

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1999-01-02**
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FILER

SYNALLOY CORP

CIK: **95953** | IRS No.: **570426694** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **000-19687** | Film No.: **99573469**
SIC: **3317** Steel pipe & tubes

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

Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (D)
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED JANUARY 2, 1999

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D)
OF THE SECURITIES EXCHANGE ACT OF 1934
COMMISSION FILE NUMBER 0-19687

SYNALLOY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

57-0426694
(I.R.S. Employer
Identification No.)

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

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

| | |
|---------------------------------------------------------|------------------------------------------------------|
| Securities registered pursuant to Section 12(b) Act: | Name of each exchange on which of the registered: |
| None | Nasdaq National Market System |
| Title of Class | |

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$1.00 Par Value
(Title of Class)

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

Based on the closing price of February 26, 1999, the aggregate market value
of common stock held by non-affiliates of the registrant was \$57.2 million.

The number of common shares outstanding of the registrant's common stock as
of February 26, 1999 was 6,725,629.

Documents Incorporated By Reference

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

Item 1 Business

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

General

Metals Segment-This segment is comprised of two wholly-owned companies, Bristol Metals, L.P., located in Bristol, Tennessee, and Whiting Metals, Inc., located in Camden, South Carolina.

Bristol manufactures welded pipe, primarily from stainless steel, but also from other corrosion-resistant metals. Pipe is produced in sizes from one-half inch to 60 inches in diameter and wall thickness up to three-quarters inch. Sixteen-inch and smaller pipe is made on equipment that forms and welds the pipe in a continuous process. Pipe larger than sixteen inches is formed on presses or rolls and welded on batch welding equipment. Pipe is normally produced in standard 20-foot lengths. However, Bristol has unusual capabilities in the production of long length pipe without circumferential welds. This can reduce installation cost for the customer. Lengths up to 60 feet can be produced in sizes up to sixteen inches in diameter. In larger sizes Bristol has a unique ability among domestic producers to make 48-foot lengths in sizes up to 30 inches.

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

In 1997 Bristol began producing carbon piping systems from pipe purchased outside since Bristol does not manufacture carbon pipe. The Company entered the carbon pipe fabrication business in order to provide customers this additional product and to enhance the stainless fabrication business by quoting inquiries that require both types of piping systems.

Whiting manufactures Underwriters Laboratories (UL) labeled storage tanks, ASME code pressure vessels and reactors, and other process equipment. They have unusual expertise in the manufacture and installation of dimple and spiral-wound pipe type jackets for heating and cooling of process equipment. The wide variety of products made by Whiting are all custom designed for the end-user. Like Bristol, the principal raw material is stainless steel.

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

This segment's products are used principally by customers requiring materials that are corrosion-resistant or suitable for high-purity

processes. The largest users are the chemical, petrochemical and pulp and paper industries with some other important industry users being mining, power generation, waste water treatment, brewery, food processing, petroleum and pharmaceutical.

Chemicals Segment-This segment is comprised of three operating companies: Blackman Uhler Chemical Company (BU), a division of the Company; Manufacturers Chemicals, L.P. (MC) and Organic Pigments Corporation (OP), wholly-owned by the Company. BU has two plants, one in Augusta, Georgia and one in Spartanburg, South Carolina. Both locations are fully licensed for chemical manufacture and each maintains a permitted waste treatment system. MC is located in Cleveland, Tennessee and is fully licensed for chemical manufacture. OP is located in Greensboro, North Carolina. This segment's principal businesses are the manufacture and sale of dyes and pigments ("colors") to the textile industry, and specialty chemical products to the textile, chemical, paper and metals industries.

BU produces dyes in both liquid and powder form, and pigments primarily as a specially formulated paste. Dyes fix themselves to textile fibers by a particular reaction or penetration into the yarn fiber, whereas pigments are normally applied as a surface coating during a printing operation. Dyeing of textile fabrics in solid colors is primarily accomplished by the use of dyes. Pigment colors are uniquely suitable for printing of multi-colored patterns. Raw materials used to manufacture colors consist chiefly of organic intermediates and inorganic chemicals which are purchased from manufacturers in the United States, Europe and Asia. Currently, raw materials are readily available and management does not anticipate any difficulty in obtaining adequate supplies.

In the mid 1980s, management decided to better utilize its excellent reputation for sales and technical service by expanding its efforts to sell reactive dyes. These dyes are used for coloring cotton and rayon. The Company purchases finished and crude products that are either sold as is, or converted to liquid form for the convenience of customers. These dyes represented about 24 percent of the Chemicals Segment's sales in 1998. The Company has a distributorship agreement expiring December 31, 1999 with the company supplying about 86 percent of these products. The supplier has been the principal source of these products since 1985. Although the Company believes that this supplier will continue to be a source of these products in the future, there is no assurance of this. Loss of this supplier would have a materially adverse short-term effect on the Company's sales and net income. However, management believes that if the agreement with this supplier is not continued in the future, other suppliers could be found to replace most of the products.

In May 1994, BU acquired the sulphur dye business of Southern Dye and Chemical Company, a manufacturer of sulphur dyes utilizing an environmentally friendly chemical system. This process results in reduced environmental costs and shorter processing cycles. Sulphur dyes are used to dye denim, fleece garments, knits, work clothes, men's casual wear, and a variety of cotton and cotton-polyester blends.

BU is a producer of specialty chemicals for the chemical, photographic, pharmaceutical, agricultural and fiber industries. The Company has been focusing on specialty chemicals as a primary growth area over the past several years. Facilities and equipment have been added at both plants to provide toll and custom manufacturing of organic chemicals using reactions that include nitrations, hydrogenation, diazotizations, methylation and custom drying. These chemicals are used in a wide array of products including sun screens, UV absorbers for plastics, Cetane improver for diesel fuel, absorbers for gaseous pollutants, herbicides and intermediates for colors.

On November 25, 1996, with an effective date of October 26, 1996, the Company purchased Manufacturers Chemicals Corporation and a related Company. On December 27, 1996, the Company merged and transferred all of Manufacturers Chemicals' operations into a limited partnership. MC produces defoamers, surfactants, dye assists, softening agents, polymers and specialty lubricants for the textile, paper, chemical and metals industries. The Company also manufactures chelating agents and water treatment chemicals. Manufacturing capabilities include a wide range of chemical reactions and mixing and blending applications. MC's products are sold to direct users in a variety of manufacturing areas, directly to other chemical companies in the form of intermediates or as finished products for resale, and as contract manufacturing where the customer provides formula specifications and, in some cases, raw materials. The addition of MC complements the existing specialty chemicals area expanding its capacity and capabilities. The Company believes MC will help achieve its goal of growing specialty chemicals making this area a larger contributor to sales and profits of the Chemicals Segment.

On August 21, 1998, the Company purchased the common stock of Organic Pigments Corporation ("OP") with an effective date of July 1, 1998. OP manufactures aqueous pigment dispersions sold to the textile industry and used in printing inks for use on paper and in paints for the industrial coatings industry. The combination of OP's and BU's pigment operations makes the Company one of the largest suppliers of pigments to the domestic textile market. The addition of OP also provides the ability to produce higher solid and finer particle size dispersions allowing the Chemicals Segment to diversify into non-textile applications.

The Chemicals Segment maintains nine laboratories for applied research and quality control which are staffed by approximately 38 employees.

Sales and Distribution

Metals Segment-The Metals Segment utilizes separate sales organizations for its different product groups. Stainless steel pipe is sold nationwide under the Brismet trade name through authorized stocking distributors with over 200 warehouse locations throughout the country. In addition, large quantity orders are shipped directly from Bristol's plant to end-user customers. Producing sales and providing service to the distributors and end-user customers are two outside sales employees, five independent manufacturers' representatives, the manager of inside sales and five inside sales employees. The President also spends about 50 percent of his time in sales related matters.

Piping systems are sold nationwide under the Bristol Piping Systems trade name by three outside sales employees. They are under the direction of the Vice President in charge of piping systems who spends over half of his time in sales and service to customers. Specialty process equipment manufactured by Whiting Metals is sold by one outside sales employee and one manufacturers' representative under the direction of Whiting's President who devotes significant time to sales. Piping systems and process equipment are marketed to engineering firms and construction companies or directly to project owners. Orders are normally received as a result of competitive bids submitted in response to inquiries and bid proposals.

Chemicals Segment-Nine full-time outside sales employees and three manufacturers' representatives market colors to the textile industry nationwide. In addition, both the Presidents of BU and OP and the product manager of BU devote a substantial part of their time to sales. Specialty chemicals are sold directly to various industries nationwide by seven full-time outside sales employees, five manufacturers' representatives and one

part-time consultant. In addition, the President, product manager and another employee of MC and BU's Vice President of Research and Development devote a substantial part of their time to sales.

Competition

Metals Segment-Welded stainless steel pipe is the largest sales volume product of the Metals Segment. Although information is not publicly available regarding the sales of most other producers of this product, management believes that the Company is the largest domestic producer of such pipe. This commodity product is highly competitive with ten known domestic producers and imports from many different countries. The largest sales volume among the specialized products comes from fabricating light-wall stainless piping systems. Management believes the Company is the largest producer of such systems. With respect to specialty stainless process equipment, the Company has an insignificant market share on a national basis and has numerous competitors some of which may have substantially more resources than does the Company.

Chemicals Segment-About six percent of the colors sales represent niche products for which the Company is the only producer. Another approximately 28 percent of these sales represent products of which the Company is an important producer with an estimated 20 to 30 percent market share. The Company has five percent or less of the market for the remainder of its dye products. The Company is the sole producer of certain specialty chemicals manufactured for other companies under processing agreements. However, the Company's sales of specialty products are insignificant compared to the overall market for specialty chemicals. The market for most of the products is highly competitive and many competitors have substantially greater resources than does the Company.

Environmental Matters

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

Research and Development Activities

The Company spent approximately \$882,000 in 1998, \$833,000 in 1997 and \$778,000 in 1996 on research and development programs in its Chemicals Segment. Fifteen individuals, 14 of whom are graduate chemists, are engaged primarily in research and development of new products and processes, the improvement of existing products and processes, and the development of new applications for existing products.

Seasonal Nature of The Business

Many textile plants shut down for vacations in the first or second week of July. This contributes to a seasonal pattern that normally results in lower third quarter sales of colors when compared to the first and second quarters. In addition, for the past several years the fourth quarter has produced less sales of these products than the third quarter. The annual requirements of certain specialty chemicals are produced over a period of a few months as requested by the customers. Accordingly, the sales of these products may vary significantly from one quarter to another. The addition of MC has made quarterly sales of specialties more consistent. However, in total, sales and net income in any given quarter may not be representative of other quarters.

Backlogs

The Chemicals Segment operates primarily on the basis of delivering products soon after orders are received. Accordingly, backlogs are not a factor in this business. The same applies to commodity pipe sales in the Metals Segment. However, backlogs are important in the piping systems and process equipment products because they are produced only after orders are received, generally as the result of competitive bidding. Order backlogs for these products were \$19,200,000, \$10,600,000 and \$13,100,000 at the 1998, 1997 and 1996 respective year ends.

Employee Relations

As of January 2, 1999, the Company had 564 employees. The Company considers relations with employees to be satisfactory. The number of employees of the Company represented by unions at the Bristol, Tennessee facility is 198. They are represented by two locals affiliated with the AFL-CIO and one local affiliated with the Teamsters. Contracts will expire in December 1999, March 2000 and February 2004.

Item 2 Properties

The Company operates the major plants and facilities described herein, all of which are well maintained and in good condition. All facilities throughout the Company are adequately insured. The buildings are of various types of construction including brick, steel, concrete, concrete block and sheet metal. All have adequate transportation facilities for both raw materials and finished products. The Company owns all of these plants and facilities.

<TABLE>

<CAPTION>

| Location | Principal Operations | Building Square Feet | Land Acres |
|------------------------|-------------------------------------------------------------------------------------------|-------------------------|---------------|
| <S> Spartanburg, SC | <C> Corporate headquarters; Chemical manufacturing and warehouse facilities | <C> 211,000 | <C> 60.90 |
| Augusta, GA | Chemical manufacturing | 52,500 | 46.00 |
| Cleveland, TN | Chemical manufacturing | 90,000 | 7.50 |
| Greensboro, NC | Chemical manufacturing | 57,000 | 3.7 |
| Bristol, TN | Manufacturing of stainless steel pipe and stainless steel and carbon piping systems | 218,000 | 73.08 |
| Camden, SC | Manufacturing of stainless steel vessels | 16,300 | 12.26 |

</TABLE>

Item 3 Legal Proceedings

For a discussion of legal proceedings, see "Note N" to Consolidated Financial Statements.

Item 4 Submission of Matters to a Vote of Security Holders

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

PART II

Item 5 Market for the Registrant's Common Stock and Related Security Holder Matters

The Company had 1,431 common shareholders of record at January 2, 1999. The Company's common stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol SYNC. Future dividend payments are dependent on earnings, capital requirements and financial conditions. The prices shown below are the last reported sales prices on The Nasdaq National Market System.

<TABLE>
<CAPTION>

| Quarter <S> | 1998 | | | 1997 | | |
|----------------|-------------|------------|--------------------------|-------------|------------|--------------------------|
| | High <C> | Low <C> | Dividends Paid <C> | High <C> | Low <C> | Dividends Paid <C> |
| 1 | 16 1/2 | 13 3/4 | 0.10 | 18 3/4 | 15 1/4 | 0.09 |
| 2 | 14 7/8 | 12 | 0.10 | 18 3/8 | 13 3/4 | 0.09 |
| 3 | 13 1/4 | 7 3/4 | 0.10 | 18 3/4 | 14 3/4 | 0.09 |
| 4 | 12 3/4 | 6 | 0.10 | 17 1/2 | 14 3/8 | 0.10 |

</TABLE>

<TABLE>
<CAPTION>

Selected Financial Data

(Dollars in thousands except for per share data)

| | 1998 | 1997 | 1996 | 1995 | 1994 |
|---------------------------------------------|------------|------------|------------|------------|------------|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Operations | | | | | |
| Net sales | \$ 107,257 | \$ 126,741 | \$ 126,844 | \$ 147,298 | \$ 114,519 |
| Gross profit | 12,203 | 19,715 | 21,108 | 35,323 | 20,056 |
| Selling, general and administrative expense | 10,135 | 9,972 | 9,086 | 11,089 | 8,337 |
| Environmental remediation costs | 1,439 | - | - | - | 2,351 |
| Operating income | 629 | 9,744 | 12,022 | 24,234 | 9,368 |
| Net income | 63 | 5,841 | 7,686 | 14,521 | 5,718 |
| Financial Position | | | | | |
| Total assets | 71,374 | 73,383 | 76,589 | 80,226 | 62,432 |
| Working capital | 28,946 | 35,499 | 34,141 | 41,098 | 28,919 |
| Long-term debt | | | | | |
| less current portion | 10,000 | 10,200 | 11,200 | 12,619 | 7,911 |
| Shareholders' equity | 45,848 | 50,042 | 48,274 | 48,363 | 36,889 |
| Financial Ratios | | | | | |
| Current ratio | 3.7:1 | 4.7:1 | 3.5:1 | 3.6:1 | 3.0:1 |
| Gross profit to net sales | 11% | 16% | 17% | 24% | 18% |

| | | | | | |
|---------------------------|-----|-----|-----|-----|-----|
| Long-term debt to capital | 18% | 17% | 19% | 21% | 18% |
| Return on average assets | ** | 8% | 10% | 20% | 10% |
| Return on average equity | ** | 12% | 16% | 34% | 16% |

Per Share Data

| | | | | | | | | | | |
|-----------------------------|----|------|----|------|----|------|----|------|----|------|
| Net income - diluted | \$ | 0.01 | \$ | .83 | \$ | 1.09 | \$ | 1.98 | \$ | 0.78 |
| Dividends declared and paid | | .40 | | .37 | | .34 | | .29 | | .25 |
| Book value | | 6.82 | | 7.27 | | 6.92 | | 6.71 | | 5.12 |

Other Data

| | | | | | |
|-----------------------------------------|-------|-------|-------|-------|-------|
| Depreciation and amortization | 3,513 | 3,485 | 2,700 | 2,316 | 1,969 |
| Capital expenditures | 3,686 | 2,854 | 3,833 | 6,455 | 4,214 |
| Employees at year end | 564 | 663 | 585 | 568 | 528 |
| Shareholders of record at year end | 1,431 | 1,491 | 1,581 | 1,666 | 1,740 |
| Average shares outstanding - diluted | 6,794 | 7,007 | 7,058 | 7,352 | 7,354 |

Stock Price

| | | | | | |
|-----------------------------|--------|---------|--------|--------|--------|
| Price range of Common Stock | | | | | |
| High | 16 1/2 | 18 3/4 | 21 1/4 | 26 1/4 | 13 1/2 |
| Low | 6 | 13 3/4 | 12 | 11 7/8 | 9 3/8 |
| Close | 8 3/4 | 15 3/16 | 16 1/4 | 21 1/8 | 11 7/8 |

</TABLE>

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

Liquidity and Capital Resources

The current ratio at 1998 year end was 3.7:1 down from the previous year end ratio of 4.7:1 and up slightly from the ratio of 3.5:1 in 1996. Working capital decreased \$6,553,000 to \$28,946,000. Cash flows from operations totaling \$10,140,000, were derived primarily from reductions of \$3,407,000 in accounts receivable and \$2,383,000 in inventories, and earnings totaling \$5,015,000 before depreciation and amortization expense of \$3,513,000 and the special environmental remediation charge of \$1,439,000. The cash flows were used to fund the Organic Pigments Corporation acquisition totaling \$3,472,000, make capital expenditures of \$3,686,000, purchase 163,300 shares of the Company's Common Stock for \$1,999,000, and pay dividends of \$2,715,000. The Company expects that cash flows from 1999 operations and available borrowings will be sufficient to make long-term debt and dividend payments, and fund estimated capital expenditures of \$4,500,000 and normal operating requirements.

Results of Operations

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

<TABLE>

<CAPTION>

| | 1998 | | 1997 | | 1996 | |
|------------------------|-----------|-------|-----------|-------|-----------|-------|
| (Amounts in thousands) | Amount | % | Amount | % | Amount | % |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Net sales | \$ 55,368 | 100.0 | \$ 71,192 | 100.0 | \$ 85,027 | 100.0 |

| | | | | | | |
|--------------------------------------|-----------|-------|-----------|-------|-----------|-------|
| Cost of goods sold | 50,065 | 90.4 | 61,340 | 86.2 | 70,790 | 83.3 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Gross profit | 5,303 | 9.6 | 9,852 | 13.8 | 14,237 | 16.7 |
| Selling and administrative expense | 3,833 | 6.9 | 4,218 | 5.9 | 4,540 | 5.3 |
| Environmental remediation costs | 61 | 0.2 | 0 | | 0 | |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Operating income | \$ 1,409 | 2.5 | \$ 5,634 | 7.9 | \$ 9,697 | 11.4 |
| Year-end backlogs | | | | | | |
| Piping systems and process equipment | \$ 19,200 | | \$ 10,600 | | \$ 13,100 | |

</TABLE>

Comparison of 1998 to 1997

Sales declined 22 percent producing much lower operating income of \$1,409,000. After six years of noteworthy unit volume growth, 1998 showed a 21 percent decline because of lower demand and a surge in imports. The unit volume decline came from lower commodity stainless pipe sales resulting primarily from a surge in cheap imports coupled with significantly low piping systems and process equipment sales. The Company chose not to compete for business when pricing was driven solely by low-priced imports, as average prices for commodity pipe declined eight percent for the year compared to last year. Lower gross profits were caused by low plant utilization rates, more competitive pricing for pipe, and a loss from piping systems. Although the stainless steel fabrication shop about broke even, a \$418,000 loss was incurred in the carbon pipe fabrication shop opened in 1997. Low demand in the pulp and paper industry resulting in lower unit volumes caused the poor performance in piping systems.

Lower sales commissions and profit-based incentives accounted for the nine percent decline in selling and administrative expenses.

For information related to environmental matters, see "Note H" to Consolidated Financial Statements.

Comparison of 1997 to 1996

Sales and operating income declined 17 and 43 percent, respectively, from 1996. These percentages as well as others in this report are after giving effect to the extra production days from having 53 weeks included in the 1997 fiscal year. The dollar decline in sales for 1997 was the result of an 18 percent decrease in average selling prices verses 1996. Unit volume was actually up slightly in 1997. After experiencing an unprecedented surge in pipe prices during 1995, the trend reversed and prices declined precipitously in 1996 back to levels existing before the price increases. A primary factor contributing to the decline in prices was the pricing trends of flat-rolled stainless steel, the raw material from which pipe is made. Pipe prices are closely tied to the cost of flat-rolled stainless steel, which experienced similar pricing fluctuations over the past three years.

The bulk of the decrease in operating income occurred in the first quarter of the year when market dynamics were completely different from the first quarter of 1996. During the first quarter of 1996, the price declines in stainless steel pipe prices had just begun and profits were still good. By the first quarter of 1997, prices were down 28 percent from a year earlier

and profits were at extremely low levels. Exacerbating the big decline in first quarter 1997 profits from stainless pipe was a loss from piping systems and process equipment compared to good profitability in the first quarter of 1996. The loss from these products was primarily due to low production levels caused by customer stretch-outs in delivery dates.

Lower profit-based incentives accounted for the decline in selling and administrative expenses.

Chemicals Segment-The following table summarizes operating results for the three years indicated. Reference should be made to "Note Q" to Consolidated Financial Statements.

<TABLE>

<CAPTION>

| | 1998 | | 1997 | | 1996 | |
|------------------------------------|-----------|-------|-----------|-------|-----------|-------|
| (Amounts in thousands) | Amount | % | Amount | % | Amount | % |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Net sales | \$ 51,889 | 100.0 | \$ 55,549 | 100.0 | \$ 41,817 | 100.0 |
| Cost of goods sold | 44,989 | 86.7 | 45,686 | 82.2 | 34,946 | 83.6 |
| Gross profit | 6,900 | 13.3 | 9,863 | 17.8 | 6,871 | 16.4 |
| Selling and administrative expense | 5,498 | 10.6 | 4,643 | 8.4 | 3,183 | 7.6 |
| Environmental remediation costs | 1,378 | 2.7 | 0 | | 0 | |
| Operating income | \$ 24 | 0.0 | \$ 5,220 | 9.4 | \$ 3,688 | 8.8 |

</TABLE>

Comparison of 1998 to 1997

The Chemicals Segment experienced a sales decline of seven percent for the year and operating income fell significantly to \$24,000, \$1,402,000 before the special charge for environmental remediation costs. Both colors and specialty chemicals experienced a decline in sales from the prior year. Colors sales were down two percent. Without the acquisition of Organic Pigments on July 1, 1998, total Chemicals Segment sales would have declined 13 percent and colors sales would have been down 15 percent. The continued downsizing of the domestic textile industry, because of low cost imports, led to less unit volume demand for colors compared to a year earlier. Sales prices were also lower continuing the deflationary trend that has been evident for several years. Sales of specialty chemicals were down 12 percent because of lower demand for certain products and sales in 1997 from a toll project that ended in December 1997. The combination of weaker pricing for color products and low level of capacity utilization in both colors and specialty chemicals contributed to the decline in gross profits. Selling and administrative expenses increased 18 percent because of the Organic acquisition and additions to the sales staff.

For information related to environmental matters, see "Note H" to Consolidated Financial Statements.

Comparison of 1997 to 1996

Sales and operating income increased 31 and 40 percent, respectively, aided by the acquisition of MC. The prolonged decline in textile colors

sales ended in the first quarter of 1997 with each of the subsequent quarters showing improvement over the prior year quarter. The increased sales in these three quarters of about 10 percent led to a five percent increase for the year. The improvement resulted from increases in unit volumes in several of the product groups offset somewhat by falling prices from competitive pressure experienced throughout all of the textile colors product lines. The acquisition of MC propelled specialty chemicals to 44 percent of total Chemicals Segment sales for 1997. Specialty chemicals sales, without MC's sales for 1997, increased insignificantly over last year.

Essentially all of the growth in the Chemicals Segment's operating income was produced by specialty chemicals, as profits from textile colors experienced only a moderate gain. The competitive pressure on selling prices continued to impair profitability throughout 1997 in textile colors. The significant increase in specialty chemicals profits came from increased volume from projects, creating improved manufacturing variances that resulted in better profit margins, and the addition of MC.

Selling and administrative expenses increased 44 percent from including expenses of MC for a full year in 1997 versus two months in 1996, and from additional selling expenses related to the addition of a BU product manager in November of 1996.

Unallocated Income and Expense

Reference should be made to "Note Q" to Consolidated Financial Statements for the schedule of these items.

Comparison of 1998 to 1997

The 28 percent decrease in corporate expenses resulted from lower profit-based incentives and professional fees. The Company benefited from lower interest expense on reduced borrowings under the line of credit with a bank, and higher interest income earned on cash invested during the year.

Comparison of 1997 to 1996

The decrease in corporate expenses resulted from lower profit-based incentives. Interest expense declined from reduced borrowings under the line of credit with a bank and a \$2,000,000 reduction in long-term debt paid in June 1997.

Current Conditions and Outlook

The Metals Segment experienced a 25 percent decline in unit volume in the fourth quarter together with average sales prices that were 23 percent lower. This decline led to a 43 percent decrease in sales to \$10,941,000 compared to a year earlier. A surge in cheap imports, producing lower commodity stainless pipe sales, and historically low piping systems and process equipment sales caused the unit volume decline. Average prices suffered from a shift in product mix to a much lower percentage of higher-priced products as well as 16 percent lower prices for commodity pipe. Operating income in the fourth quarter fell 89 percent to \$177,000 from the prior year resulting from more competitive pricing for pipe, the shift in product mix, a loss from piping systems, and the decline in unit volume, which produced low plant utilization rates. The well-publicized economic turmoil in Asia and the Pacific Rim countries is largely responsible for the cheap import surge in stainless pipe. As long as the U. S. remains the dumping ground for the world's excess capacity, the stainless pipe business will remain uncertain. On the other hand, the 1999 outlook for piping systems and process equipment is excellent. The year begins with a solid

backlog of \$19,200,000, up 81 percent from a year earlier. Management expects significant profits from these products in 1999 compared to the losses suffered in 1998. The carbon shop was closed in December 1998 and a smaller shop was opened adjacent to our stainless shop. Because of the greatly reduced costs, management expects this carbon shop to operate profitably in 1999.

The Chemicals Segment suffered an operating loss in the fourth quarter of \$1,592,000 after a \$1,378,000 pretax environmental charge, on a 17 percent sales decline to \$11,858,000. Colors sales were down two percent. Without the acquisition of Organic, total Chemicals Segment sales would have declined 29 percent and colors sales would have been down 26 percent. Factors causing the sales decline were identical to those experienced throughout the year as discussed in the Chemicals Segment analysis. The operating loss for the quarter came primarily from specialty chemicals as sales for the quarter were down 31 percent. The sales decline was caused by the timing of production under certain toll contracts, lower demand for certain products, and sales in 1997 from a toll project that ended in December 1997. The low level of capacity utilization led to significantly lower gross profits. Management believes that initiatives taken in 1998 will lead to better operating results in 1999 and beyond. The acquisition of Organic makes the Company a leader in the domestic textile pigments business with an unmatched ability to provide unique high quality printing systems. Organic also gives the Company an entree into aqueous dispersions used in printing inks for paper. The benefits from this acquisition are expected to become evident in 1999. The Company devoted much time and effort in 1998 perfecting the process and installing the equipment needed to manufacture an agricultural chemical under a toll agreement. Initial production has now begun and plans call for this to become the Company's largest toll product as the year progresses. In mid 1998, the Company added a salesman to market color and chemical products to the textile industry in Central America. Shipments were insignificant in 1998 but a meaningful amount is expected in 1999.

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

The statements contained in this Annual Report on Form 10-K that are not historical facts may be 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, which speak only as of their dates. 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, 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 Annual Report on Form 10-K.

Year 2000 Compliance

The Company has completed its assessment of all systems that could be affected by the Year 2000. Based on the assessment, the Company completed software reprogramming and replacement, testing and implementation during 1998. The work included both information and production systems. The work was completed by Company employees and no significant costs were incurred other than normal personnel costs. In addition, the Company has gathered information about the Year 2000 compliance status of significant suppliers

and customers and continues to monitor their compliance. To date, the Company is not aware of any Year 2000 issue that would materially impact the Company's results of operations, liquidity, or capital resources. However, the Company has no means of ensuring that a supplier or customer will be Year 2000 ready. Management believes that it has an effective program in place to resolve the Year 2000 issue. Since the Company has been operating the revised software since the second quarter of 1998, and the assessment of its suppliers did not reveal a material issue that would prevent receiving necessary materials and supplies to continue normal operations, the Company has no contingency plans in place.

Although all internal programming work has been completed, if an undetected system failure should occur, or one of the Company's key suppliers does not become Year 2000 ready, the Company may not be able to complete customer orders. In addition, disruptions in the economy generally resulting from Year 2000 issues could also affect the Company. If issues related to Year 2000 should arise, the amount of potential liability and lost revenue cannot be reasonably estimated at this time.

Item 7a Quantitative and Qualitative Disclosures About Market Risks

The Company is exposed to market risks from adverse changes in interest rates. In this regard, changes in U. S. interest rates affect the interest earned on the Company's cash and cash equivalents as well as interest paid on its indebtedness. As a policy, the Company does not engage in speculative or leveraged transactions, nor does it hold or issue financial instruments for trading purposes. The Company is exposed to changes in interest rates primarily as a result of its borrowing activities used to maintain liquidity and fund business operations. There have been no significant changes in the Company's risk exposures from the prior year.

At January 2, 1999, fair value of the Company's debt obligation, which approximated the recorded value consisted of:
\$665,000 notes payable under a \$9,000,000 line of credit expiring on July 1, 1999 with an average variable interest rate of 5.56 percent.

\$10,000,000 variable rate debt due May 1, 2002 with an average variable interest rate of 6.26 percent.

In addition, the Company's investment in Ta Chen Stainless Pipe Company, which is recorded at its fair value of \$1,026,000, is subject to market risk related to equity pricing changes. Management believes that substantial fluctuations in equity prices and the resulting changes in the Company's investment would not have a material adverse impact on the Company.

Item 8 Financial Statements and Supplementary Data

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

<TABLE>
<CAPTION>

Consolidated Balance Sheets

January 2, 1999, January 3, 1998 and December 28, 1996

| | 1998 | 1997 | 1996 |
|--------|-------|-------|-------|
| | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> |
| Assets | | | |

Current assets

| | | | |
|---------------------------------------------------------------------------------------------------------------------|--------------|--------------|--------------|
| Cash and cash equivalents | \$ 117,658 | \$ 1,602,543 | \$ 115,828 |
| Accounts receivable, less allowance for doubtful accounts of \$362,000, \$219,000 and \$208,000, respectively | 12,596,592 | 15,201,783 | 17,253,534 |
| Inventories | | | |
| Raw materials | 7,502,972 | 7,368,212 | 8,357,884 |
| Work-in-process | 3,755,147 | 4,791,379 | 5,112,695 |
| Finished goods | 14,842,842 | 15,287,431 | 16,384,891 |
| Total inventories | 26,100,961 | 27,447,022 | 29,855,470 |
| Deferred income taxes (Note L) | 192,000 | 177,000 | 130,000 |
| Prepaid expenses and other current assets | 646,342 | 633,709 | 278,276 |
| Total current assets | 39,653,553 | 45,062,057 | 47,633,108 |
| Cash value of life insurance | 2,025,984 | 1,842,384 | 1,733,801 |
| Investment (Note B) | 1,026,117 | 329,117 | 329,117 |
| Property, plant and equipment, net (Note C) | 25,495,020 | 23,112,324 | 23,627,889 |
| Deferred charges, net and other assets (Note D) | 3,173,788 | 3,037,470 | 3,265,211 |
| Total assets | \$71,374,462 | \$73,383,352 | \$76,589,126 |

January 3, 1998, December 28, 1996 and December 30, 1995

| | 1998 | 1997 | 1996 |
|-------------------------------------------------------|------------|------------|--------------|
| | ----- | ----- | ----- |
| Liabilities and Shareholders' Equity | | | |
| Current liabilities | | | |
| Notes payable (Note E) | \$ 665,000 | \$ - | \$ 1,500,000 |
| Accounts payable | 7,882,778 | 5,544,789 | 6,252,449 |
| Income taxes | - | 310,992 | 332,507 |
| Accrued expenses (Note F) | 1,383,740 | 3,018,850 | 2,492,660 |
| Current portion of environmental reserves (Note H) | 575,650 | 487,980 | 359,294 |
| Current portion of long-term debt (Note G) | 200,000 | 200,000 | 1,400,000 |
| Notes payable to an employee (Note P) | - | - | 1,154,805 |
| Total current liabilities | 10,707,168 | 9,562,611 | 13,491,715 |
| Long-term debt, less current portion (Note G) | 10,000,000 | 10,200,000 | 11,200,000 |
| Environmental reserves (Note H) | 1,846,550 | 782,700 | 1,300,100 |
| Deferred compensation (Note I) | 1,349,940 | 1,323,388 | 1,299,176 |

| | | | |
|------------------------------------------------------------------------------------------------|--------------|--------------|--------------|
| Deferred income taxes (Note L) | 1,623,000 | 1,473,000 | 1,024,000 |
| Contingencies (Notes H and N) | | | |
| Shareholders' equity (Notes G, J, and K) | | | |
| Common stock, par value \$1 per share - authorized and issued 8,000,000 shares | 8,000,000 | 8,000,000 | 8,000,000 |
| Capital in excess of par value | 9,491 | 33,475 | 81,746 |
| Retained earnings | 49,687,391 | 52,339,857 | 49,074,919 |
| Accumulated other comprehensive income | 453,000 | - | - |
| | ----- | ----- | ----- |
| | 58,149,882 | 60,373,332 | 57,156,665 |
| Less cost of Common Stock in treasury: 1,274,371, 1,114,179 and 1,024,983 shares, respectively | 12,302,078 | 10,331,679 | 8,882,530 |
| | ----- | ----- | ----- |
| Total shareholders' equity | 45,847,804 | 50,041,653 | 48,274,135 |
| | ----- | ----- | ----- |
| Total liabilities and shareholders' equity | \$71,374,462 | \$73,383,352 | \$76,589,126 |
| | ===== | ===== | ===== |

See accompanying notes to financial statements.

</TABLE>

<TABLE>

<CAPTION>

Consolidated Statements of Income

January 2, 1999, January 3, 1998 and December 28, 1996

| | 1998 | 1997 | 1996 |
|---------------------------------------------|---------------|---------------|---------------|
| | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> |
| Net sales | \$107,257,319 | \$126,740,641 | \$126,843,835 |
| Cost of sales | 95,054,533 | 107,025,237 | 105,736,099 |
| | ----- | ----- | ----- |
| Gross profit | 12,202,786 | 19,715,404 | 21,107,736 |
| Selling, general and administrative expense | 10,134,530 | 9,971,869 | 9,085,923 |
| Environmental remediation costs | 1,439,070 | - | - |
| | ----- | ----- | ----- |
| Operating income | 629,186 | 9,743,535 | 12,021,813 |
| Other (income) and expense | | | |
| Gain on sale of investment | - | - | (665,718) |
| Interest expense | 673,932 | 741,340 | 838,963 |
| Other, net | (141,423) | (28,565) | (20,533) |
| | ----- | ----- | ----- |
| Income before taxes | 96,677 | 9,030,760 | 11,869,101 |
| Provision for income taxes | 34,000 | 3,190,000 | 4,183,000 |
| | ----- | ----- | ----- |
| Net income | \$ 62,677 | \$ 5,840,760 | \$ 7,686,101 |

| | | | |
|------------------------------|--------|-------|--------|
| Net income per common share: | | | |
| Basic | \$.01 | \$.84 | \$1.10 |
| | ==== | ==== | ==== |
| Diluted | \$.01 | \$.83 | \$1.09 |
| | ==== | ==== | ==== |

See accompanying notes to financial statements.

</TABLE>

<TABLE>

<CAPTION>

Consolidated Statements of Shareholders' Equity

| | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Income | Cost of Common Stock in Treasury | Total |
|---------------------------------------------------------------------------------------|--------------|--------------------------------------|----------------------|-------------------------------------------------|-------------------------------------------|--------------|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Balance at December 30, 1995 | \$8,000,000 | \$ 417,030 | \$43,774,332 | | \$ (3,828,211) | \$48,363,151 |
| Net income | | | 7,686,101 | | | 7,686,101 |
| Stock options exercised | | (335,284) | | | 569,292 | 234,008 |
| Purchase of common stock for treasury | | | | | (5,623,611) | (5,623,611) |
| Cash dividends - \$.34 per share | | | (2,385,514) | | | (2,385,514) |
| Balance at December 28, 1996 | 8,000,000 | 81,746 | 49,074,919 | | (8,882,530) | 48,274,135 |
| Net income | | | 5,840,760 | | | 5,840,760 |
| Stock options exercised | | (48,271) | | | 139,479 | 91,208 |
| Purchase of common stock for treasury | | | | | (1,588,628) | (1,588,628) |
| Cash dividends - \$.37 per share | | | (2,575,822) | | | (2,575,822) |
| Balance at January 3, 1998 | 8,000,000 | 33,475 | 52,339,857 | \$ - | (10,331,679) | 50,041,653 |
| Cumulative effect of change in accounting method, net of tax (Notes A and B) | | | | 473,000 | | 473,000 |
| Comprehensive income: | | | | | | |
| Net income | | | 62,677 | | | 62,677 |
| Other comprehensive income, net of tax (Notes A and B) | | | | (20,000) | | (20,000) |
| Comprehensive income | | | | | | 42,677 |
| Stock options exercised | | (23,984) | | | 28,820 | 4,836 |
| Purchase of common stock for treasury | | | | | (1,999,219) | (1,999,219) |
| Cash dividends - \$.40 per share | | | (2,715,143) | | | (2,715,143) |
| Balance at | | | | | | |

| | | | | | | |
|-----------------|-------------|----------|--------------|-----------|-----------------|--------------|
| January 2, 1999 | \$8,000,000 | \$ 9,491 | \$49,687,391 | \$453,000 | \$ (12,302,078) | \$45,847,804 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

See accompanying notes to financial statements.

</TABLE>

<TABLE>

<CAPTION>

Consolidated Statements of Cash Flows

January 2, 1999, January 3, 1998 and December 28, 1996

| | 1998 ----- | 1997 ----- | 1996 ----- |
|-----------------------------------------------------------------------------------|---------------|---------------|---------------|
| <S> | <C> | <C> | <C> |
| Operating activities | | | |
| Net income | \$ 62,677 | \$ 5,840,760 | \$ 7,686,101 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation expense | 3,258,075 | 3,221,069 | 2,547,986 |
| Amortization of deferred charges | 254,925 | 263,791 | 151,615 |
| Deferred compensation | 26,552 | 24,212 | 31,823 |
| Deferred income taxes | (250,000) | 402,000 | 492,000 |
| Provision for losses on accounts receivable | 142,706 | 11,067 | (197,920) |
| Loss on sale of property, plant and equipment | 25,162 | 117,586 | 146,022 |
| Cash value of life insurance | (120,490) | (108,583) | (101,772) |
| Environmental reserves | 1,151,520 | (388,714) | (529,927) |
| Gain on sale of investment | - | - | (665,718) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 3,407,106 | 2,040,684 | 2,276,838 |
| Inventories | 2,382,578 | 2,408,448 | 9,923,875 |
| Other assets | (105,116) | (398,998) | (658,864) |
| Accounts payable and accrued expenses | 172,719 | (181,470) | (2,313,165) |
| Income taxes payable | (478,395) | (21,515) | 91,338 |
| | ----- | ----- | ----- |
| Net cash provided by operating activities | 10,140,251 | 13,230,337 | 18,880,232 |
| Investing activities | | | |
| Purchases of property, plant and equipment | (3,685,847) | (2,853,799) | (3,832,899) |
| Proceeds from sale of property, plant and equipment | 37,036 | 30,709 | 94,975 |
| Proceeds from sale of investment | - | - | 826,248 |
| Acquisitions, net of cash and note payable (Note P) | (3,456,799) | - | (4,093,807) |
| (Increase)decrease in notes receivable | (275,000) | 7,515 | 6,804 |
| | ----- | ----- | ----- |
| Net cash (used in) investing activities | (7,380,610) | (2,815,575) | (6,998,679) |
| Financing activities | | | |
| Proceeds from revolving lines of credit | 3,613,000 | 13,145,000 | 45,707,000 |

| | | | |
|--------------------------------------------------|-------------|--------------|--------------|
| Payments on revolving lines of credit | (2,948,000) | (14,645,000) | (48,947,000) |
| Principal payments on long-term debt | (200,000) | (2,200,000) | (1,017,669) |
| Payment of notes payable to an employee | - | (1,154,805) | - |
| Proceeds from exercised stock options | 4,836 | 91,208 | 234,008 |
| Purchases of treasury stock | (1,999,219) | (1,588,628) | (5,623,611) |
| Dividends paid | (2,715,143) | (2,575,822) | (2,385,514) |
| | ----- | ----- | ----- |
| Net cash (used in) financing activities | (4,244,526) | (8,928,047) | (12,032,786) |
| | ----- | ----- | ----- |
| (Decrease) Increase in cash and cash equivalents | (1,484,885) | 1,486,715 | (151,233) |
| Cash and cash equivalents at beginning of year | 1,602,543 | 115,828 | 267,061 |
| | ----- | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 117,658 | \$ 1,602,543 | \$ 115,828 |
| | ===== | ===== | ===== |

See accompanying notes to financial statements.

</TABLE>

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

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

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

Accounting Period. The Company's fiscal year is the 52- or 53-week period ending the Saturday nearest to December 31. Fiscal year 1998 ended on January 2, 1999 and included 52 weeks. Fiscal year 1997 ended on January 3, 1998 and included 53 weeks. Fiscal year 1996 ended on December 28, 1996 and included 52 weeks.

Revenue Recognition. Revenue from product sales is recognized at the time ownership of goods transfers to the customer and the earnings process is complete.

Inventories. Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

Property, Plant and Equipment. Property, plant and equipment are stated at cost. Depreciation is provided on the straight-line method over the estimated useful life of the assets.

Deferred Charges. Intangibles arising from acquisitions represent the excess of cost over fair value of net assets of businesses acquired. The excess cost is amortized using the straight-line method over periods of 15 to 40 years. The costs of software licenses are amortized over their

expected useful lives using the straight-line method. Debt expenses are amortized over the periods of the underlying debt agreements using the straight-line method.

Net Income Per Common Share. In 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("Statement") No. 128, "Earnings per Share." Statement 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options. Diluted earnings per share is very similar to the previously reported primary earnings per share. All earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to the Statement 128 requirements.

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

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

Substantially all of the Company's accounts receivable are due from companies located throughout the United States. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Receivables are generally due within 30 to 45 days.

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

Research and Development Expense. The Company incurred research and development expense of approximately \$882,000, \$833,000 and \$778,000 in the 1998, 1997 and 1996 fiscal years, respectively.

Fair Value of Financial Instruments. The carrying amounts reported in the balance sheet for cash and cash equivalents, cash surrender value of life insurance, investment and borrowings under the Company's short-term line of credit and long-term debt approximate their fair values.

Stock Options. The Company accounts for and will continue to account for stock options under Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees." See Note K.

Comprehensive Income. In June 1997, the FASB issued Statement No. 130, "Reporting Comprehensive Income" which established standards for the reporting and display of comprehensive income and its components in a full set of comparative general-purpose financial statements. The statement became effective for the Company as of January 4, 1998. Comprehensive income is defined in this statement as net income plus other comprehensive income which, under existing accounting standards, consists of unrealized gains and losses on certain investments in equity securities. Comprehensive income is reported by the Company in the Consolidated Statements of Changes in Stockholders' Equity.

Investment In Equity Securities. In 1997 and 1996 the Company's investment in Ta Chen (Note B) was accounted for on the cost method of accounting due to restrictions on trading. In 1998 the restrictions expired and in accordance with FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the investment has been recorded at fair

value.

Note B Investment in Ta Chen Stainless Pipe Company

The Company has an investment available for sale in a company incorporated in the Republic of China. Ta Chen is a stainless steel pipe manufacturing company that has been operating since 1987. In October 1996 the Company sold 39.4 percent of its investment in Ta Chen for a pretax gain of \$665,718.

The Company continues to hold a 1.06 percent ownership interest. The investment is recorded at fair value as quoted on the Taiwanese stock exchange at January 2, 1999. The unrealized appreciation of the investment, totalling \$697,000, is recorded as other comprehensive income included in shareholders' equity, net of deferred income taxes of \$244,000.

<TABLE>

<CAPTION>

Note C Property, Plant and Equipment

Property, plant and equipment consist of the following:

| | 1998 | 1997 | 1996 |
|--------------------------------------|---------------|---------------|---------------|
| <S> | <C> | <C> | <C> |
| Land | \$ 431,736 | \$ 299,043 | \$ 299,043 |
| Land improvements | 989,814 | 1,006,675 | 965,469 |
| Buildings | 13,970,501 | 12,103,534 | 11,613,857 |
| Machinery, fixtures and equipment | 40,570,435 | 36,876,635 | 36,506,944 |
| Construction-in- progress | 2,030,584 | 614,620 | 370,996 |
| | ----- | ----- | ----- |
| | 57,993,070 | 50,900,507 | 49,756,309 |
| Less accumulated depreciation | 32,498,050 | 27,788,183 | 26,128,420 |
| | ----- | ----- | ----- |
| | \$ 25,495,020 | \$ 23,112,324 | \$ 23,627,889 |

</TABLE>

<TABLE>

<CAPTION>

Note D Deferred Charges

Deferred charges consist of the following:

| | 1998 | 1997 | 1996 |
|------------------------------------------|--------------|--------------|--------------|
| <S> | <C> | <C> | <C> |
| Intangibles arising from acquisitions | \$ 2,843,965 | \$ 2,758,965 | \$ 2,758,965 |
| Software license agreements | 477,289 | 448,935 | 448,935 |
| Debt expense | 104,316 | 117,116 | 132,645 |

| | | | |
|----------------------------------|--------------|--------------|--------------|
| | ----- | ----- | ----- |
| | 3,425,570 | 3,325,016 | 3,340,545 |
| Less accumulated amortization | 1,042,317 | 803,359 | 565,263 |
| | ----- | ----- | ----- |
| | \$ 2,383,253 | \$ 2,521,657 | \$ 2,775,282 |

</TABLE>

Note E Notes Payable

The Company has available a line of credit totaling \$9,000,000, of which \$665,000 was outstanding at year end. The line expires on July 1, 1999 and bears interest at the bank's overnight cost of funds plus .75 percent (6.28 percent at January 2, 1999). The line has no compensating balance requirement. Borrowings under the line of credit are subject to the deed of trust and security agreement outlined in Note G. Average short-term borrowings outstanding during fiscal 1998, 1997 and 1996 were \$61,000, \$261,000 and \$2,099,000 with weighted average interest rates of 5.56 percent, 6.11 percent and 6.11 percent, respectively.

<TABLE>

<CAPTION>

Note F Accrued Expenses

Accrued expenses consist of the following:

| | 1998 | 1997 | 1996 |
|------------------------------------|--------------|--------------|--------------|
| <S> | <C> | <C> | <C> |
| Salaries, wages and commissions | \$ 299,155 | \$ 895,526 | \$ 1,477,986 |
| Taxes, other than income taxes | 257,203 | 361,040 | 259,452 |
| Insurance | 276,894 | 213,465 | 273,792 |
| Pension | 134,977 | 158,063 | 198,272 |
| Customer advances | 88,028 | 887,498 | 20,144 |
| Other accrued items | 327,483 | 503,258 | 263,014 |
| | ----- | ----- | ----- |
| | \$ 1,383,740 | \$ 3,018,850 | \$ 2,492,660 |

</TABLE>

<TABLE>

<CAPTION>

Note G Long-Term Debt

Long-term debt consists of the following:

| | 1998 | 1997 | 1996 |
|-------------------------------------------------------------------------------------------------------------|------|------|------|
| <S> | <C> | <C> | <C> |
| Variable percentage (weekly tax exempt interest rate) Economic Development Revenue Bond payable | | | |

in annual installments
of \$200,000 through
November 1, 1999.
Interest is paid
quarterly.

\$ 200,000 \$ 400,000 \$ 600,000

Unsecured commercial
note payable with
interest payable on
the dates and at
rates provided by
credit agreement,
as amended

10,000,000 10,000,000 12,000,000

10,200,000 10,400,000 12,600,000

Less current portion

200,000 200,000 1,400,000

\$ 10,000,000 \$ 10,200,000 \$ 11,200,000

</TABLE>

On November 16, 1989, \$2,000,000 of South Carolina Jobs-Economic Development Authority Adjustable Mode Industrial Development Revenue Bonds were issued in connection with a project by the Company. Under the terms of issuance, the bank provided a letter of credit to support the payment of the bonds.

On July 31, 1997, the Company entered into an agreement to amend its 1995 Revolving Credit/ Term Loan Agreement and prepaid \$800,000, reducing the balance owed to \$10,000,000. The amendment converted the debt from a five-year term loan, payable in equal quarterly installments, to a \$10,000,000 revolving line of credit expiring May 31, 2002. Interest is payable quarterly on the outstanding balance at the lower of the bank's prime rate less .25 percent or LIBOR plus .60 percent. The rate at January 2, 1999 was 5.88 percent. Borrowings are subject to the maintenance of certain financial ratios and certain other restrictive covenants. At January 2, 1999, the Company was not in compliance with one of its covenants for which the Company received a waiver and amendment on March 5, 1999. The amendment calls for an increase in the interest rate to LIBOR plus .80 percent, which may be reduced to .70 percent based upon the achievement of a certain financial ratio.

The Company made interest payments of \$664,000 in 1998, \$764,000 in 1997 and \$958,000 in 1996. Interest expense of approximately \$116,000, was capitalized in 1996. The approximate aggregate amount of all long-term debt maturities for the next five years is as follows: 1999 - \$200,000; and 2002 - \$10,000,000.

Note H Environmental Compliance Costs

At January 2, 1999, the Company has accrued \$2,422,000 in remediation costs which, in management's best estimate, will satisfy anticipated costs of known remediation requirements as outlined below. Expenditures related to costs currently accrued are not discounted to their present values and are expected to be made over the next five to seven years. As a result of the evolving nature of the environmental regulations, the difficulty in estimating the extent and remedy of environmental contamination, and the availability and application of technology, the estimated costs for future environmental compliance and remediation are subject to uncertainties and it is not possible to predict the amount or timing of future costs of environmental matters which may subsequently be determined. Subject to the difficulty in estimating future environmental costs, the Company believes

that the likelihood of material losses in excess of the amounts recorded is remote.

Prior to 1987, the Company utilized certain products at its chemical facilities that are currently classified as hazardous waste. Testing of the groundwater in the areas of the treatment impoundments at these facilities disclosed the presence of certain contaminants. In addition, several solid waste management units ("SWMUs") at the plant sites have been identified. During the latter part of 1994, the Company completed a reevaluation of its remediation plans including RCRA Facility Investigations which have been submitted for regulatory approval. In 1998 the Company completed an RCRA Facility Investigation at one of its plant sites and based on the results is currently conducting a Corrective Measures Study to be completed in 1999. After completion of the Study, a Corrective Measures Plan specifying remediation procedures to be performed will be submitted for regulatory approval in 1999. At another plant site, the Company is awaiting approval for a Phase II Monitoring Plan, which was completed in 1997. Upon receiving approval, a Corrective Measures Plan will be developed and submitted for regulatory approval. Based on the anticipated results of the studies being performed at the two sites, the Company recorded a special charge of \$1,378,000 in the fourth quarter of 1998 to accrue for estimated future remedial, cleanup and monitoring costs.

The Company has identified and evaluated two SWMUs at its plant in Bristol, Tennessee that revealed residual groundwater contamination. In 1994 the Company submitted a Permit Application for Post Closure Care to the TDEC outlining a plan to address the areas identified, and received the Permit in the fourth quarter of 1994. Additional costs of \$61,000 were accrued in the fourth quarter of 1998 and \$153,000 remains accrued at January 2, 1999 to provide for estimated future remedial, cleanup and monitoring costs as required by the Permit.

The Company has been designated, along with others, as a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act, or comparable state statutes, at three waste disposal sites. It is impossible to determine the ultimate costs related to these sites due to several factors such as the unknown magnitude of possible contamination, the unknown timing and extent of the corrective actions which may be required, and the determination of the Company's liability in proportion to other responsible parties. However, in management's opinion, these environmental matters should not have a material adverse effect upon the consolidated results of operations or financial position of the Company.

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

Note I Deferred Compensation

The Company has a deferred compensation agreement with an officer which allows the officer to defer all or a portion of any annual incentive payable to the officer. Amounts deferred are payable upon certain events including retirement, death or termination of the officer, or a change in control of the Company. Interest accrues on amounts deferred, net of estimated income tax benefits deferred by the Company until payments are made, at rates consistent with other invested retirement funds held by the Company in accordance with the agreement. No incentive was deferred in

1998, 1997 and 1996. At January 2, 1999, the amounts deferred totaled \$801,000, including accrued interest earned in 1998 of \$27,000.

The Company has deferred compensation agreements with certain former officers providing for payments for ten years in the event of pre-retirement death or the longer of ten years or life beginning at age 65. The present value of such vested future payments, \$549,000 at January 2, 1999, has been accrued.

Note J Shareholders' Rights

On February 4, 1999, the Board of Directors adopted a new Shareholders' Rights Plan (the "Plan") to succeed the Shareholders' Rights Plan expiring on March 26, 1999. Under the terms of the Plan, which expires in March 2009, the Company declared a dividend distribution of one right for each outstanding share to holders of record at the close of business on March 26, 1999. Each Right entitles holders to purchase 2/10 of one share of Common Stock at a price of \$25.00 per share. Initially, the Rights are not exercisable and will automatically trade with the Common Stock. Each right only becomes exercisable after a person or group acquires more than 22 percent of the Company's Common Stock, or announces a tender or exchange offer for more than 22 percent of the stock. At that time, each right holder, other than the acquiring person or group, may use the Right to purchase \$25.00 worth of the Company's Common Stock at one-half of the then market price.

Note K Stock Options

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

<TABLE>

<CAPTION>

| | Weighted Average Exercise Price | Outstanding | Available |
|----------------------|------------------------------------|-------------|-----------|
| <S> | <C> | <C> | <C> |
| At December 30, 1995 | \$ 7.02 | 221,883 | 162,000 |
| Granted | \$ 18.88 | 21,000 | (21,000) |
| Exercised | \$ 2.63 | (88,875) | |
| | ----- | ----- | ----- |
| At December 28, 1996 | \$ 11.17 | 154,008 | 141,000 |
| Granted | \$ 15.13 | 100,500 | (100,500) |
| Exercised | \$ 5.74 | (15,900) | |
| | ----- | ----- | ----- |
| At January 3, 1998 | \$ 13.20 | 238,608 | 40,500 |
| Authorized | | | 380,000 |
| Expired | | | (27,000) |
| Granted | \$ 11.81 | 16,000 | (16,000) |
| Exercised | \$ 1.56 | (3,108) | |
| | ----- | ----- | ----- |
| At January 2, 1999 | \$ 13.25 | 251,500 | 377,500 |

</TABLE>

<TABLE>

<CAPTION>

The following table summarizes information about stock options outstanding

at January 2, 1999:

| | | ---Outstanding Stock Options--- | | ----Exercisable---- | |
|--------------------|---------|---------------------------------|-------------------------------------|----------------------|---------------------------------|
| | | --Weighted Average-- | | ----Stock Options--- | |
| Range of Prices | Shares | Exercise Price | Remaining Contractual Life in Years | Shares | Weighted Average Exercise Price |
| <S> | <C> | <C> | <C> | <C> | <C> |
| \$9.75 | 72,000 | \$ 9.75 | 4.83 | 72,000 | \$ 9.75 |
| \$11.88 to \$14.83 | 42,000 | \$12.51 | 5.49 | 36,000 | \$12.56 |
| \$18.88 | 21,000 | \$18.88 | 7.32 | 12,000 | \$18.88 |
| \$15.13 | 100,500 | \$15.13 | 8.32 | 24,900 | \$15.13 |
| \$10.72 to \$13.63 | 16,000 | \$11.81 | 9.52 | 6,000 | \$13.63 |

</TABLE>

The Company grants to non-employee directors, officers and key employees options to purchase common stock of the Company under three Plans adopted in 1988, 1994 and 1998. Options were granted through January 28, 1998 under the 1988 Plan. Under the 1994 Plan options may be granted through April 29, 2004, and through April 30, 2008 under the 1998 Plan at a price not less than the fair value on the date of grant. Under the 1988 and 1998 Plans, options may be exercised beginning one year after date of grant at a rate of 20 percent annually on a cumulative basis. Under the 1994 Non-Employee Directors' Plan, options may be exercised at the date of grant. At January 2, 1999, 150,900 shares of the options outstanding were fully exercisable.

The Company has elected to apply the provisions of Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees," (APB No. 25) in the computation of compensation expense. Under APB No. 25's intrinsic value method, compensation expense is determined by computing the excess of the market price of the shares over the exercise price on the measurement date. For the Company's options, the intrinsic value on the measurement date (or grant date) is zero, and no compensation expense is recognized. FASB Statement No. 123 requires the Company to disclose pro forma net income and income per share as if a fair value based accounting method had been used in the computation of compensation expense. The fair value of the options computed under Statement 123 would be recognized over the vesting period of the options. The fair value for the Company's options granted subsequent to December 31, 1994 was estimated at the time the options were granted using the Black Scholes option pricing model with the following weighted-average assumptions for 1998, 1997 and 1996, respectively: risk-free interest rate of five percent; dividend yield of two percent; volatility factors of the expected market price of the Company's Common Shares of .747, .487 and .507; and an expected life of the option of seven years. The weighted average fair values on the date of grant were \$7.26, \$6.99 and \$8.97 in 1998, 1997 and 1996, respectively. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's options have characteristics significantly different from those of traded options, and because changes

in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its options. The effects of applying Statement 123 may not be representative of the effects on reported net income in future years.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The following is the pro forma information for the years ended January 2, 1999, January 3, 1998 and December 28, 1996:

<TABLE>

| | 1998 | 1997 | 1996 |
|--------------------------------------|-------------|--------------|--------------|
| <S> | <C> | <C> | <C> |
| Pro forma net (loss) income | \$ (65,000) | \$ 5,750,000 | \$ 7,664,000 |
| Pro forma diluted earnings per share | \$ (0.01) | \$ 0.82 | \$ 1.09 |

</TABLE>

Note L Income Taxes

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

<TABLE>

<CAPTION>

| (Amount in thousands) | 1998 | 1997 | 1996 |
|---------------------------------|------------|------------|----------|
| <S> | <C> | <C> | <C> |
| Deferred tax assets: | | | |
| Allowance for doubtful accounts | \$ 128 | \$ 77 | \$ 74 |
| Deferred compensation | 476 | 467 | 459 |
| Inventory capitalization | 203 | 194 | 198 |
| Accrued group insurance | 93 | 53 | 88 |
| Environmental reserves | 652 | 449 | 586 |
| Other | 147 | 98 | 89 |
| | ----- | ----- | ----- |
| Total deferred tax assets | 1,699 | 1,338 | 1,494 |
| Deferred tax liabilities: | | | |
| Tax over book depreciation | 2,507 | 2,216 | 1,942 |
| Prepaid expenses | 379 | 418 | 446 |
| Unrealized gain on investment | 244 | - | - |
| | ----- | ----- | ----- |
| Total deferred tax liabilities | 3,130 | 2,634 | 2,388 |
| | ----- | ----- | ----- |
| Net deferred tax liabilities | \$ (1,431) | \$ (1,296) | \$ (894) |

</TABLE>

<TABLE>

<CAPTION>

Significant components of the provision for income taxes attributable to continuing operations are as follows:

| Amount in thousands | 1998 | 1997 | 1996 |
|---------------------|------|------|------|
|---------------------|------|------|------|

| | | | |
|----------------|--------|----------|----------|
| <S> | <C> | <C> | <C> |
| Current: | | | |
| Federal | \$ 271 | \$ 2632 | \$ 3483 |
| State | 13 | 156 | 208 |
| | ----- | ----- | ----- |
| Total current | 284 | 2788 | 3691 |
| Deferred: | | | |
| Federal | (236) | 379 | 463 |
| State | (14) | 23 | 29 |
| | ----- | ----- | ----- |
| Total deferred | (250) | 402 | 492 |
| | ----- | ----- | ----- |
| Total | \$ 34 | \$ 3,190 | \$ 4,183 |

</TABLE>

<TABLE>

<CAPTION>

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

| (Amount in thousands) | 1998 | | 1997 | | 1996 | |
|------------------------------------------------|--------|-------|----------|-------|----------|-------|
| | Amount | % | Amount | % | Amount | % |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Tax at U.S. Statutory rates | \$ 33 | 34.0 | \$ 3,070 | 34.0 | \$ 4,054 | 34.2 |
| State income taxes, net of federal tax benefit | 1 | 1.2 | 119 | 1.3 | 156 | 1.3 |
| Other, net | - | | 1 | | (27) | (0.3) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total | \$ 34 | 35.2 | \$ 3,190 | 35.3 | \$ 4,183 | 35.2 |

</TABLE>

Income tax payments of approximately \$729,000, \$2,756,000 and \$3,683,000 were made in 1998, 1997 and 1996, respectively.

Note M Benefit Plans

The Company has a 401(k) Employee Stock Ownership Plan covering all non-union employees. Employees may contribute to the Plan up to 20 percent of their salary with a maximum of \$10,000 for 1998. Contributions by the employees are invested in one or more funds at the direction of the employee; however, employee contributions cannot be invested in Company stock.

Contributions by the Company are made primarily in Synalloy stock. The Company contributes on behalf of each participant who is eligible a matching contribution equal to a percentage which is determined each year by the Board of Directors. For 1998 the maximum was four percent. The matching contribution is allocated on June 30 and December 31 of each Plan year. Matching contributions of approximately \$354,000, \$294,000 and \$233,000 were made for 1998, 1997 and 1996, respectively. The Company may also make a discretionary contribution, which shall be distributed to all eligible participants regardless of whether they contribute to the Plan. No discretionary contributions have been made to the Plan for 1998, 1997 or 1996.

The Company also contributes to union- sponsored defined contribution retirement plans. Contributions relating to these plans were approximately

\$484,000, \$428,000 and \$351,000 for the years ended 1999, 1998 and 1996, respectively.

Note N Contingencies

The Company is from time to time subject to various claims, other possible legal actions for product liability and other damages, and other matters arising out of the normal conduct of the Company's business. Management believes that based on present information, it is unlikely that liability, if any, exists that would have a materially adverse effect on the consolidated operating results or financial position of the Company.

Note O Earnings Per Share

<TABLE>

<CAPTION>

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

| <S> | 1998 <C> | 1997 <C> | 1996 <C> |
|------------------------------------------------------------------|-------------|--------------|--------------|
| Numerator: | | | |
| Net income | \$ 62,677 | \$ 5,840,760 | \$ 7,686,101 |
| Denominator: | | | |
| Denominator for basic earnings per share-weighted average shares | 6,779,349 | 6,959,628 | 7,004,249 |
| Effect of dilutive securities: | | | |
| Employee stock options | 14,528 | 47,088 | 53,861 |
| | ----- | ----- | ----- |
| Denominator for diluted earnings per share | 6,793,877 | 7,006,716 | 7,058,110 |
| Basic earnings per share | \$ 0.01 | \$ 0.84 | \$ 1.10 |
| Diluted earnings per share | \$ 0.01 | \$ 0.83 | \$ 1.09 |

</TABLE>

Note P Acquisitions

On August 21, 1998, the Company purchased the common stock of Organic Pigments Corporation with an effective date of July 1, 1998. Organic, located in Greensboro, North Carolina, manufactures aqueous pigment dispersions sold to the textile industry and used in printing inks for use on paper. Total cost of the acquisition was \$3,472,000 including retirement of \$1,095,000 in bank debt and certain acquisition costs related to the transaction. The Company funded the acquisition with available cash. The acquisition was accounted for by the purchase method of accounting with the purchase price allocated to the underlying assets based on their respective fair values at the date of acquisition. Since the purchase price was approximately equal to the fair value of the net assets acquired, no goodwill was recorded. The Company's consolidated financial statements include the results of Organic from the July 1 effective date. The acquisition did not have a material impact on 1998 operations; therefore, no pro forma data has been presented.

The purchase agreement includes certain contingent payment provisions that provide for additional payments to be made to Organic's shareholders over a three-year period. The contingent payments are based on defined sales and gross profit percentages applied to sales to be received from two potential contracts with customers Organic was negotiating with at the date of the acquisition. A third contingent payment provision would pay Organic's shareholders up to \$875,000, payable one-third per year for three years, for a joint venture investment in a manufacturing plant in the Republic of China based on the equity value of the investment after the three-year period. Each payment is calculated for a one year period ending June 30 and payable August 30 for each of the next three years.

On November 25, 1996, the Company purchased the common stock of Manufacturers Chemicals Corporation and a related company with an effective date of October 26, 1996. Located in Cleveland, Tennessee, the company produces and sells surfactants, defoamers, finishing agents and other specialty chemicals for the textile, paper, chemical and metals industries. Manufacturers Chemicals and the related company were acquired at a cost of \$4,811,625, including certain acquisition costs related to the transaction, plus the assumption of a note to a former shareholder of \$438,375, for a total purchase price of \$5,250,000. The \$4,811,625 was funded by cash from operations plus the issuance of a note payable to the former shareholder of \$716,430. The two notes to the former shareholder, who became an employee of the Company at the acquisition date, bore interest at 6.25 percent and were paid along with interest of \$13,842 on January 3, 1997.

The acquisitions were accounted for by the purchase method of accounting with the purchase price allocated to the underlying assets based on their respective fair values at the date of acquisition. The excess of the purchase price over the fair value of net assets acquired of approximately \$1,966,000 has been included in goodwill and is being amortized over 15 years. The Company's consolidated financial statements include the results of the companies from the effective date, October 26, 1996. The acquisitions did not have a material impact on 1996 operations; therefore, no pro forma data has been presented.

Note Q Industry Segments

Synalloy Corporation operates in two principal industry segments: metals and chemicals. The Company identifies such segments based on products and services. The Metals Segment consists of Bristol Metals and Whiting Metals, both wholly-owned subsidiaries. The Chemicals Segment consists of Blackman Uhler Chemical Company, a division of the Company, Manufacturers Chemicals and Organic Pigments Corporation, wholly-owned subsidiaries.

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

Operating profit is total revenue less operating expenses, excluding interest expense and income taxes. Identifiable assets (all of which are in the United States) are those assets used in operations by each segment. Centralized data processing and accounting expenses are allocated to the Metals Segment and Chemicals Segment based upon estimates of their percentage of usage. Corporate assets consist principally of cash, certain investments, and property and equipment. No single customer or agency

(domestic or foreign) accounted for more than ten percent of revenues in 1998, 1997 or 1996.

The Company has a distributorship agreement expiring December 31, 1999 with the company supplying about 86 percent of the products that produced about 24 percent of the Chemicals Segment's sales in 1998. The supplier has been the principal source of these products since 1985. Although the Company believes that this supplier will continue to be a source of these products in the future, there is no assurance of this. Loss of this supplier would have a materially adverse short-term effect on the Company's sales and net income. However, management believes that if the agreement with this supplier is not continued in the future, other suppliers could be found to replace most of the products.

In June 1997, the FASB issued Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information," which the Company has adopted in the current year. The adoption of Statement 131 did not affect results of operations or financial position.

<TABLE>

<CAPTION>

Segment information:

| (Amounts in thousands) | 1998 | 1997 | 1996 |
|------------------------------------|------------|------------|------------|
| <S> | <C> | <C> | <C> |
| Net sales | | | |
| Metals | \$ 55,368 | \$ 71,192 | \$ 85,027 |
| Chemicals | 51,889 | 55,549 | 41,817 |
| | ----- | ----- | ----- |
| - | | | |
| Total net sales | \$ 107,257 | \$ 126,741 | \$ 126,844 |
| Operating income | | | |
| Metals | \$ 1,409 | \$ 5,634 | \$ 9,697 |
| Chemicals | 24 | 5,220 | 3,688 |
| | ----- | ----- | ----- |
| | 1,433 | 10,854 | 13,385 |
| Less unallocated corporate expense | 804 | 1,110 | 1,363 |
| | ----- | ----- | ----- |
| Operating income | 629 | 9,744 | 12,022 |
| Other expense, net | 532 | 713 | 153 |
| | ----- | ----- | ----- |
| Income before taxes | \$ 97 | \$ 9,031 | \$ 11,869 |
| Identifiable assets | | | |
| Metals | \$ 32,275 | \$ 37,838 | \$ 41,172 |
| Chemicals | 35,002 | 30,211 | 31,875 |
| Corporate | 4,097 | 5,334 | 3,542 |
| | ----- | ----- | ----- |
| | \$ 71,374 | \$ 73,383 | \$ 76,589 |
| Depreciation and amortization | | | |
| Metals | \$ 1,515 | \$ 1,504 | \$ 1,331 |
| Chemicals | 1,843 | 1,807 | 1,188 |
| Corporate | 155 | 174 | 181 |
| | ----- | ----- | ----- |
| | \$ 3,513 | \$ 3,485 | \$ 2,700 |

Capital expenditures

| | | | |
|------------------|------------|------------|------------|
| Metals | \$ 956 | \$ 1,163 | \$ 2,519 |
| Chemicals | 2,661 | 1,653 | 1,299 |
| Corporate | 69 | 38 | 15 |
| | ----- | ----- | ----- |
| | \$ 3,686 | \$ 2,854 | \$ 3,833 |
| Geographic sales | | | |
| United States | \$ 101,776 | \$ 118,445 | \$ 117,852 |
| Elsewhere | 5,481 | 8,296 | 8,992 |
| | ----- | ----- | ----- |
| | \$ 107,257 | \$ 126,741 | \$ 126,844 |

</TABLE>

<TABLE>

<CAPTION>

Note R Quarterly Results (unaudited)

The following is a summary of quarterly operations for the years ended January 2, 1999, January 3, 1998 and December 28, 1996.

| (Thousands except per share data) | Net Sales | Gross Profit | Net Income (Loss) | Net Income Per Common Share | |
|--------------------------------------|--------------|-----------------|-------------------------|--------------------------------|--------|
| | | | | Diluted | Basic |
| <S> | <C> | <C> | <C> | <C> | <C> |
| 1998 | | | | | |
| First Quarter | \$ 30,606 | \$ 3,475 | \$ 597 | \$.09 | \$.09 |
| Second Quarter | 25,813 | 2,927 | 110 | .02 | .02 |
| Third Quarter | 28,040 | 3,467 | 455 | .07 | .07 |
| Fourth Quarter | 22,798 | 2,334 | (1,100) | (0.16) | (0.16) |
| 1997 | | | | | |
| First Quarter | \$ 30,903 | \$ 4,246 | \$ 1,011 | \$.14 | \$.14 |
| Second Quarter | 31,205 | 4,832 | 1,386 | .20 | .20 |
| Third Quarter | 31,371 | 4,875 | 1,543 | .22 | .22 |
| Fourth Quarter | 33,262 | 5,762 | 1,901 | .27 | .28 |
| 1996 | | | | | |
| First Quarter | \$ 36,659 | \$ 7,429 | \$ 2,922 | \$.41 | \$.41 |
| Second Quarter | 31,737 | 5,828 | 2,119 | .30 | .30 |
| Third Quarter | 29,405 | 4,059 | 1,243 | .18 | .18 |
| Fourth Quarter | 29,043 | 3,792 | 1,402 | .20 | .20 |

</TABLE>

The Company recorded a special charge of \$1,439,000 for environmental remediation costs in the fourth quarter of 1998 which reduced net income by \$931,000 or \$.14 per share. See Note H for further discussion.

Net income for the fourth quarter of 1996 includes a gain on the sale of an investment of \$431,000, or \$.06 per share. See Note B.

Note S Subsequent Event

On March 18, 1999, the Company entered into a non binding letter of intent to acquire from Rite Industries Incorporated for cash their southern dye business related to the High Point, North Carolina facility for an estimated purchase price of \$13,000,000. Based on current sales, the business is expected to generate annual sales of over \$32,000,000.

Report of Management

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles and have been audited by Ernst & Young LLP, Independent Auditors. Management of the Company assumes responsibility for the accuracy and reliability of the financial statements. In discharging such responsibility, management has established certain standards which are subject to continuous review and are monitored through the Company's financial management. The Board of Directors pursues its oversight role for the financial statements through its Audit Committee which consists of outside directors. The Audit Committee meets on a regular basis with representatives of management and Ernst & Young LLP.

Report Of Independent Auditors

Shareholders and Board of Directors
Synalloy Corporation

We have audited the accompanying consolidated balance sheets of Synalloy Corporation as of January 2, 1999, January 3, 1998 and December 28, 1996, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended January 2, 1999. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Synalloy Corporation at January 2, 1999, January 3, 1998 and December 28, 1996 and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 2, 1999, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Ernst & Young LLP

Greenville, South Carolina
February 5, 1999,
except for Note S, as to which the date is March 18, 1999.

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

None

PART III

A definitive proxy statement, which will be filed with the Securities and Exchange Commission pursuant to regulation 14A of the Securities Exchange Act of 1934 within 120 days of the end of the registrant's fiscal year ended January 2, 1999, is incorporated herein by reference.

Item 10 Directors and Executive Officers of the Registrant

Such information as required by the Securities and Exchange Commission in Regulation S-K is contained in the Company's definitive Proxy Statement in connection with its Annual Meeting to be held April 29, 1999.

Item 11 Executive Compensation

The information with respect to executive compensation and transactions is hereby incorporated by reference from the Company's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934.

Item 12 Security Ownership of Certain Beneficial Owners and Management

The information with respect to security ownership of certain beneficial owners and management is hereby incorporated by reference from the Company's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934.

Item 13 Certain Relationships and Related Transactions

None

Item 14 Exhibits, Financial Statement Schedules and Reports on Form 8-K

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

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

Consolidated Balance Sheets at January 2, 1999, January 3, 1998 and December 28, 1996

Consolidated Statements of Income for the years ended January 2, 1999, January 3, 1998 and December 28, 1996

Consolidated Statements of Shareholders' Equity for the years ended January 2, 1999, January 3, 1998 and December 28, 1996

Consolidated Statements of Cash Flows for the years ended January 2, 1999, January 3, 1998 and December 28, 1996

Notes to Consolidated Financial Statements

2. Financial Statements Schedules: The following consolidated financial statements schedule of Synalloy Corporation is included in Item 14(d).

Schedule II - Valuation and Qualifying Accounts for the years ended January 2, 1999, January 3, 1998 and December 28, 1996

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

3. Listing of Exhibits:

Exhibit 22 - Subsidiaries of the Registrant

b. Reports on Form 8-K: There were no reports on Form 8-K filed during the fourth quarter of the 1998 fiscal year.

c. Exhibits: The response to this portion of Item 14 is submitted in a separate section of this report.

d. Financial Statements Schedules: The response to this portion of Item 14 is submitted as a separate section of this report.

<TABLE>

<CAPTION>

Schedule 11 Valuation and Qualifying Accounts

| Column A | Column B | Column C | Column D | Column E |
|---------------------------------|--------------------------------|------------------------------|-------------------------|--------------------------|
| Description | Balance at Beginning of Period | Charged to Cost and Expenses | Deductions Describe (1) | Balance at End of Period |
| <S> | <C> | <C> | <C> | <C> |
| Year ended January 2, 1999 | | | | |
| Deducted from asset account: | | | | |
| Allowance for doubtful accounts | \$219,000 | \$394,000 (2) | \$ 206,000 | \$362,000 |
| Year ended January 3, 1998 | | | | |
| Deducted from asset account: | | | | |
| Allowance for doubtful accounts | \$208,000 | \$279,000 | \$ 268,000 | \$219,000 |
| Year ended December 28, 1996 | | | | |
| Deducted from asset account: | | | | |
| Allowance for doubtful accounts | \$356,000 | \$237,000 (2) | \$ 385,000 | \$208,000 |

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

(2) Includes a \$25,000 of allowance from the acquisition of Organic Pigments Corporation in 1998 and \$50,000 of allowance from the acquisition of Manufacturers Chemicals Corporation.

</TABLE>

Exhibit 22 Subsidiaries of the Registrant

The Company has six wholly-owned subsidiaries. All subsidiaries are included in the Company's consolidated financial statements. The subsidiaries are as follows:

1. Synalloy Metals, Inc., formerly Bristol Metals, Inc., a Tennessee corporation

<TABLE> <S> <C>

<ARTICLE> 5

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| <FISCAL-YEAR-END> | JAN-2-1999 |
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| <ALLOWANCES> | 0 |
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| <CURRENT-ASSETS> | 39654 |
| <PP&E> | 57993 |
| <DEPRECIATION> | 32498 |
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| <CURRENT-LIABILITIES> | 10707 |
| <BONDS> | 0 |
| <PREFERRED-MANDATORY> | 0 |
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| <OTHER-SE> | 37848 |
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| <SALES> | 107257 |
| <TOTAL-REVENUES> | 107257 |
| <CGS> | 95055 |
| <TOTAL-COSTS> | 95055 |
| <OTHER-EXPENSES> | 10135 |
| <LOSS-PROVISION> | 0 |
| <INTEREST-EXPENSE> | 674 |
| <INCOME-PRETAX> | 97 |
| <INCOME-TAX> | 34 |
| <INCOME-CONTINUING> | 63 |
| <DISCONTINUED> | 0 |
| <EXTRAORDINARY> | 0 |
| <CHANGES> | 0 |
| <NET-INCOME> | 63 |
| <EPS-PRIMARY> | .01 |
| <EPS-DILUTED> | .01 |

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