, 2017, respectively. The 2017 effective tax rate was lower than the statutory rate of 34 percent primarily due to state tax expense and other permanent differences, mainly the manufacturer's exemption. The effective tax rate was 34 percent and 25 percent for the three-month and nine-month periods ended September 30, 2016, respectively. The nine-month 2016 effective tax rate was lower than the 34 percent statutory rate primarily due to state tax expense and a one-time permanent difference reducing the amount of tax benefit of the pre-tax loss for that period.

The Company's cash balance decreased \$48,000 to \$15,000 as of September 30, 2017 compared to \$63,000 at December 31, 2016. Fluctuations during the period were comprised of the following:

- a) On February 28, 2017, the Company completed the acquisition of Bristol Metals-Munhall for \$11,954,000. This excludes a \$3,000,000 deposit made in the prior year;
- b) Net accounts receivable increased \$12,284,000 at September 30, 2017 when compared to the prior year end, which resulted from a 59 percent increase in sales for the last two months of the third quarter 2017 compared to the last two months of the fourth quarter 2016. Also, days sales outstanding, calculated using a three-month average basis, decreased by 2 days to 49 days outstanding at the end of the third quarter 2017 from 51 days outstanding at the end of 2016;
- c) Net inventories, excluding the \$5,434,000 of inventory obtained in the Bristol Metals-Munhall acquisition, increased \$4,272,000 at September 30, 2017 as compared to year-end 2016. The increase resulted from building Bristol Metals-Munhall inventory from acquisition levels (up \$8,110,000), increased inventory for storage tanks to support higher sales activity (up \$2,899,000) along with higher Specialty Chemicals inventory (up \$2,714,000) due to raw material inventory required for the fire retardant product line along with raw material price increases. These increases were partially offset by lower heavy wall pipe and tube inventory (down \$4,643,000) resulting from higher sales levels and lower stainless steel pipe inventory (down \$4,808,000) resulting from purchases for a large sales order being made during the fourth quarter of 2016 that was shipped early 2017 combined with lower nickel surcharges in 2017. Inventory turns increased from 1.90 turns at December 31, 2016, calculated on a three-month average basis, to 2.79 turns at September 30, 2017;
- d) Accounts payable increased \$8,084,000 as of September 30, 2017 from the prior year-end. The significant portion of the increase was for Bristol Metals-Munhall (up \$6,716,000) as inventory is being purchased to support sales projections. Payable days outstanding remained at approximately 60 days at the end of the third quarter of 2017 and at December 31, 2016; and
- e) Capital expenditures for the first nine months of 2017 were \$3,693,000.

The Company drew \$17,919,000 against its line of credit during the first nine months of 2017 and had \$26,723,000 of borrowings outstanding as of September 30, 2017. Covenants under the Credit Agreement include maintaining a minimum fixed charge coverage ratio and a limitation on the Company's maximum amount of capital expenditures per year, which is in line with currently projected needs. The Company was in compliance with all covenants as of September 30, 2017.

At December 31, 2016, the Company recorded \$11,000,000 in accrued expenses and current assets to reflect the legal liability and corresponding indemnified receivable due from the former shareholders of Palmer. On June 30, 2017, the plaintiff entered into settlement agreements with Palmer/Synalloy and the former shareholders of Palmer, respectively. On August 31, 2017, the former shareholders of Palmer satisfied the financial conditions specified in their settlement agreement with the plaintiff, and the plaintiff filed a Release of Final Judgment with the Court. Because of indemnification terms included in the Stock Purchase Agreement between Synalloy and the former owners of Palmer, neither Synalloy or Palmer contributed to the payments required by the settlement agreements. As a result of the filed Release of Final Judgment the legal liability and corresponding indemnified receivable due from the former shareholders of Palmer were reduced to zero at August 31, 2017.

Outlook

The Metals Segment should benefit from higher nickel and WTI prices, improving order activity, and solid backlog. The fire retardant business along with several smaller product additions should provide incremental gains for the Specialty Chemicals Segment over the next several quarters. As previously reported, the Board of Directors has declared a \$.13 per share dividend.

which will be paid on November 6, 2017. We have started our planning activities for 2018 and will provide some guidance later this year. We remain optimistic that our end markets continue to improve and that the Company is well positioned for growth in 2018.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This quarterly report includes and incorporates by reference "forward-looking statements" within the meaning of the federal securities laws. All statements that are not historical facts are "forward-looking statements." The words "estimate," "project," "intend," "expect," "believe," "should," "anticipate," "hope," "optimistic," "plan," "outlook," "should," "could," "may" 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; employee relations; ability to maintain workforce by hiring trained employees; labor efficiencies; customer delays or difficulties in the production of products; new fracking regulations; a prolonged decrease in oil and nickel prices; unforeseen delays in completing the integrations of acquisitions; risks associated with mergers, acquisitions, dispositions and other expansion activities; financial stability of our customers; 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; ability to weather an economic downturn; loss of consumer or investor confidence and other risks detailed from time-to-time in the Company's Securities and Exchange Commission filings. The Company assumes no obligation to update the information included in this report.

Item 3. Quantitative and Qualitative Disclosures about Market Risks

Information about the Company's exposure to market risk was disclosed in its Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the Securities and Exchange Commission on March 14, 2017. There have been no material quantitative or qualitative changes in market risk exposure since the date of that filing.

Item 4. 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, Chief Financial Officer and Chief Accounting Officer concluded that that such controls and procedures, as of the end of the period covered by this quarterly report, were effective.

Changes in Internal Control over Financial Reporting

The Company's management, including the Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, identified no change in the Company's internal control over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's control over financial reporting. Management has excluded the Munhall facility's operations (acquired in the MUSA Stainless acquisition) from its assessment of internal control over financial reporting as of September 30, 2017 because this material acquisition closed in the first quarter of 2017. Total assets and total revenue associated with the Munhall facility represent approximately 21 percent, or \$33.5 million and twelve percent, or \$17.1 million, respectively, of the related consolidated financial statement amounts of the Metals Segment as of, and for the quarter ended, September 30, 2017.

PART II

Item 1. Legal Proceedings

It is not unusual for us and our subsidiaries to be involved in various unresolved legal actions, administrative proceedings and claims in the ordinary course of business involving, among other things, product liability, commercial, employment, workers' compensation, and environmental matters. We establish reserves in a manner that is consistent with accounting principles generally accepted in the United States for costs associated with such matters when a liability is probable and those costs are capable of being reasonably estimated. We cannot predict with any certainty the outcome of these unresolved legal actions or the range of possible loss or recovery. Based on current information, however, we believe that the eventual outcome of these unresolved legal actions, either individually or in the aggregate, will not have a material adverse effect on our financial position, results of operations or cash flows. There were no material changes in our Legal Proceedings, as discussed in Part I, Item 3 in the Company's Form 10-K for the period ending December 31, 2016, other than those discussed in Note 11 in Part I, Item 1 of this quarterly report.

Item 1A. Risk Factors

There were no material changes in our assessment of risk factors as discussed in Part I, Item 1A in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Period	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
Jan 1, 2017 - Mar 31, 2017	—	\$ —	—	870,100
Apr 1, 2017 - June 30, 2017	—	\$ —	—	870,100
Jul 1, 2017 - Aug 31, 2017	—	\$ —	—	870,100
Total	—	—	—	—

The Stock Repurchase Plan was approved by the Company's Board of Directors on August 31, 2015 authorizing the Company's Chief Executive Officer or the Chief Financial Officer to repurchase shares of the Company's stock on the open market, provided however, that the number of shares of common stock repurchased pursuant to the resolutions adopted by the Board do not exceed 1,000,000 shares and no shares shall be repurchased at a price in excess of \$10.99 per share or during an insider trading "closed window" period. There is no guarantee on the exact number of shares that will be purchased by the Company and the Company may discontinue purchases at any time that management determines additional purchases are not warranted. The Stock Repurchase Plan will expire on August 31, 2017.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
10.1	Third Amended and Restated Loan agreement, dated as of October 30, 2017, between Registrant and Branch Banking and Trust ("BB&T")
31.1	Rule 13a-14(a)/15d-14(a) Certifications of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer
31.3	Rule 13a-14(a)/15d-14(a) Certification of the Chief Accounting Officer
32	Certifications Pursuant to 18 U.S.C. Section 1350
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase

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

SIGNATURES

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

SYNALLOY CORPORATION

(Registrant)

Date: November 7, 2017

By: /s/ Craig C. Bram
Craig C. Bram
President and Chief Executive Officer
(principal executive officer)

Date: November 7, 2017

By: /s/ Dennis M. Loughran
Dennis M. Loughran
Senior Vice President and Chief Financial Officer
(principal financial officer)

Date: November 7, 2017

By: /s/ Richard D. Sieradzki
Richard D. Sieradzki
Chief Accounting Officer
(principal accounting officer)

BB&T
THIRD AMENDED AND RESTATED LOAN AGREEMENT

9520406872

BB&T Account Number

This Third Amended and Restated Loan Agreement (the “*Agreement*”) is made this 30th day of October, 2017 by and between **BRANCH BANKING AND TRUST COMPANY**, a North Carolina banking corporation (“*Bank*”), and **Synalloy Corporation**, a Delaware corporation, **Synalloy Fabrication, LLC**, a South Carolina limited liability company, **Synalloy Metals, Inc.**, a Tennessee corporation, **Bristol Metals, LLC**, a Tennessee limited liability company, **Manufacturers Soap & Chemical Company**, a Tennessee corporation, **Manufacturers Chemicals, LLC**, a Tennessee limited liability company, **Palmer of Texas Tanks, Inc.**, a Texas corporation, **CRI Tolling, LLC**, a South Carolina limited liability company, and **Specialty Pipe & Tube, Inc.**, a Delaware corporation (sometimes individually a “*Borrower*” and collectively, the “*Borrowers*”).

This Agreement is entered into for purposes of amending and restating, in full, the provisions of the Second Amended and Restated Loan Agreement dated August 31, 2016 (the “*Second Amended and Restated Loan Agreement*”), as amended, by and among the parties hereto. Capitalized terms used in this Agreement without definition retain the meanings respectfully assigned to such terms in the Second Amended and Restated Loan Agreement.

The Borrowers have applied to Bank for and Bank has agreed to make, subject to the terms of and upon the reliance of Borrowers’s representations, warranties and agreements made in this Agreement, the following loan and/or line of credit (hereinafter sometimes referred to, singularly or collectively, if more than one, as “*Loan(s)*”):

Line of Credit (“*Line of Credit*”) in the maximum principal amount not to exceed **\$65,000,000.00** at any one time outstanding for the purpose of working capital and refinance of an existing line of credit which shall be evidenced by the Borrowers’ Promissory Note dated on or after the date hereof which shall bear interest at the rate set forth in such note, the terms of which are incorporated herein by reference (the “*Line Note*”). The Line of Credit shall mature on **October 30, 2020**, when the entire unpaid principal balance then outstanding plus accrued interest thereon shall be paid in full. Prior to maturity or the occurrence of any Event of Default hereunder and subject to Availability, as applicable, the Borrowers may borrow, repay, and reborrow under the Line of Credit through the Maturity Date. The principal balance from time to time outstanding under the Line of Credit shall bear interest at the rate set forth in the Line Note. Bank shall make advances under the Line of Credit into the Borrowers’ designated operating account or other designated deposit account maintained with Bank upon receipt of the written or oral request (thereafter confirmed in writing) of Borrowers provided that Bank shall not be required to make any advance which would cause Borrowers to exceed Availability (as defined in section 10 hereof), if applicable. If at any time the aggregate principal balance outstanding under the Line of Credit shall exceed Availability, Borrowers shall immediately upon demand pay the amount necessary to bring the outstanding balance thereunder within Availability. **Unused Line Fee:** Borrowers shall pay Bank, **quarterly** in arrears on the last day of each calendar quarter, an unused fee equal to **0.125% per annum** on the average daily unused amount of the Line of Credit for such calendar quarter calculated on the basis of a year of 360 days for the actual number of days elapsed.

The Line of Credit shall be secured by a first and prior lien and security interest in the Borrowers’ existing and hereafter acquired personal property and business assets including Equipment, Inventory, Accounts, Goods, and General Intangibles pursuant to the terms of applicable security instruments listed below.

Yield Protection. If at any time a change in any law or regulation (including without limitation the Dodd-Frank Wall Street Reform and Consumer Protection Act and all rules, guidelines, or directives promulgated by Bank for International Settlements, the Basel Committee on Banking Supervision or other U.S. or foreign regulatory authorities pursuant to Basel III) or in the interpretation thereof by any governmental authority having the authority to interpret or enforce the same shall make it unlawful for Bank to make or maintain the Loan(s) under the terms of this Agreement, Bank shall have the right to convert the applicable interest rate on the Loan(s) to a rate based on the Prime Rate. Similarly, should Bank incur increased costs or a reduction in the amounts received or receivable on the Loan(s) because of any change in any applicable law, regulation, rule, guideline or order, including without limitation the imposition, modification or applicability of any reserves, deposits or capital adequacy then Borrowers shall pay to Bank within ten (10) business days of demand, which demand shall contain the basis and calculations supporting such demand, as may be required

to compensate Bank for such increased costs or reductions in amounts to be received hereunder. Each determination and calculation made by Bank shall, absent manifest error, be binding and conclusive on the parties hereto. All payments made by Borrowers hereunder or the other Loan Documents shall be made free and clear and without deduction of any present or future taxes, levies, imposts, charges or withholdings other than taxes based on net income and franchise taxes imposed on Bank by the law of the jurisdiction in which Bank is organized or transacting business.

Additional terms, conditions and covenants of this Agreement are described in Schedule DD or other schedule attached hereto, the terms of which are incorporated herein by reference. The Line of Credit is sometimes referred to herein as the "Loan." The Line Note is sometimes referred to herein as the "Note(s)" and shall include all extensions, renewals, modifications and substitutions thereof. Bank may, at its sole discretion, effect payment of any sums past due under the Note(s) and any fees or reimbursable expenses due by debiting Borrowers's operating or other deposit account maintained with Bank.

Section 1 Conditions Precedent

Bank shall not be obligated to make any disbursement of loan proceeds until all of the following conditions have been satisfied by proper evidence, execution, and/or delivery to Bank of the following documents and items in addition to this Agreement, all in form and substance satisfactory to Bank and Bank's counsel in their sole discretion:

USA Patriot Act Verification Information: Information or documentation, including but not limited to the legal name, address, tax identification number, driver's license, and date of birth (if any of the Borrowers are individuals) of the Borrowers sufficient for Bank to verify the identity of the Borrowers in accordance with the USA Patriot Act. Borrowers shall notify Bank promptly of any change in such information.

Note(s): The Promissory Note, with addendum, duly executed by the Borrowers.

Security Agreement(s): An Amended and Restated Security Agreement in which Borrowers (each a "**Debtor**") of personal property collateral shall grant to Bank a first priority security interest in the personal property specified therein. (If Bank has or will have a security interest in any collateral which is inferior to the security interest of another creditor, Borrowers must fully disclose to Bank any and all prior security interests, and Bank must specifically approve any such security interest which will continue during the term of the Loan(s)).

UCC Financing Statements: Copies of UCC Financing Statements duly filed in Borrowers' state of incorporation, organization or residence, and in all jurisdictions necessary, or in the opinion of Bank desirable, to perfect the security interests granted in the Security Agreement, and certified copies of Information Requests identifying all previous financing statements on record for Borrowers, as appropriate from all jurisdictions indicating that no security interest has previously been granted in any of the collateral described in the Security Agreement, unless prior approval has been given by Bank.

Stock and LLC Interest Pledge Agreement: An Amended and Restated Stock and LLC Interest Pledge Agreement duly executed by Borrowers.

Commitment Fee: A commitment fee of \$162,500.00 payable to Bank on the date of execution of the Loan Documents.

Corporate Resolution: A Certificate of Corporate Resolutions signed by the corporate secretary or certified officer containing resolutions duly adopted by the Board of Directors of all Borrowers incorporated as corporations authorizing the execution, delivery, and performance of the Loan Documents on or in a form provided by or acceptable to Bank.

Articles of Incorporation: A copy of the Articles of Incorporation and all other charter documents of all Borrowers incorporated as corporations, all filed with the Secretary of State of the state/commonwealth of Borrowers's incorporation.

By-Laws: A copy of the By-Laws of all Borrowers incorporated as corporations, certified by the Secretary of Borrowers as to their completeness and accuracy.

Certificate of Incumbency: A certificate of the Secretary or Member or other certified officer of Borrowers certifying the names and true signatures of the officers each of the Borrowers authorized to sign the Loan Documents.

Certificate of Existence: A certification of the Secretary of State (or other government authority) of the state/commonwealth of each Borrowers' incorporation or organization as to the existence or good standing of each of the Borrowers and its charter documents on file.

Opinion of Counsel: An opinion of counsel for Borrowers satisfactory to Bank and Bank's counsel.

Limited Liability Company Operating Agreement: A copy of all Borrowers' organized as a limited liability company Operating Agreement, certified by such Borrowers' manager(s) and/or members, as applicable as to its completeness and accuracy.

Declaration of Limited Liability Company: A declaration or resolution from all Borrowers' organized as a limited liability company authorizing the execution, delivery, and performance of the Loan Documents on a form provided by or acceptable to Bank.

Limited Liability Company Articles of Organization: A copy of the Articles of Organization and all other organizational documents of all Borrowers organized as a limited liability company, all filed with the Secretary of State of the state/commonwealth of Borrowers' organization.

Inventory Appraisal: An appraisal of the Inventory (as defined in Schedule DD to this Agreement) addressed to Bank and in form and substance acceptable to Bank.

Additional Documents: Receipt by Bank of other approvals, opinions, or documents as Bank may reasonably request.

Section 2 Representations and Warranties

Borrowers represent and warrant to Bank that:

- 2.01. **Financial Statements.** The balance sheet of Borrowers and any subsidiaries, if any, and the related Statements of Income and Retained Earnings of Borrowers and any subsidiaries, the accompanying footnotes together with the accountant's opinion thereon, and all other financial information previously furnished to Bank, accurately, completely and fairly reflect the financial condition of Borrowers and any subsidiaries as of the dates thereof, including all contingent liabilities of every type, and the financial condition of Borrowers and any subsidiaries as stated therein has not changed materially and adversely since the date thereof.
- 2.02. **Name, Capacity and Standing.** Borrowers' exact legal names are correctly stated in the initial paragraph of the Agreement and each is duly organized and validly existing under the laws of its respective state of incorporation or organization; that it and/or its subsidiaries, if any, are duly qualified and in good standing in every other state in which the nature of their business shall require such qualification, and are each duly authorized by their board of directors, general partners or member/manager(s), respectively, to enter into and perform the obligations under the Loan Documents.
- 2.03. **No Violation of Other Agreements.** The execution and delivery of the Loan Documents, and the performance by Borrowers, by any and all pledgors (whether Borrowers or other owners of collateral property securing payment of the Loan(s) (hereinafter sometimes referred to as the "**Pledgor**")) thereunder will not violate any provision, as applicable, of its articles of incorporation, by-laws, articles of organization, operating agreement, agreement of partnership, limited partnership or limited liability partnership, or, of any law, other agreement, indenture, note, or other instrument binding upon any Borrowers or any Pledgor, or give cause for the acceleration of any of the respective obligations of any of the Borrowers.
- 2.04. **Authority.** The execution, delivery and performance of this Agreement, the Note(s) and the other Loan Documents have been duly authorized by all necessary and proper corporate or equivalent action. All authority from and approval by any federal, state, or local governmental body, commission or agency necessary to the making, validity, or enforceability of this Agreement and the other Loan Documents has been obtained.
- 2.05. **Asset Ownership.** Borrowers and each Pledgor has good and marketable title to all of the properties and assets reflected on the balance sheets and financial statements furnished to Bank, and all such properties and assets are free and clear of mortgages, deeds of trust, pledges, liens, security interests, and all other encumbrances except as otherwise disclosed by such financial statements or otherwise in writing.
- 2.06. **Discharge of Liens and Taxes.** Borrowers and any subsidiaries, if any, have filed, paid, and/or discharged all taxes or other claims which may become a lien on any of their respective properties or assets, excepting to the extent that such items are being appropriately contested in good faith and for which an adequate reserve (in an amount acceptable to Bank) for the payment thereof is being maintained.
- 2.07. **Regulations U and X.** None of the Loan(s) proceeds shall be used directly or indirectly for the purpose of purchasing or carrying any margin stock in violation of the provisions of Regulation U and Regulation X of the Board of Governors of the Federal Reserve System.
- 2.08. **ERISA.** Each employee benefit plan, as defined by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), maintained by Borrowers or by any subsidiary of Borrowers meets, as of the date hereof, the minimum funding standards of Section 302 of ERISA, all applicable requirements of ERISA and of the Internal

Revenue Code of 1986, as amended, and no "Reportable Event" nor "Prohibited Transaction" (as defined by ERISA) has occurred with respect to any such plan.

2.09. **Litigation.** There is no claim, action, suit or proceeding pending, or to the knowledge of Borrowers, threatened or reasonably anticipated before any court, commission, administrative agency, whether State or Federal, or arbitration which will materially adversely affect the financial condition, operations, properties, or business of Borrowers, its subsidiaries, if any, any Guarantor, or any Pledgor, or affect, in any material respects, the ability of Borrowers or any Guarantor or any Pledgor to perform its obligations under the Loan Documents.

2.10. **Other Agreements.** The representations and warranties made by Borrowers to Bank in the other Loan Documents are true and correct in all respects on the date hereof

2.11. **Binding and Enforceable.** The Loan Documents, when executed, shall constitute valid and binding obligations of Borrowers and Guarantors respectively, and are enforceable in accordance with their terms, except as may be limited by bankruptcy, insolvency, moratorium, or similar laws affecting creditors' rights generally.

2.12. **Commercial Purpose.** The Loan(s) are not "consumer transactions", as defined in the South Carolina Uniform Commercial Code, and none of the collateral was or will be purchased or held primarily for personal, family or household purposes.

2.13. **Foreign Assets Control Regulations.** It is not in violation of (i) the Trading with the Enemy Act (50 U.S.C. App. Sec. 1 et seq), as amended, (ii) any of the foreign assets control regulations issued by the Office of Foreign Assets Control of the United States Treasury Department ("OFAC") and any executive order related thereto, or (iii) the U.S. Patriot Act, and further that it (a) is not subject to sanctions administered by OFAC or the U.S. Department of State or (b) has not engaged in any dealing or transactions with, or is otherwise associated with, any person subject to such sanctions.

2.14. **Survival of Representations and Warranties.** Borrowers agree that in extending loan advances, Bank is relying on all representations, warranties, and covenants made by Borrowers in this Agreement or in any certificate or other instrument delivered by Borrowers to Bank under this Agreement or the other Loan Documents. Borrowers further agree that regardless of any investigation made by Bank, all such representations, warranties and covenants will survive the making of each advance under the Loan(s) and delivery to Bank of the Loan Documents, shall be continuing in nature, shall be deemed made and reaffirmed by Borrowers at the time each advance is made, and shall remain in full force and effect until such time as Borrowers's indebtedness shall be paid in full, or until this Agreement shall be terminated in the manner provided herein, whichever is the last to occur.

Section 3 Affirmative Covenants

Borrowers covenant and agree that from the date hereof and until payment in full of all indebtedness and performance of all obligations owed under the Loan Documents, Borrowers shall:

3.01. **Maintain Existence and Current Legal Form of Business.** (a) Maintain their existence and good standing in the state of their incorporation or organization, (b) maintain their current legal form of business indicated above, and, (c), as applicable, qualify and remain qualified as a foreign corporation, general partnership, limited partnership, limited liability partnership or limited liability company in each jurisdiction in which such qualification is required. Notwithstanding the foregoing, Bank acknowledges that Borrower intends to terminate the existence of SynTrans, LLC, as a Texas limited liability company, after Closing.

3.02. **Maintain Records.** Keep adequate records and books of account, in which complete entries will be made in accordance with GAAP consistently applied, reflecting all financial transactions of Borrowers. If Borrowers now or hereafter maintains any business records in the possession of a third party, at the request of Bank, Borrowers shall notify such third party to permit Bank free access to such records at all reasonable times and to provide Bank with copies of any records it may request, all at Borrowers's expense.

3.03. **Maintain Properties.** Except as contemplated by Section 3.14 of this Agreement and other sales in the ordinary course of business, maintain, keep, and preserve all of its properties (tangible and intangible) including the collateral necessary or useful in the conduct of its business in good working order and condition, ordinary wear and tear excepted.

3.04. **Conduct of Business.** Continue to engage in an efficient, prudent, and economical manner in a business of the same general type as now conducted.

3.05. **Maintain Insurance.** Maintain fire and other risk insurance, public liability insurance, and such other insurance as Bank may require with respect to Borrowers' properties and operations, in form, amounts, and coverages and with insurance companies reasonably acceptable to Bank. Borrowers, upon request of Bank, will

deliver to Bank from time to time the policies or certificates of insurance in form satisfactory to Bank, including stipulations that coverages will not be cancelled or diminished without at least thirty (30) days prior written notice to Bank. Each insurance policy also shall include an endorsement (NY long form) providing that coverage in favor of Bank will not be impaired in any way by any act, omission or default of Borrowers or any other person. In connection with all policies covering the Collateral, Borrowers shall provide Bank with such Bank's loss payable or other endorsements as Bank may reasonably require, and shall furnish to Bank upon request, reports on each existing insurance policy showing such information as Bank may reasonably request, including without limitation the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the properties and assets insured; (5) the current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (6) the expiration date of the policy. In addition, upon request of Bank (however not more often than annually), Bank may require that an independent appraiser satisfactory to Bank determine, as applicable, the actual cash value or replacement cost of any Collateral. The cost of such appraisal shall be paid by Borrowers. Should any or all of the Collateral become uninsured for any reason, Borrowers shall have ten (10) days after receipt of notice from Bank to obtain replacement insurance on the Collateral satisfactory to Bank and, should Borrowers fail to obtain such insurance, Bank may purchase insurance covering the Collateral, the cost of which shall be paid by Borrowers on demand. Notwithstanding the foregoing, Bank and Borrowers acknowledge that Borrowers do not insure finished goods inventory of pipe situated in open yard inventory locations at Bristol Metals, LLC (Tennessee) and Specialty Pipe & Tube, Inc. (Ohio and Texas) because the risk of loss for this finished goods inventory is deemed to be zero.

3.06. **Comply With Laws.** Comply in all material respects with all applicable laws, rules, regulations, ordinances and orders applicable to each Borrowers's business, operations and properties including without limitation, the Americans with Disabilities Act, paying before the delinquency thereof all taxes, assessments, and governmental charges imposed upon it or upon its income, profits or property, and all Environmental Laws.

3.07. **Right of Inspection.** Permit the officers and authorized agents of Bank, at any reasonable time or times in Bank's sole discretion, to examine and make copies of the records and books of account of, to visit the properties of any of the Borrowers, and to discuss such matters with any officers, directors, managers, members or partners, limited or general, of such Borrowers, and with Borrowers's independent accountant as Bank deems necessary and proper.

3.08. **Reporting Requirements.** Furnish to Bank:

Monthly Financial Statements: As soon as available and not more than forty-five (45) days after the end of each month on a consolidated basis for all Borrowers, balance sheets, statements of income, cash flow, and retained earnings for the period ended, all in reasonable detail and all prepared in accordance with GAAP consistently applied and certified as true and correct by an officer of Synalloy Corporation; provided, however, that for each year during the term of the Loan(s), Borrower shall not be required to furnish a Monthly Financial Statement hereunder for the calendar month ending on December 31.

Annual Financial Statements: As soon as available and not more than ninety (90) days after the end of each fiscal year, balance sheets, statements of income, and retained earnings for the period ended and a statement of changes in the financial position, all in reasonable detail, and all prepared in accordance with GAAP consistently applied. The financial statements must be of the following quality or better: Audited with an unqualified opinion.

Monthly Loan Base Report: On or before the Fifteenth (15th) day of each Month, or as provided and/or required in accordance with Schedule DD a Loan Base Report in a form acceptable to Bank signed by the President, chief financial officer, or chief accounting officer of Borrowers, as appropriate.

Quarterly Officer Compliance Certificate: An Officer's Compliance Certificate ("OCC") with respect to Borrowers' compliance with the Affirmative, Financial and Negative Covenants set forth in Sections 3, 5, and 6 of this Agreement. The OCC will be in the form of Schedule EE or other form acceptable to Bank, properly executed by an authorized officer of Borrowers, including calculations to support all Financial Covenants, and set forth any corrective action taken or proposed to be taken with respect to any Default or Event of Default under such covenants. The OCC is due within the same number of days required for the delivery of Financial Statements for each fiscal quarter's end and for the fiscal year end. The OCC furnished by Borrowers for the fiscal year end shall include a reconciliation of all adjustments, if any, by Borrowers to the fourth quarter's certification.

Notice of Litigation: Promptly after the receipt by Borrowers, or by any Guarantor of which Borrowers has knowledge, notice of any complaint, action, suit or proceeding before any court or administrative agency

or body of any type which, if determined adversely, could have a material adverse effect on the financial condition, properties, or operations of any Borrowers or any Guarantor, as applicable.

Notice of Default: Promptly upon discovery or knowledge thereof, notice of the existence of any event of default under this Agreement or any other Loan Documents.

USA Patriot Act Verification Information: Information or documentation, including but not limited to the legal name, address, tax identification number, driver's license, and date of birth (if Borrowers is an individual) of Borrowers sufficient for Bank to verify the identity of Borrowers in accordance with the USA Patriot Act. Borrowers shall notify Bank promptly of any change in such information.

Other Information: Such other information as Bank may from time to time reasonably request.

3.09. **Deposit Accounts.** Maintain substantially all of its primary operating accounts and treasury management accounts with Bank.

3.10. **Inventory Appraisals.** Upon request by Bank not to exceed two (2) requests per calendar year during the term of the Loan(s), furnish at Borrowers's expense an independent appraisal or update by an appraiser satisfactory to Bank of the Inventory.

3.11. **Affirmative Covenants from other Loan Documents.** All affirmative covenants contained in any other Loan Documents are hereby incorporated by reference herein.

3.12. **Management.** Maintain executive and management personnel with substantially the same qualifications and experience as the current executive and management personnel and promptly provide written notice to Bank of any change in such executive or management personnel.

3.13. **Intellectual Properties.** Provide the Bank with at least fifteen (15) business days' prior written notice of the filing for registration of any Intellectual Properties (or the obtaining of any registered Intellectual Properties by acquisition, assignment of otherwise) which notice shall contain a copy of each such item of registration and related information as may be requested by Bank. In connection with any such registration, the Borrowers shall take such actions and make and cooperate in such filings and actions as the Bank may reasonably request in order to assure the perfection and security to the Bank as to its lien and security interest on all Intellectual Properties.

Section 4 Guarantor(s) Covenants: Intentionally Deleted

Section 5 Financial Covenants

Borrowers covenant and agree that from the date hereof until payment in full of the Loan(s) and the performance of all obligations under the Loan Documents, Borrowers shall at all times maintain the following financial covenants and ratios all in accordance with GAAP unless otherwise specified:

Fixed Charge Coverage Ratio. Minimum fixed charge coverage ratio of not less than 1.25, with the first test beginning December 31, 2017 and continuing each quarter thereafter all to be tested on a rolling four quarter basis. The fixed charge coverage numerator is defined as the sum of pre-tax net income or pre-tax net loss plus depreciation and amortization plus interest expense plus rent/lease expense plus goodwill impairment expense plus stock option expense, minus dividends. The denominator would be the sum of interest expense, plus current maturities of long term debt plus rent/lease expense.

Section 6 Negative Covenants

Each Borrower covenants and agrees that from the date hereof and until payment in full of all indebtedness and performance of all obligations under the Loan Documents, Borrowers shall not, without the prior written consent of Bank:

6.01. **Liens.** Create, incur, assume, or suffer to exist any lien or security interest upon or in Collateral, any of Borrowers' other properties, or the properties of any Pledgor securing payment of the Loan(s), whether now owned or hereafter acquired, except Permitted Liens.

6.02. **Debt.** Incur, assume, or suffer to exist any debt, except:

- (a) Debt to Bank;
- (b) Debt outstanding on the date hereof and shown on the most recent financial statements submitted to Bank;
- (c) Amounts payable pursuant to any Leases approved by Bank pursuant to Section 3.14;
- (d) Accounts payable to trade creditors incurred in the ordinary course of business;

- (e) Debt secured by purchase money security interests only in the property or assets acquired; and
 - (f) Additional debt not to exceed \$500,000 in the aggregate at any time.
- 6.03. **Capital Expenditures.** Expenditures for fixed assets in any fiscal year shall not exceed in the aggregate as to all Borrowers the sum of \$8,000,000.00.
- 6.04. **Change of Legal Form of Business; Purchase of Assets.** Change any Borrowers' names or the legal form of Borrowers' businesses as shown above, whether by merger, consolidation, conversion or otherwise, and Borrowers shall not purchase all or substantially all of the assets or business of any Person, or enter into any partnership with a third party.
- 6.05. Intentionally deleted.
- 6.06. Intentionally deleted.
- 6.07. Intentionally deleted.
- 6.08. **Guaranties.** Assume, guarantee, endorse, or otherwise be or become directly or contingently liable for obligations of any Person, except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business.
- 6.09. **Loans to Insiders and Affiliates.** Make any loans to directors, officers, partners, members, shareholders, subsidiaries or affiliates.
- 6.10. **Disposition of Assets.** Sell, lease, or otherwise dispose of any of its assets or properties except in the ordinary and usual course of its business, or as permitted under Section 3.14 of this Agreement, subject to the terms and conditions set forth therein.
- 6.11. **Change in Control.** Cause, permit or undergo a Change in Control. A "**Change in Control**" shall mean (a) where Synalloy Corporation shall at any time cease to be a publicly held company and/or shall cease to have its capital stock traded on an exchange, or (b) a transaction or series of related transactions pursuant to which (i) at least fifty-one percent (51%) of the outstanding shares of stock of Synalloy Corporation, on a fully diluted basis, shall be owned by any Person which is not an Affiliate, or (ii) Synalloy Corporation merges into or with, consolidates with or effects any plan of share exchange or other combination with any Person which is not an Affiliate.
- 6.12. **Negative Covenants from Loan Documents.** All negative covenants contained in any Loan Document are hereby incorporated by reference herein.
- 6.13. **Transactions with Affiliates.** Directly or indirectly, sell, lease, transfer, or otherwise dispose of any of its property to, or purchase any property from, or enter into any contract, agreement, understanding, loan, advance, guarantee or transaction (including the rendering of services) with or for the benefit of, any Affiliate (each of the foregoing, an "**Affiliate Transaction**"), unless (a) such Affiliate Transaction or series of Affiliate Transactions is (i) in the best interest of Borrowers and (ii) on terms that are no less favorable to Borrowers than those what would have been obtained in a comparable arm's-length transaction by Borrowers with a person that is not an Affiliate. For purposes of this section, "Affiliate" shall mean any Borrowers, any relative of any Borrowers, of any Guarantor, or of an entity which is a parent, subsidiary or any person or entity controlled by, or under the common control of, any Borrowers, any Guarantor, Borrowers's parent or subsidiary, or Guarantor's parent or subsidiary.

Section 7 Hazardous Substances and Compliance with Environmental Laws

7.01. **Investigation.** Borrowers hereby certify that each has exercised due diligence to ascertain whether its real property, including without limitation the Mortgaged Property, is or has been affected by the presence of asbestos, oil, petroleum or other hydrocarbons, urea formaldehyde, PCBs, hazardous or nuclear waste, toxic chemicals and substances, or other hazardous materials, as defined in applicable Environmental Laws (collectively, "**Hazardous Substances**"). Borrowers represent and warrant that there are no Hazardous Substances contaminating their real property, nor have any such materials been released on or stored on or improperly disposed of on its real property during its ownership, occupancy or operation thereof except in strict compliance with Environmental Laws and any applicable permits. Borrowers hereby agree that, except in strict compliance with applicable Environmental Laws, none shall knowingly permit any release, storage or contamination of their properties as long as any indebtedness or obligations to Bank under the Loan Documents remains unpaid or unfulfilled. In addition, Borrowers do not have or use any underground storage tanks on any of their real property, including the Mortgaged Property, which are not registered with the appropriate Federal and/or State agencies and which are not properly equipped and maintained in accordance with all Environmental Laws. If requested by Bank, Borrowers shall provide Bank with all necessary and reasonable assistance required for purposes of determining the existence of Hazardous Substances on the Mortgaged Property, including allowing Bank access to the Mortgaged Property, to

Borrowers' employees having knowledge of, and to its files and records within Borrowers' control relating to the existence, storage, or release of Hazardous Substances on the Mortgaged Property.

7.02. **Compliance.** Borrowers agree to comply with all applicable Environmental Laws, including, without limitation, all those relating to Hazardous Substances. Borrowers further agree to provide Bank, and all appropriate Federal and State authorities, with immediate notice in writing of any release of Hazardous Substances on the Mortgaged Property and to pursue diligently to completion all appropriate and/or required remedial action in the event of such release. In addition, Borrowers shall within fifteen (15) days after receipt thereof, a complete copy of any notice, summons, lien, citation, letter or other communication from any governmental agency concerning any action or omission of Borrowers in connection with any environmental activity or issue.

7.03. **Remedial Action; Indemnity:** Bank shall have the right, but not the obligation, to undertake all or any part of such remedial action in the event of a release of Hazardous Substances on the Mortgaged Property and to add any expenditures so made to the principal indebtedness secured by the Deed(s) of Trust or other security instruments. Borrowers agree to indemnify and hold Bank harmless from any and all loss or liability arising out of any violation of the representations, covenants, and obligations contained in this Section 7, or resulting from the recording of the Deeds of Trust, Mortgages, or other security instruments. In addition, Bank shall have all rights and remedies provided in other Loan Documents with respect to Hazardous Substances and violations of Environmental Laws.

Section 8 Events of Default

The following shall be "Events of Default" by Borrowers:

- 8.01. Should Borrowers fail to make payment of any installment of principal or interest on any of the Note(s) when due.
- 8.02. Should any representation or warranty made in the Loan Documents prove to be false or misleading in any material respect when made.
- 8.03. Should any report, certificate, financial statement, or other document furnished prior to the execution of or pursuant to the terms of this Agreement prove to be false, incomplete or misleading in any material respect when delivered or made.
- 8.04. Should Borrowers default in the payment or performance of any other loan, line of credit, indenture, mortgage instrument, security agreement or other agreement with Bank or with another creditor or Person that may materially affect any Borrowers' property or ability to perform their respective obligations under this Agreement or the other Loan Documents.
- 8.05. Should any Borrower or any Pledgor breach any covenant, condition, or agreement made under any of the Loan Documents to which it is a party, unless such breach is of a nature that it cannot be immediately cured, in which case no Event of Default shall occur so long as the applicable Borrower(s) shall commence within twenty (20) days and thereafter diligently proceed to cure or remedy the default and shall complete such cure no more than ninety (90) days after the first occurrence of such breach.
- 8.06. Should a custodian be appointed for or take possession of any or all of the assets of any Borrowers; should any Borrower either voluntarily or involuntarily become subject to any insolvency proceeding, including becoming a debtor under the United States Bankruptcy Code, any proceeding to dissolve any Borrower, any proceeding to have a receiver appointed, or should any Borrower make an assignment for the benefit of creditors; or should there be an attachment, execution, or other judicial seizure of all or any portion of any Borrower's assets, including an action or proceeding to seize any Collateral or any funds on deposit with Bank, and such seizure is not discharged within 30 days.
- 8.07. Should final, non-appealable judgment issued by a court of competent jurisdiction for the payment of money be rendered against any Borrower which is not covered by insurance and shall remain undischarged for a period of 30 days unless such judgment or execution thereon is effectively stayed.
- 8.08. Upon the death of, or termination of existence of, or dissolution of, any Borrower or Pledgor.
- 8.09. Should Bank determine that any Borrower has suffered a material adverse change in its financial condition or its business operations.
- 8.10. Should any lien or security interest in the Collateral terminate, fail for any reason to have the priority agreed to by Bank on the date granted, or become unenforceable, unperfected or invalid for any reason, should the Collateral

fail to be insured as required herein, or should the market value of the Mortgaged Property or other Collateral decline below the value anticipated or required in connection with the Loan(s).

8.11. Should Borrowers commit a default under any Hedge Agreement, as defined in Section 10.01.

8.12. Should any Borrower assert for any reason that this Agreement or any provision hereof or any other Loan Document is invalid or unenforceable.

8.13. Should any Borrower or any officer, director or owner of 20% or more of the outstanding ownership interests of any Borrower, be indicted for a felony offense under state or federal law, including without limitation any violation of any anti-money laundering, bribery, OFAC or bank fraud, or should any Borrower employ an executive officer or manager, or elect a director, who has been convicted of any such felony offense, or should any Person become an owner of 20% or more of the outstanding ownership interests of any Borrower who has been indicted or convicted of any such felony offense.

Section 9 Remedies Upon Default

Upon the occurrence of any of the above Events of Default, and subject to any applicable notice and cure periods, if any, Bank may at any time thereafter, at its option, take any or all of the following actions, at the same or at different times:

9.01. Declare the outstanding balance(s) of the Note(s) to be immediately due and payable, both as to principal and interest, late fees, and all other amounts/expenditures without presentment, demand, protest, or further notice of any kind, all of which are hereby expressly waived by Borrowers, and such balance(s) shall accrue interest at the Default Rate as provided herein until paid in full;

9.02. Require any Borrower to pledge additional collateral to Bank from such Borrower's assets and properties to secure the Loan(s), the acceptability and sufficiency of such collateral to be determined in Bank's sole discretion;

9.03. Take immediate possession of and/or foreclose upon any or all Collateral which may be granted to Bank as security for the indebtedness and obligations of any Borrowers or any Guarantor under the Loan Documents;

9.04. Exercise any and all other rights and remedies available to Bank under the terms of the Loan Documents and applicable law, including the South Carolina Uniform Commercial Code;

9.05. Any obligation of Bank to advance funds to Borrowers or any other Person under the terms of under the Loan Documents and all other obligations, if any, of Bank under the Loan Documents shall immediately cease and terminate unless and until Bank shall reinstate such obligation in writing.

9.06. Obtain at the expense of Borrower independent appraisals or updates to an existing appraisal by an appraiser satisfactory to Bank of all or any portion of the Collateral.

Section 10 Miscellaneous Provisions

10.01. Definitions.

"Availability" shall mean the lesser of (i) \$65,000,000.00 or (ii) the Collateral Loan Value shown on the Loan Base Report furnished by Borrowers to Bank on or before the 15th day of each month as long as this Agreement shall remain in force, or as provided and/or determined in accordance with Schedule DD.

"Collateral" shall mean all property and assets granted as collateral security for the Loan(s), whether real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, security deed, deed of trust, assignment, pledge, crop pledge, chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

"Default Rate" shall mean a rate of interest equal to the greater of: (i) fifteen percent (15.0%) per annum; or (ii) a variable rate equal to five percent (5.0%) per annum above the rate set forth in the Note(s) (not to exceed the legal maximum rate) from and after the date of an Event of Default hereunder which shall apply, in Bank's sole discretion, to all amounts owing, on such date, calculated on the basis of the actual number of days elapsed over a year consisting of 360 days.

"Environmental Laws" shall mean all federal and state laws and regulations which affect or may affect the Mortgaged Property, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act (42 U.S.C. Sections 9601 et seq.), the Resource Conservation and Recovery Act (42 U.S.C. Sections 6901 et seq.), the Federal Water Pollution Control Act (33 U.S.C. Sections 1251 et seq.), the Clean Air

Act (42 U.S.C. Section 7401 et seq.), the Toxic Substances Control Act (15 U.S.C. Section 2601 et seq.), and all applicable environmental laws and regulations of the State of South Carolina, as such laws or regulations have been amended or may be amended.

“Hedge Agreement” shall mean an agreement between Borrowers and Bank, now existing or hereafter entered into, which provides for an interest rate, credit, commodity, equity swap or other Swap Obligation, cap floor, collar, spot or forward foreign exchange transaction, currency swap, cross-currency rate swap, currency option or any similar transaction or any combination of, or option with respect to, these or similar transactions, for the purpose of hedging Borrowers’s exposure to fluctuations in interest or exchange rates, loan, credit, exchange, security or currency valuations or currency prices.

“Loan Documents” shall mean this Agreement including any Schedule attached hereto, the Note, the Security Agreement, the Stock and LLC Interest Pledge Agreement, all UCC Financing Statements, and all other documents, certificates, and instruments executed in connection therewith, and all renewals, extensions, modifications, substitutions, and restatements thereof and therefore.

“Permitted Liens” shall mean (1) liens and security interest securing any indebtedness owed by any Borrowers to Bank; (2) liens for taxes, assessments, or similar charges either not yet due or being contested in good faith and for which appropriate reserves are maintained; (3) liens of materialmen, mechanics, warehousemen, or carriers, or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (4) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrowers in the ordinary course of business to secure indebtedness outstanding on the date of this Agreement or permitted to be incurred under Section 6.02; (5) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by Bank in writing; and (6) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of Borrowers’s assets.

“Person” shall mean an individual, partnership, corporation, trust, unincorporated organization, limited liability company, limited liability partnership, association, joint venture, or a government agency or political subdivision thereof.

“GAAP” shall mean generally accepted accounting principles as established by the Financial Accounting Standards Board or the American Institute of Certified Public Accountants, as amended and supplemented from time to time.

“Prime Rate” shall mean the rate of interest per annum announced by Bank from time to time and adopted as its Prime Rate, which is one of several rate indexes employed by Bank when extending credit, and may not necessarily be Bank’s lowest lending rate.

10.02. **Non-impairment.** If any one or more provisions contained in the Loan Documents shall be held invalid, illegal, or unenforceable in any respect, the validity, legality, and enforceability of the remaining provisions contained therein shall not in any way be affected or impaired thereby and shall otherwise remain in full force and effect.

10.03. **Applicable Law.** The Loan Documents shall be construed in accordance with and governed by the laws of the State of South Carolina, except that the provisions for the creation, perfection and enforcement of the lien(s) and security interest(s) created under the Loan Documents shall be governed by the jurisdiction in which the Collateral is located, and the Loan Documents shall bind each Borrowers’ heirs, personal representatives, successors and assigns and inure to the benefit of Bank’s successors and assigns.

10.04. **Waiver.** Neither the failure nor any delay on the part of Bank in exercising any right, power or privilege granted in the Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise of any other right, power, or privilege which may be provided by law. A waiver by Bank of a provision of this Agreement shall not prejudice or constitute a waiver of Bank’s right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Bank, nor any course of dealing between Bank and Borrowers, shall constitute a waiver of any of Bank’s rights or of any of Borrowers’ obligations as to any future transaction. Whenever the consent of Bank is required under this Agreement, the granting of such consent by Bank in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Bank.

10.05. **Modification.** No modification, amendment, or waiver of any provision of any of the Loan Documents shall be effective unless in writing and signed by Borrowers and Bank.

10.06. **Payment Amount Adjustment.** In the event that any Loan(s) referenced herein has a fixed payment with a variable (floating) interest rate and, as a result of an increase in such interest rate, accruals of interest are not

fully paid, Bank, in its sole discretion, may at any time adjust Borrowers's fixed payment amount(s) to prevent the amount of interest accrued in a given period exceeding the periodic payment amount or to cause the affected Loan(s) to be repaid within the same period of time as originally agreed upon.

10.07 **Stamps and Other Fees.** Borrowers shall pay all federal or state stamp and recording taxes, or other fees or charges, if any are payable or are determined to be payable by reason of the execution, delivery, or issuance of the Loan Documents or any security granted to Bank; and Borrowers agree to indemnify and hold harmless Bank against any and all liability in respect thereof. Borrowers shall pay all fees incurred by Bank for the appraisal of the Mortgaged Property obtained at any time after the date of this Agreement which Bank requires pursuant to federal or state regulations, in connection with any event of default under the Loan Documents or restructure of the Loan(s), any material damage to or condemnation of the Mortgaged Property, or in connection with any foreclosure or forbearance. Such appraisal fees shall be payable on demand, shall accrue interest at the default rate set forth in the Note(s) following demand and shall be secured by the security documents executed by Borrowers or Pledgor.

10.08. **Attorneys' Fees.** In the event Borrowers or any Pledgor shall default in any of its obligations hereunder and Bank finds it necessary to employ an attorney to assist in the enforcement or collection of the indebtedness of Borrowers to Bank, to enforce the terms and provisions of the Loan Documents, to modify the Loan Documents, or in the event Bank voluntarily or otherwise should become a party to any suit or legal proceeding (including a proceeding conducted under the Bankruptcy Code), Borrowers, jointly and severally, agree to pay all reasonable attorneys' fees incurred by Bank and all related costs of collection or enforcement that may be incurred by Bank.

10.09. **Bank Making Required Payments.** In the event Borrowers shall fail to maintain insurance, pay taxes or assessments, costs and expenses which Borrowers is, under any of the terms hereof or of any Loan Documents, required to pay, or fail to keep any of the properties and assets constituting collateral free from new security interests, liens, or encumbrances, except as permitted herein, Bank may at its election make expenditures for any or all such purposes and the amounts expended together with interest thereon at the Default Rate, shall become immediately due and payable to Bank, and shall have benefit of and be secured by the collateral; provided, however, Bank shall be under no duty or obligation to make any such payments or expenditures.

10.10. **Right of Offset.** Any indebtedness owing from Bank to Borrowers may be set off and applied by Bank on any indebtedness or liability of Borrowers to Bank at any time and from time to time after maturity, whether by acceleration or otherwise, and without demand or notice to Borrowers.

10.11. **UCC Authorization.** Borrowers authorize Bank to file such UCC Financing Statements describing the collateral in any location deemed necessary and appropriate by Bank.

10.12. **Modification and Renewal Fees.** Bank may, at its option, charge any fees for modification, renewal, extension, or restatement of any terms of the Note(s) and the other Loan Documents not prohibited by applicable law. Without limiting the foregoing, upon any renewal of the Note(s) or a portion of the debt evidenced thereby, Borrowers shall pay a renewal fee equal to 0.10% of the maximum principal amount of the Line of Credit as of the date of the renewal.

10.13. **Conflicting Provisions.** If provisions of this Agreement shall conflict with any terms or provisions of any of the Note(s), security document(s) or any schedule attached hereto, the provisions of such Note(s), security document(s) or any Schedule attached hereto, as appropriate, shall take priority over any provisions in this Agreement.

10.14. **Notices.** Any notice permitted or required by the provisions of this Agreement shall be deemed to have been given when delivered in writing to BB&T Commercial Finance at PO Box 1245, Winston-Salem NC, 27012, Attention: ABL Operations, and to the Chief Financial Officer of Synalloy Corporation at its offices in Richmond, Virginia when sent by certified mail and return receipt requested or by recognized courier. Unless otherwise required by law, if there is more than one Borrowers, any notice given by Bank to any Borrowers shall be deemed to be notice given to all Borrowers.

10.15. **Consent to Jurisdiction.** Borrowers hereby irrevocably agree that any legal action or proceeding arising out of or relating to this Agreement may be instituted in any state or Federal court situated in the Commonwealth of Virginia, or in any other jurisdiction in which any of Borrowers is domiciled, or in any jurisdiction in which the Collateral is located, as Bank may choose in its sole discretion. Borrowers consent to the jurisdiction of such courts and waives any objection relating to the basis for personal or in rem jurisdiction or to venue which Borrowers may now or hereafter have in any such legal action or proceedings.

10.16. **Counterparts.** This Agreement may be executed by one or more parties on any number of separate counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

10.17. **Entire Agreement.** The Loan Documents embody the entire agreement between Borrowers and Bank with respect to the Loan(s), and there are no oral or parole agreements existing between Bank and Borrowers with respect to the Loan(s) which are not expressly set forth in the Loan Documents.

10.18. **Indemnity.** Borrowers hereby jointly and severally agree to indemnify and hold Bank, its affiliates, their successors and assigns and their respective directors, officers, employees and shareholders harmless from and against, any loss, damage, lawsuit, proceeding, judgment, cost, penalty, expense (including all reasonable in-house and outside attorneys' fees, whether or not suit is brought, accountants' fees and/or consultants' fees) or liability whatsoever arising from or otherwise relating to the closing, disbursement, administration or repayment of the Loan(s), including without limitation: (i) Borrowers' failure to comply with the terms of this Agreement and the other Loan Documents (ii) the breach of any representation or warranty made to Bank in this Agreement or in any other Loan Documents now or hereafter executed in connection with the Loan(s); (iii) the violation of any covenant or agreement contained in this Agreement or any of the other Loan Documents; provided, however, that the foregoing indemnification shall not be deemed to cover any such loss, damage, lawsuit, proceeding, cost, expense or liability which is finally determined by a court of competent jurisdiction to result solely from Bank's gross negligence or willful misconduct. This indemnity obligation shall survive the payment of the Loan(s) and the termination of this Agreement.

10.19. **WAIVER OF JURY TRIAL. UNLESS EXPRESSLY PROHIBITED BY APPLICABLE LAW, THE UNDERSIGNED HEREBY WAIVE THE RIGHT TO TRIAL BY JURY OF ANY MATTERS OR CLAIMS ARISING OUT OF THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS OR OUT OF THE CONDUCT OF THE RELATIONSHIP BETWEEN THE UNDERSIGNED AND BANK, IN EACH CASE WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE. BORROWERS AGREE AND CONSENT THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT BANK MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS PARAGRAPH WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF BORROWERS TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR BANK TO MAKE THE LOAN(S) AND ENTER INTO THIS AGREEMENT. FURTHER, THE UNDERSIGNED HEREBY CERTIFY THAT NO REPRESENTATIVE OR AGENT OF BANK, NOR BANK'S COUNSEL, HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT BANK WOULD NOT SEEK TO ENFORCE THIS WAIVER OF RIGHT TO JURY TRIAL PROVISION. NO REPRESENTATIVE OR AGENT OF BANK, NOR BANK'S COUNSEL, HAS THE AUTHORITY TO WAIVE, CONDITION OR MODIFY THIS PROVISION. BORROWERS ACKNOWLEDGE THAT EACH HAS HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL REGARDING THIS PARAGRAPH, THAT IT FULLY UNDERSTANDS ITS TERMS, CONTENT AND EFFECT, AND THAT IT VOLUNTARILY AND KNOWINGLY AGREES TO THE TERMS OF THIS PARAGRAPH.**

10.20. **Required Information for New Loan.** To help the government fight the funding of terrorism and money laundering activities, federal law requires Bank to obtain, verify and record information that identifies each person or entity obtaining a loan including Borrowers' legal name, address, tax identification number, date of birth, driver's license, organizational documents or other identifying documents. Failure to provide the required information will result in a violation of the U.S. Patriot Act and will constitute a default under this instrument or agreement. In addition, no Borrowers, any of its affiliates, or any of their respective directors, officers, managers, partners, or any other authorized representatives is named as a "Specially Designated National and Blocked Person", on the list published by the U.S. Department of the Treasury Office of Foreign Assets Control (OFAC) at its official website.

10.21. **Correction of Errors; Further Assurances.** Borrowers will and will cause any Pledgor to cooperate with Bank to correct any errors in this Agreement, the Note or other Loan Documents and shall execute such documentation as is necessary to do so. In addition, Borrowers and Pledgor shall cooperate fully with Bank and execute such further instruments, documents and agreements, and shall do any and all such further acts, as may be reasonably requested by Bank to better evidence and reflect the transactions described herein and contemplated hereby and to carry into effect the intent purposes of this Agreement, the Note and the other Loan Documents, including without limitation the granting and/or perfecting of a security interest in the Collateral.

10.22. **Consent to Loan Participation.** Borrowers agrees and consents to Bank's sale or transfer, whether now or later, of one or more participation interests in the Loan(s) to one or more purchasers, whether related or unrelated to Bank. Bank may provide, without any limitation whatsoever, to any one or more purchasers, or potential purchasers, any information or knowledge Bank may have about Borrowers or about any other matter relating to the Loan(s), and Borrowers hereby waive any rights to privacy Borrowers may have with respect to such matters. Borrowers hereby waive any and all notices of sale of participation interests, as well as all notices of any repurchase of such participation interests. Borrowers agree that the purchasers of any such participation interests will be considered as the absolute owners of such interests in the Loan(s) and will have all the rights granted under the participation agreement(s) governing the sale of such participation interests. Borrowers waive all rights of offset or counterclaim, whether now existing or hereafter arising, against Bank or against any purchaser of such a participation interest and unconditionally agrees that either Bank or such purchaser may enforce Borrowers's obligation under the Loan(s) irrespective of the failure or insolvency of any holder of any interest in the Loan(s). Borrowers agrees that the purchaser of any such participation interest may enforce its interest irrespective of any personal claims or defenses that Borrowers may have against Bank. Any purchaser of a participation interest in the Loan(s) may exercise a right of setoff against Borrowers to the same extent as Bank has such right.

10.23. **Severability.** If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, such finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

10.24. **Construction.** Each party hereto hereby acknowledges that all parties hereto participated equally in the drafting and/or negotiation of this Agreement and that, accordingly, no court when interpreting this Agreement shall construe it more stringently against one party than the other.

10.25. **Time of the Essence.** Time is of the essence in the performance of this Agreement and the other Loan Documents.

10.26. **Matters as to Amendment and Restatement.** This Agreement constitutes an amendment and consolidated restatement in full of the Second Amended and Restated Loan Agreement dated August 31, 2016 (including all amendments thereto entered prior to the date hereof). Except for the effect of any matters expressly set forth in this Agreement, this Agreement and each of the Loan Documents is, and shall continue to be following the effectiveness of this Agreement, in full force and effect in accordance with the terms thereof, as amended, and nothing in this Agreement shall otherwise be deemed to amend or modify any provision of the Loan Documents, each of which shall remain in full force and effect except as otherwise expressly provided herein or therein. This Agreement is not intended to be, nor shall it be construed to create, a novation or accord and satisfaction. This Agreement does not effect the release of any collateral, does not disturb the perfection or priority of any existing liens, and does not effect the release of any obligor or other party from its obligations.

[SIGNATURES ON FOLLOWING PAGE]

SIGNATURE PAGE

IN WITNESS WHEREOF, the Bank and Borrowers have caused this Agreement to be duly executed all as of the date first above written.

Witness (as to the Borrowers):

**SYNALLOY CORPORATION
SYNALLOY FABRICATION, LLC
SYNALLOY METALS, INC.
BRISTOL METALS, LLC
MANUFACTURERS SOAP & CHEMICAL
COMPANY
MANUFACTURERS CHEMICALS, LLC
PALMER OF TEXAS TANKS, INC.
CRI TOLLING, LLC
SPECIALTY PIPE & TUBE, INC.**

By: _____ (SEAL)

Dennis M. Loughran
Senior Vice President and CFO or Senior Vice President, Finance *of and on behalf of
the above-named entity*

Witness (as to BB&T):

BRANCH BANKING AND TRUST COMPANY

By: _____

Stan W. Parker
Senior Vice President

CERTIFICATIONS

I, Craig C. Bram, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) and internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying 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 (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2017 /s/ Craig C. Bram
Craig C. Bram
Chief Executive Officer

CERTIFICATIONS

I, Dennis M. Loughran, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sinalloy 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)) and internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying 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 (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2017 /s/ Dennis M. Loughran
Dennis M. Loughran
Chief Financial Officer

Certifications Pursuant to 18 U.S.C. Section 1350

The undersigned, who are the chief executive officer, the chief financial officer and the principal accounting officer of Synalloy Corporation, each hereby certifies that, to the best of his knowledge, the accompanying Form 10-Q 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: November 7, 2017 /s/ Craig C. Bram
Craig C. Bram
Chief Executive Officer

/s/ Dennis M. Loughran
Dennis M. Loughran
Chief Financial Officer

/s/ Richard D. Sieradzki
Richard D. Sieradzki
Principal Accounting Officer