

SYNALLOY CORP
Form 10-Q
November 13, 2006

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, 2006

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

**For the Transition Period From _____ to _____
Commission file number 0-19687**

SYNALLOY CORPORATION

(Exact name of registrant as specified in its charter)

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

57-0426694
*(IRS Employer
Identification Number)*

2155 West Croft Circle
Spartanburg, South Carolina
(Address of principal executive offices)

29302
(Zip code)

(864) 585-3605

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Larger accelerated Filer

Accelerated filer

Non-accelerated filer

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 September 30, 2006 was 6,128,051

Synalloy Corporation

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Item 1. FINANCIAL STATEMENTS**Synalloy Corporation****Condensed Consolidated Balance Sheets****Sep 30, 2006****Dec 31, 2005**

(Unaudited)

(Note)

Assets*Current assets*

Cash and cash equivalents \$ 560 \$ 2,379

Accounts receivable, less allowance
for doubtful accounts 22,856,441 21,862,852

Inventories

Raw materials 15,317,620 10,366,091

Work-in-process 9,535,232 8,560,707

Finished goods 6,756,216 5,555,529

Total inventories 31,609,068 24,482,327

Deferred income taxes 1,491,000 1,219,000

Prepaid expenses and other current assets 153,546 427,728

Total current assets 56,110,615 47,994,286

Cash value of life insurance 2,675,514 2,639,514

Property, plant & equipment, net of accumulated
depreciation of \$38,285,000 and \$39,347,000 18,769,837 18,697,760

Deferred charges and other assets 1,602,068 1,650,622

Total assets \$ 79,158,034 \$ 70,982,182**Liabilities and Shareholders' Equity***Current liabilities*

Current portion of long-term debt \$ 466,667 \$ 466,667

Accounts payable 14,172,854 11,191,861

Accrued expenses 5,990,134 5,846,899

Current portion of environmental reserves 200,053 104,199

Income taxes payable 1,563,382 1,720,702

Total current liabilities 22,393,090 19,330,328

Long-term debt 8,677,161 8,090,554

Environmental reserves 611,000 611,000

Deferred compensation 488,149 541,962

Deferred income taxes 2,884,000 3,112,000

Shareholders' equity

Common stock, par value \$1 per share - authorized
12,000,000 shares; issued 8,000,000 shares 8,000,000 8,000,000

Capital in excess of par value 52,030 -

Retained earnings 51,917,412 47,329,620

Less cost of Common Stock in treasury:

1,871,949 and 1,892,160 shares (15,864,808) (16,033,282)

Total shareholders' equity 44,104,634 39,296,338

Total liabilities and shareholders' equity \$ 79,158,034 \$ 70,982,182

Note: The balance sheet at December 31, 2005 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, 2006 | Oct 1, 2005 | Sep 30, 2006 | Oct 1, 2005 |
| Net sales | \$ 39,096,599 | \$ 30,674,672 | \$ 111,988,579 | \$ 95,486,459 |
| Cost of goods sold | 32,887,726 | 27,172,807 | 96,511,481 | 82,584,646 |
| Gross profit | 6,208,873 | 3,501,865 | 15,477,098 | 12,901,813 |
| Selling, general and administrative expense | 2,810,061 | 2,528,932 | 8,279,233 | 7,879,906 |
| Operating income | 3,398,812 | 972,933 | 7,197,865 | 5,021,907 |
| Other (income) and expense | | | | |
| Gain from sale of property and plant | (595,600) | - | (595,600) | - |
| Interest expense | 182,600 | 228,749 | 529,542 | 679,421 |
| Other, net | (32) | - | (621) | (31,739) |
| Income from continuing operations before income taxes | 3,811,844 | 744,184 | 7,264,544 | 4,374,225 |
| Provision for income taxes | 1,403,000 | 219,000 | 2,660,000 | 1,308,000 |
| Net income from continuing operations | 2,408,844 | 525,184 | 4,604,544 | 3,066,225 |
| Loss from discontinued operations | - | - | - | (73,413) |
| Benefit from income taxes | - | - | - | (22,000) |
| Net loss from discontinued operations | - | - | - | (51,413) |
| Net income | \$ 2,408,844 | \$ 525,184 | \$ 4,604,544 | \$ 3,014,812 |
| Net income (loss) per basic common share: | | | | |
| Income from continuing operations | \$.39 | \$.09 | \$.75 | \$.51 |
| Loss from discontinued operations | - | - | - | (\$.01) |
| Net income | \$.39 | \$.09 | \$.75 | \$.50 |
| Net income (loss) per diluted common share: | | | | |
| Income from continuing operations | \$.39 | \$.09 | \$.74 | \$.50 |

| | | | | |
|-----------------------------------|--------|--------|--------|----------|
| Loss from discontinued operations | - | - | - | (\$.01) |
| Net income | \$.39 | \$.09 | \$.74 | \$.49 |

| | | | | |
|------------------------------------|-----------|-----------|-----------|-----------|
| Average shares outstanding | | | | |
| Basic | 6,127,077 | 6,087,108 | 6,119,582 | 6,055,715 |
| Dilutive effect from stock options | 115,951 | 77,512 | 111,678 | 73,446 |
| Diluted | 6,243,028 | 6,164,620 | 6,231,260 | 6,129,161 |

See accompanying notes to condensed consolidated financial statements.

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

(Unaudited)

| | Nine Months Ended | |
|---|--------------------------|--------------------|
| | Sep 30, 2006 | Oct 1, 2005 |
| Operating activities | | |
| Net income | \$ 4,604,544 | \$ 3,014,812 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Loss from discontinued operations, net of tax | - | 51,413 |
| Depreciation expense | 2,199,535 | 2,161,154 |
| Amortization of deferred charges | 41,193 | 28,800 |
| Deferred income taxes | (500,000) | (770,000) |
| Provision for losses on accounts receivable | 360,519 | 453,837 |
| (Gain) loss on sale of property, plant and equipment | (602,350) | 10,550 |
| Cash value of life insurance | (36,000) | (36,000) |
| Environmental reserves | 95,854 | (733,703) |
| Issuance of treasury stock for director fees | 81,226 | 125,005 |
| Employee stock option compensation | 56,718 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,354,108) | (4,122,435) |
| Inventories | (7,126,741) | (876,604) |
| Other assets and liabilities | (172,270) | 90,386 |
| Accounts payable | 2,980,993 | 4,856,302 |
| Accrued expenses | 143,235 | 1,127,199 |
| Income taxes payable | (157,320) | 1,769,155 |
| Net cash provided by continuing operating activities | 615,028 | 7,149,871 |
| Net cash provided by discontinued operating activities | - | 3,982,643 |
| Net cash provided by operating activities | 615,028 | 11,132,514 |
| Investing activities | | |
| Purchases of property, plant and equipment | (2,487,242) | (1,963,493) |
| Proceeds from sale of property, plant and equipment | 817,980 | 3,350 |
| Proceeds from note receivable | 400,000 | - |
| Net cash used in investing activities | (1,269,262) | (1,960,143) |
| Financing activities | | |
| Net proceeds from (payments on) long-term debt | 586,607 | (5,565,268) |
| Proceeds from exercised stock options | 65,808 | 105,330 |
| Net cash provided by (used in) continuing operations financing activities | 652,415 | (5,459,938) |
| Net cash used in discontinued operations financing activities | | (4,000,000) |
| Net cash provided by (used in) financing activities | 652,415 | (9,459,938) |

| | | | | |
|---|-----------|------------|-----------|--------------|
| Decrease in cash and cash equivalents | | (1,819) | | (287,567) |
| Cash and cash equivalents at beginning of period | | 2,379 | | 292,350 |
| Cash and cash equivalents at end of period | \$ | 560 | \$ | 4,783 |

See accompanying notes to condensed consolidated financial statements.

Synalloy Corporation

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

September 30, 2006

NOTE 1 -- BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements 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 footnotes 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. Operating results for the nine-month period ended September 30, 2006, are not necessarily indicative of the results that may be expected for the year ending December 30, 2006. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the period ended December 31, 2005.

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109." This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006 and is not expected to have a material impact on the Company's financial statements.

NOTE 2 -- RECLASSIFICATION

For comparison purposes, certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 presentation. These reclassifications had no effect on net income or shareholders' equity as previously reported.

NOTE 3 -- INVENTORIES

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

NOTE 4 -- SALE OF ASSETS AND DISCONTINUED OPERATIONS

The Company completed the movement of Organic Pigments' operations from Greensboro, NC to Spartanburg, SC in the first quarter of 2006, recording plant relocation costs of \$213,000 in administrative expense in the quarter. The Greensboro plant was closed in the first quarter of 2006 and on August 9, 2006, the Company sold the property for a net sales price of \$811,000. The property had a net book value of \$215,000, and the Company recorded a pre-tax gain on the sale of approximately \$596,000 in the third quarter of 2006.

The Company sold certain of the assets associated with the Blackman Uhler, LLC dye business effective January 31, 2005. The sale was completed and relevant operations were transferred to the purchaser by the end of the first quarter of 2005. The operations of the Colors Segment are reported as discontinued operations in the 2005 financial statements.

Synalloy Corporation

Notes To Condensed Consolidated Financial Statements
(Unaudited)

September 30, 2006

NOTE 5 -- DEFERRED CHARGES AND OTHER ASSETS

Included in Deferred Charges and Other Assets is \$1,355,000 of goodwill representing the excess of cost over fair value of net assets of businesses acquired and is included in the Specialty Chemicals Segment. The amount recorded is evaluated annually for impairment.

NOTE 6 -- SEGMENT INFORMATION

| | Three Months Ended | | Year to Date | |
|--|--------------------|---------------|----------------|---------------|
| | Sep 30, 2006 | Oct 1, 2005 | Sept 30, 2006 | Oct 1, 2005 |
| Net sales | | | | |
| Specialty Chemicals Segment | \$ 12,725,000 | \$ 11,102,000 | \$ 38,158,000 | \$ 33,934,000 |
| Metals Segment | 26,372,000 | 19,573,000 | 73,831,000 | 61,552,000 |
| | \$ 39,097,000 | \$ 30,675,000 | \$ 111,989,000 | \$ 95,486,000 |
| Segment income | | | | |
| Specialty Chemicals Segment | \$ 647,000 | \$ 382,000 | \$ 2,235,000 | \$ 1,374,000 |
| Metals Segment | 3,308,000 | 1,038,000 | 6,720,000 | 5,098,000 |
| | 3,955,000 | 1,420,000 | 8,955,000 | 6,472,000 |
| Unallocated expenses | | | | |
| Corporate | 556,000 | 447,000 | 1,545,000 | 1,451,000 |
| Plant relocation costs | - | - | 213,000 | - |
| Gain on sale of plant & property | (596,000) | - | (596,000) | - |
| Interest expense | 183,000 | 229,000 | 529,000 | 679,000 |
| Other (income) expense | - | - | (1,000) | (32,000) |
| Income from continuing operations before income taxes | | | | |
| | \$ 3,812,000 | \$ 744,000 | \$ 7,265,000 | \$ 4,374,000 |

NOTE 7 -- STOCK OPTIONS

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123R"), which was issued by the FASB in December 2004, using the modified prospective application as permitted

under SFAS 123R. Accordingly, prior period amounts have not been restated. Under this application, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Prior to the adoption of SFAS 123R, the Company used the intrinsic value method as prescribed by APB No. 25 and thus recognized no compensation expense for options granted with exercise prices equal to the fair market value of the Company's common stock on the date of grant.

Synalloy Corporation

Notes To Condensed Consolidated Financial Statements
(Unaudited)

September 30, 2006

The Company has three stock option plans in effect at September 30, 2006. A summary of plan activity for 2006 is as follows:

| | Weighted Average Exercise Price | Options Outstanding | Weighted Average Contractual Term (in years) | Intrinsic Value of Options | Options Available |
|--------------------------------------|--|------------------------|--|----------------------------------|----------------------|
| Outstanding at December 31, 2005 | \$ 9.64 | 331,550 | | \$ 740,000 | 199,100 |
| Granted | | 0 | | | 0 |
| Exercised | | | | | |
| First quarter | \$ 4.65 | (4,800) | | \$ 46,000 | |
| Second quarter | \$ 5.54 | (7,850) | | \$ 58,000 | |
| Third quarter | \$ 4.65 | (1,500) | | \$ 15,000 | |
| First nine months | | (14,150) | | \$ 119,000 | |
| Cancelled | | | | | |
| First quarter | | 0 | | | 0 |
| Second quarter | \$ 4.65 | (8,000) | | | 8,000 |
| Third quarter | | 0 | | | 0 |
| First nine months | | (8,000) | | | 8,000 |
| Expired | | | | | |
| First quarter | | 0 | | | 0 |
| Second quarter | \$ 18.88 | (14,500) | | | 0 |
| Third quarter | | 0 | | | 0 |
| First nine months | | (14,500) | | | 0 |
| Outstanding at September 30, 2006 | \$ 9.54 | 294,900 | 4.3 | \$ 1,458,000 | 207,100 |
| Exercisable options | \$ 9.44 | 239,044 | 3.3 | \$ 1,216,000 | |
| Options expected to vest | \$ 9.96 | 55,856 | 8.3 | \$ 241,856 | |

At September 30, 2006, there were 207,100 options available for grant under the plans. The weighted average fair value on the grant date of all options outstanding on September 30, 2006 was \$761,000. All options that were outstanding on September 30, 2006 were fully vested except for 80,000 granted on February 3, 2005 with an exercise price of \$9.96 per share.

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Notes To Condensed Consolidated Financial Statements
(Unaudited)

September 30, 2006

The compensation cost that has been charged against income before taxes for the unvested options was approximately \$19,000 and \$57,000 for the three and nine months ended September 30, 2006, respectively. As of September 30, 2006, there was \$253,000 of total unrecognized compensation cost related to non-vested stock options granted under the Company's stock option plans which is expected to be recognized over a period of 4 years. The fair value of the unvested options computed under SFAS 123R, was estimated at the time the options were granted using the Black-Scholes option pricing model, and is being recognized over the vesting period of the options. The following weighted-average assumptions were used for 2005: risk-free interest rate of five percent; volatility factors of the expected market price of the Company's Common Shares of .659; an expected life of the option of seven years. The dividend yield used in the calculation was zero percent. The weighted average fair value on the date of grant was \$6.77. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility.

The following illustrates the effect on net income available to common stockholders if the Company had applied the fair value recognition provisions of SFAS 123 in the nine months ended October 1, 2005:

| | Third Quarter | Year to Date |
|------------------------------------|----------------------|---------------------|
| | Oct 1, 2005 | Oct 1, 2005 |
| Net income reported | \$ 525,000 | \$ 3,015,000 |
| Compensation expense, net of tax | (69,000) | (212,000) |
| Pro forma net income | \$ 456,000 | \$ 2,803,000 |
| Basic income per share | \$.09 | \$.50 |
| Compensation expense, net of tax | (\$.01) | (\$.04) |
| Pro forma basic income per share | \$.08 | \$.46 |
| Diluted income per share | \$.09 | \$.49 |
| Compensation expense, net of tax | (\$.01) | (\$.03) |
| Pro forma diluted income per share | \$.08 | \$.46 |

Synalloy Corporation

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

The following is management's discussion of certain significant factors that affected the Company during the quarter ended September 30, 2006.

Consolidated sales for the quarter and first nine months of 2006 were up, increasing 28 and 17 percent compared to the same periods one year ago. For the third quarter of 2006, the Company experienced a 359 percent increase in net earnings to \$2,409,000, or \$.39 per share. This compares to net earnings of \$525,000, or \$.09 per share in 2005's third quarter. The Company generated net earnings for the first nine months of 2006 of \$4,605,000, or \$.74 per share, compared to net earnings of \$3,015,000, or \$.49 per share in the first nine months of 2005. Included in net earnings in the third quarter and nine months of 2006 was an after tax gain from the sale of property and plant net of relocation costs of \$378,000, or \$.06 per share and \$243,000, or \$.04 per share, respectively.

The Specialty Chemicals Segment continued the strong performance it experienced in the first six months delivering sales increases of 15 percent and 12 percent in the third quarter and first nine months of 2006, respectively, over the same periods last year. Segment income improved significantly to \$647,000 in the third quarter or 69 percent more than the \$382,000 earned in the third quarter of 2005. For the first nine months of 2006, the Segment earned \$2,235,000 which was 63 percent higher than the \$1,374,000 earned last year. The increase in revenues came primarily from adding several new products over the past four quarters, a significant increase in demand for one of our contract manufacturing products, and increased selling prices to pass on higher energy related costs. The Segment completed the relocation of its pigment operations from Greensboro, NC to Spartanburg, SC at the end of the first quarter of 2006 and experienced the positive impact of consolidating the two operations throughout the second and third quarters. The combination of the cost savings from the relocation and increase in revenues produced the significant income improvement. The Segment has begun to feel the increased sampling activity from its Fire Retardant products on the larger mattress manufacturers' part as they begin to qualify components to be in compliance with the implementation of the Consumer Products Safety Commission's final Flammability Standards effective July 1, 2007. Management expects the demand for our Fire Retardant products to increase to significant volumes as this deadline approaches. Based on current conditions and management's expectations, the Company expects this Segment to continue to operate profitably.

Sales in the Metals Segment increased 35 percent and 20 percent for the third quarter and nine months of 2006, respectively, from the same periods a year earlier. The increases resulted from 37 percent and 26 percent higher unit volumes for the quarter and nine months, partially offset by 1 percent and 5 percent declines in average selling prices, respectively, compared to the same periods last year. Operating income more than tripled to \$3,308,000 for the third quarter and increased 32 percent to \$6,720,000 for the first nine months of 2006 compared to the same periods last year. The significant increase in unit volumes reflects management's success in regaining market share in pipe sales throughout 2006 and from much higher production of piping systems for energy and water treatment customers. The decline in selling prices resulted from a change in product mix. The surge in third quarter operating income came from the effect of stainless steel surcharges included in pipe sales coupled with the higher unit volumes achieved in the quarter. Surcharges are assessed each month by the stainless steel producers to cover the change in their costs of certain raw materials. The Company in turn, passes on the surcharge in the sales prices charged to its customers. Under the Company's first-in-first-out inventory method, cost of goods sold is charged for the surcharges that were in effect three or more months

Synalloy Corporation

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

prior to the month of sale. Accordingly, if surcharges are in an upward trend, reported profits will benefit. Conversely, when surcharges go down, profits are reduced. During the third quarter of 2006, surcharges were significantly higher than they were in the first six months with an accompanying significant benefit to profits. The third quarter of 2005 also benefited from surcharges, but to a lesser extent than 2006. The significant increase in operating income for the nine months of 2006 came from a much improved operating level in piping systems plus the good unit volume increase in pipe sales, partially offset by a lower surcharge benefit.

The outstanding improvement in sales and operating income obtained by the Metals Segment are largely the result of management's successful efforts to penetrate new markets for piping systems as well as pipe sales. The energy industry, including LNG and ethanol projects, together with waste water treatment provided a small percentage of the segments sales prior to 2005. These new sources have generated most of the improvement in 2006 results and now comprise about 80 percent of the piping systems backlog. Management believes that it has differentiated the segment from its domestic competitors by having unique manufacturing capabilities that give the segment a competitive advantage in pursuing non-commodity pipe sales as well as piping systems projects. Piping systems' backlog as of the end of the third quarter of 2006 increased to \$34,200,000 which is about \$12,000,000 higher than a year earlier. Management expects about 80 percent of the backlog to be completed over the next 12 months which should provide a level of sales for piping systems to operate profitably over the next several quarters. Assuming no significant decline in demand, the favorable trend in surcharges currently in effect should provide opportunities to continue producing profits from pipe sales in the fourth quarter.

The Company completed the movement of Organic Pigments' (OP) operations from Greensboro, NC to Spartanburg, closed the Greensboro plant, and recorded a \$213,000 loss in selling, general and administrative expense for the move in the first quarter of 2006. On August 9, 2006, the Company sold the property for a net sales price of \$811,000. The property had a net book value of \$215,000, and the Company recorded a pre-tax gain on the sale of approximately \$596,000 in the third quarter of 2006.

Consolidated selling and administrative expense for the third quarter and first nine months of 2006 increased \$281,000, or 11 percent, and \$399,000, or five percent, respectively, compared to the same periods of last year. However the expense for 2006 dropped as a percent of sales from eight to seven percent for both the quarter and nine months compared to 2005. The dollar increase for the quarter and nine months resulted principally from higher profit incentives incurred in the second and third quarters of this year. The year to date increase also included the OP relocation costs incurred in the first quarter of 2006 discussed above, offset by lower incentives recorded in the first quarter of 2006 compared to higher incentives recorded in the first quarter of 2005. The Company provided income taxes at an effective tax rate of 36.6 percent in the first nine months of 2006 compared to 30 percent in the same period last year. The lower rate used in 2005 resulted from reevaluating accruals for certain income tax contingencies provided for in previous years.

At the end of 2004, the Company sold certain of the assets associated with the Blackman Uhler, LLC (BU) dye business effective January 31, 2005, and relevant operations were transferred to the purchaser by the end of the first quarter of 2005. The operations of the Colors Segment are being reported as discontinued operations in the first nine months of 2005 which came primarily from payments of severance to terminated employees.

Synalloy Corporation

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

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

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

Item 3. Market Risk.

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, 2005, which was filed with the Securities and Exchange Commission on March 27, 2006. 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 and chief financial officer concluded that such controls and procedures, as of the end of the period covered by this quarterly report, were effective.

There has been no change in the registrant's internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Synalloy Corporation

PART II: OTHER INFORMATION**Item 1A. Risk Factors.**

There has been no material change in the risk factors as previously disclosed in the Company's Form 10-K filed for the period ended December 31, 2005.

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

During the third quarter ended September 30, 2006, the Registrant issued shares of common stock to the following classes of persons upon the exercise of options issued pursuant to the Registrant's 1998 Stock Option Plan. Issuance of these shares was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 because the issuance did not involve a public offering.

| Date Issued | Class of Purchasers | Number of Shares Issued | Aggregate Exercise Price |
|--------------------|----------------------------|--------------------------------|---------------------------------|
| 9/27/2006 | Officers and Employees | 1,500 | \$ 6,975 |

Item 5. Other Information

None

**Item Exhibits
6.**

The following exhibits are included herein:

31 Rule 13a-14(a)/15d-14(a) Certifications of Chief Executive Officer and Chief Financial Officer

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

Synalloy Corporation

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 10, 2006 By: **/s/ Ronald H. Braam**
Ronald H. Braam
President and
Chief Executive
Officer

Date: November 10, 2006 By: **/s/ Gregory M. Bowie**
Gregory M. Bowie
Vice President
Finance and Chief
Financial Officer

