REFLECT SCIENTIFIC INC
Form 10-Q
November 12, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2010

or

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT of 1934

For the transition period from __________ to __________

Commission File Number 000-31377

REFLECT SCIENTIFIC, INC.

(Exact name of registrant as specified in its charter)

Utah

87-0642556

(State or other jurisdiction of

(IRS Employer Identification No.)

incorporation or organization)

1270 South 1380 West Orem, Utah 84058

(Address of principal executive offices) (Zip Code)

(801) 226-4100

(Registrant s telephone number, including area code)

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

Yes [X] No [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer ¨

Accelerated filer ¨

Non-accelerated filer ¨

Smaller reporting company x

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

Yes [ ] No [X]

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). The Registrant is not yet part of the Interactive Data reporting system.

Yes [ ] No [X]

Applicable Only to Issuers Involved in Bankruptcy Proceedings During the Preceding Five Years:

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Not applicable.

Applicable Only to Corporate Issuers:

Indicate the number of shares outstanding of each of the Registrant s classes of common equity, as of the latest practicable date.

Class

Outstanding as of November 10, 2010

33,831,890 shares of $0.01 par value common stock on November 10, 2010

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

Reflect Scientific, Inc.

FINANCIAL STATEMENTS

(UNAUDITED)

September 30, 2010

The financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. However, in the opinion of management, all adjustments (which include only normal recurring accruals) necessary to present fairly the financial position and results of operations for the periods presented have been made. These financial statements should be read in conjunction with the accompanying notes, and with the historical financial information of the Company.

REFLECT SCIENTIFIC, INC.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

REFLECT SCIENTIFIC, INC.

Condensed Consolidated Balance Sheets

ASSETS

	September 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
CURRENT ASSETS		

Cash	**$** 141,545	$ 165,633
Accounts receivable, net	408,555	522,921
Other receivables	-	235
Inventories	397,072	

591,672

Cost and estimated earnings in excess of contract billings

-

43,635

Prepaid assets

11,113

38,335

Total Current Assets

958,285

1,362,431

FIXED ASSETS, NET

61,800

419,822

OTHER ASSETS

Intangible assets, net

3,053,084

3,708,602

Goodwill

652,149

652,149

Deposits

3,100

10,455

Total Other Assets

3,708,333

4,371,206

TOTAL ASSETS	**$** 4,728,418	$ 6,153,459

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

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REFLECT SCIENTIFIC, INC.

Condensed Consolidated Balance Sheets (Continued)

LIABILITIES AND SHAREHOLDERS EQUITY

September 30,

2010

December 31,

2009

(Unaudited)

(Audited)

CURRENT LIABILITIES

Accounts payable	**$** 309,691	$ 507,794
Short-term lines of credit	129,590	141,474
Convertible debenture	2,925,000	2,925,000
Royalty payable	-	22,542

Capital leases short-term portion	10,562	9,791
Interest payable	658,125	263,250
Accrued expenses	17,269	93,721
Loan from related party	24,000	18,000
Income taxes payable	400	

2,800

Total Current Liabilities

4,074,637

3,984,372

LONG-TERM LIABILITIES

Capital leases long-term portion	
1,677	9,715
Total Long-Term Liabilities	
1,677	9,715
Total Liabilities	
4,076,314	

3,994,087

SHAREHOLDERS
EQUITY

Preferred stock, $0.01 par value, authorized

5,000,000 shares; No shares issued and Outstanding

-

-

Common stock, $0.01 par value, authorized

50,000,000 shares; 34,141,890 and 35,221,650

issued and outstanding, respectively

341,419

352,217

Additional paid in capital

17,534,313

17,463,580

Accumulated deficit

(17,223,628)

(15,656,425)

Total Shareholders Equity

652,104

2,159,372

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY

$
4,728,418
6,153,459

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

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REFLECT SCIENTIFIC, INC.

Condensed Consolidated Statements of Operations

(Unaudited)

For the Three Months Ended

September 30,

For the Nine Months Ended

September 30,

2010

2009

2010

2009

REVENUES

$

735,344

$

1,075,098

$

1,832,630

$

2,860,851

COST OF GOODS SOLD

443,941

682,728

975,378

1,557,225

GROSS PROFIT	
	291,403
	392,370
	857,252
	1,303,626

OPERATING EXPENSES	
Salaries and wages	
	99,410
	272,010
	325,527
	998,404
Rent expense	
	13,228
	51,445
	38,924

144,323

Research and development expense

-

5,712

7,144

15,578

General and administrative expense

166,912

264,551

503,469

840,197

Total Operating Expenses

279,550

593,718

875,064

1,998,502

OPERATING
INCOME (LOSS)

11,853

(201,348)

(17,812)

(694,876)

OTHER INCOME (EXPENSE)

Interest income

2

21

7

3,562

Interest expense

(133,843)

(106,471)

(401,548)

(845,197)

Loss on default of convertible debentures

-

-

-

(690,000)

Total Other Expenses	
	(133,841)
	(106,450)
	(401,541)
	(1,531,635)
NET LOSS BEFORE TAXES	
	(121,988)

(307,798)

(419,353)

(2,226,511)

Income tax benefit (expense)

-

-

-

-

NET LOSS FROM CONTINUING OPERATIONS
(121,988)
(307,798)
(419,353)
(2,226,511)

LOSS FROM DISCONTINUED OPERATIONS

Loss from operations of Image Labs/Miralogix, net of tax	
	-
	(624,784)
	(199,909)
	(1,078,385)
Loss on disposal of Image Labs/Miralogix, net of tax	
	-

-

(947,941)

-

NET LOSS FROM DISCONTINUED OPERATIONS

-

(624,784)

(1,147,850)

(1,078,385)

NET LOSS

$

(121,988)

$

(932,582)

$

(1,567,203)

$

(3,304,896)

BASIC AND DILUTED INCOME (LOSS) PER SHARE

$

(0.01)

$

(0.03)

$

(0.05)

$

(0.10)

WEIGHTED
AVERAGE
NUMBER OF
SHARES
OUTSTANDING

34,141,890

34,892,802

34,552,110

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

REFLECT SCIENTIFIC, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Nine Months Ended September 30,	
	2010	2009
Net loss	$ (1,567,203)	$ (3,304,896)
Loss on Disposal of Discontinued Operations		

947,941

-

Loss from Discontinued Operations

199,909

1,078,385

Loss from Continuing Operations

(419,353)

(2,226,511)

Adjustments to reconcile net loss to net cash

from operating activities:

Depreciation	31,936	34,443
Amortization	219,390	264,648
Amortization of debenture discount	-	584,250
Common stock issued for services/interest	59,935	17,000
Expense for default on convertible debenture	-	

690,000

Changes in operating assets and liabilities:

(Increase)/decrease in accounts receivable

(134,031)

251,298

(Increase)/decrease in inventory

(18,676)

108,952

(Increase)/decrease in other receivables

-

1,720

(Increase)/decrease in prepaid asset

27,222

101,990

(Increase)/decrease in cost and estimated earnings in excess

of contract billings on uncompleted contracts

-

(76,480)

Increase/(decrease) in contract billings in excess of cost and

estimated earnings on uncompleted contracts

-

4,723

Increase/(decrease) in accounts payable

and accrued expenses

448,867

(4,666)

Net Cash from Continuing Operations

215,290

(248,633)

Net Cash from Discontinued Operations

(126,432)

(65,506)

Net Cash from Operating Activities

88,858

(314,139)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds (payments) from sale of discontinued operations	(99,100)
	-
Proceeds (payments) from sale of fixed assets	3,300
	-
Net Cash from Continuing Investing Activities	(95,800)
	-
Net Cash from Discontinued Investing Activities	(3,995)

-

Net Cash from Investing Activities

(99,795)

-

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on capital leases

(7,267)

(40,147)

Change in lines of credit

(11,884)

18,201

Proceeds from Related Party Loan

6,000

-

Net Cash from Continuing Financing Activities

(13,151)

(21,946)

Net Cash from Discontinued Financing Activities

-

-

Net Cash from Financing Activities

(13,151)

		(21,946)
NET INCREASE (DECREASE) IN CASH	(24,088)	(336,085)
CASH AT BEGINNING OF PERIOD	165,633	447,037
CASH AT END OF PERIOD	$ 141,545	$ 110,952

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

REFLECT SCIENTIFIC, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

For the

Nine Months Ended

September 30,

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash Paid For:

Interest

$

-

$

105,000

Income taxes

$

-

$

-

NON-CASH FINANCING ACTIVITIES:

Common stock issued for services

$

59,935

$

17,000

Conversion of debt to equity

$

-

$

64,107

Common stock issued for accrued interest

$

-

$

87,000

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

REFLECT SCIENTIFIC, INC.

Notes to the Condensed Consolidated Financial Statements

September 30, 2010

NOTE 1 **-**

BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to accounting principles generally accepted in the United States of America. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in accordance with rules and regulations of the Securities and Exchange Commission. The information furnished in the interim condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although management believes the disclosures and information presented are adequate to make the information not misleading, it is suggested that these interim condensed consolidated financial statements be read in conjunction with the Company s most recent audited consolidated financial statements and notes thereto included in its December 31, 2009 financial statements. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

NOTE 2 -

ORGANIZATION AND DESCRIPTION OF BUSINESS

Cole, Inc. (the Company) was incorporated under the laws of the State of Utah on November 3, 1999. The Company was organized to engage in any lawful activity for which corporations may be organized under the Utah Revised Business Corporation Act. On December 30, 2003 the Company changed its name to Reflect Scientific, Inc.

NOTE 3 GOING CONCERN

The Company is currently in default on its issued and outstanding debentures (See note 4). While the Company is working diligently to secure funding to enable it to retire the debenture obligations, there can be no assurance that such funding will be available. The Company has also accumulated significant operating losses. These factors raise substantial doubt about the Company s ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Management has taken a number of actions to reduce expenses including reductions in personnel, consolidation of facilities, and the downsizing of the unprofitable service and maintenance operations conducted by All Temp Engineering. Management has reached settlement agreements on the majority of the debentures that are in default, which settlement is contingent upon their ability to make a cash payment of $300,000. The Company will also issue 1,200,000 shares of restricted common stock. Management is seeking additional funding through the capital markets to facilitate this settlement, as well as to provide operating capital for its operations. Management has also made the decision to discontinue certain operations (See Note 5 Business Disposition).

NOTE 4 DEFAULT ON CONVERTIBLE DEBENTURES

On June 29, 2009 the Company s convertible debenture came due. The Company was unable to repay the amount due of $2,300,000 at that time and the note went into default status. Under the terms of the debenture, a penalty of 30% of the outstanding principle was accrued upon default. On the date of default the Company recognized this additional amount due of $690,000. Also under the terms of the debenture, upon default, the Company was required to accrue and pay interest at the default rate of 18%.

In September 2009, Chestnut Ridge Partners, who held $87,000 in debentures, agreed to convert the amount due, including accrued interest, to the Company s restricted common stock, as provided in the Debenture Agreement.

In August 2010, management reached agreement with all but one of the debenture holders on a plan to settle the debentures held by them that are in default. The settlement agreement is contingent upon the Company making a cash payment to them in the amount of $300,000 and the issuance of 1,200,000 shares of restricted common stock. Those debenture holders will accept the cash payment and stock issuance as full satisfaction of the debentures and warrants purchased on June 29, 2007. The Company is diligently working to raise the funding with which to fulfill the cash payment obligation under this agreement. The holder of the remaining debentures is involved in bankruptcy proceedings in England and the resolution of those debentures and accrued interest is undetermined.

NOTE 5 BUSINESS DISPOSITION

On March 2, 2010, the Company sold the assets and certain liabilities of Image Labs and Miralogix to an employee. The time line from the point at which the Company made the decision to sell to the accepting of the offer and closing of the transaction was less than two weeks. The sale was structured such that the Company received no cash from the transaction, while the acquirer took possession of all the assets and assumed all of the liabilities of Image Labs and Miralogix except for those related to accrued payroll and related personnel expenses. Management s decision to divest this subsidiary was based on its strategic plan to refocus its product lines and sales efforts to its proprietary green technologies. A history of operating losses at Image Labs and Miralogix, the potential necessity of additional capital expenditures, and the soft market for its products due to economic conditions, were additional considerations in making that determination. The Company recorded a loss of $947,941 all of which is reported in the nine-month period covered by this report. In conjunction with the disposal of this business entity, $99,100 in cash was transferred to the new owners.

NOTE 6 EQUITY TRANSACTIONS

On April 8, 2010 the Company issued 411,040 shares of its restricted common stock for the payment of legal fees valued at $53,435 or $0.13 per share and 50,000 shares of restricted common stock to an employee valued at $6,500 or $0.13 per share.

In April 2010 the Company received 1,040,800 shares of the common stock issued in the Cryometrix/All Temp Engineering acquisition transaction. The transfer agent was instructed to cancel the returned shares of stock.

In May 2010, 500,000 shares of the common stock issued at the time Image Labs and Miralogix were acquired by the Company were returned. The Company instructed the transfer agent to cancel those shares of stock.

During the three and nine month periods ended September 30, 2010, the Company did not sell any shares of its common stock.

On July 15, 2010, the board of directors cancelled all stock options grants made in 2008 and 2007. The action resulted in the cancellation of options to purchase 5,066,660 shares of the Company s common stock at prices ranging from $0.85 to $1.32. After the cancellation there remain outstanding options to purchase 5,176,660 shares of common stock, all of which are fully vested.

NOTE 7 RELATED PARTY TRANSACTIONS

Loan from Shareholder

As of September 30, 2010, a shareholder of the Company had advanced $24,000 in funding in the form of a non-interest bearing loan to the Company; of this amount, $6,000 was advanced during the nine months ended September 30, 2010. It is the intent of the Company to repay this loan upon the closing of a major capital raise.

NOTE 8 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company s financial instruments consist of cash and cash equivalents, accounts receivable, payables and notes payable. The carrying amount of cash and cash equivalents and payables approximates fair value because of the short-term nature of these items. The carrying amount of the notes payable approximates fair value as the individual borrowings bear interest at rates that approximate market interest rates for similar debt instruments.

NOTE 9 NEW ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued ASU No. 2009-13, Revenue Recognition Multiple Deliverable Revenue Arrangements (ASU 2009-13). ASU 2009-13 updates the existing multiple-element revenue arrangements guidance currently included in FASB ASC 605-25. The revised guidance provides for two significant changes to the existing multiple-element revenue arrangements guidance. The first change relates to the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. This change will result in the requirement to separate more deliverables within an arrangement, ultimately leading to less revenue deferral. The second change modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. Together, these changes will result in earlier recognition of revenue and related costs for multiple-element arrangements than under previous guidance. This guidance expands the disclosures required for multiple-element revenue arrangements and is effective for interim and annual reporting periods beginning after June 15, 2010. The Company is currently evaluating the potential future impact, if any, of this guidance on its financial statements.

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06 Fair Value Measurements and Disclosures Improving Disclosures about Fair Value Measurements (ASU 2010-06). ASU 2010-06 requires new disclosures for significant transfers in and out of Level 1 and 2 of the fair value hierarchy and the level if disaggregation of assets or liabilities and the valuation techniques and inputs used to measure fair value. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2009, with the exception of the new Level 3 activity disclosures, which are effective for interim and annual reporting periods beginning after December 15, 2010. The Company adopted the applicable disclosure requirements beginning with the first quarter of fiscal 2010, with no material impact.

The Company has reviewed all other recently issued, but not yet adopted, accounting standards in order to determine their effects, if any, on its consolidated results of operation, financial position or cash flows. Based on that review, the Company believes that none of these pronouncements will have a significant effect on its current or future earnings or operations.

NOTE 10 CONTINGENCIES

In June 2010 a complaint was filed against the Company for failure to pay $20,946 of a $65,000 contract. The amount relates to HVAC equipment resold on a contract job for which the Company has not been paid.

NOTE 11 SUBSEQUENT EVENTS

On October 13, 2010, the Company received 310,000 shares of restricted common stock that were issued for professional services related to the acquisition of Cryometrix and Miralogix. The transfer agent was instructed to cancel the shares.

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

Special Note Regarding Forward-Looking Statements

This periodic report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the Plan of Operations provided below, including information regarding the Company s financial condition, results of operations, business strategies, operating efficiencies or synergies, competitive positions, growth opportunities, and the plans and objectives of management. The statements made as part of the Plan of Operations that are not historical facts are hereby identified as "forward-looking statements."

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the unaudited Financial Statements and accompanying notes. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions. The Company believes there have been no significant changes during the nine month period ended September 30, 2010, to the items disclosed as significant accounting policies in management's Notes to the Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Plan of Operation and Business Growth

Over the next twelve months our focus will be on the commercialization of products acquired and developed over the last several years. Included in this focus will be the continued development and commercialization of our ultra low temperature refrigerator line, with the refrigerated trailer, known as a reefer being given highest priority. Additionally, we will continue to develop and expand our focus on solutions and services to retrofit server and computer rooms to help reduce the cost of cooling such rooms, as well as provide a more reliable and efficient method to cool such rooms. We will also continue to focus on the expansion of our detector line and contract manufacturing operations.

Management s focus over the last several years was on the acquisition and development of our product lines. While management now believes the desired core product lines are in place and will focus its efforts over the next twelve months on the commercialization of those product lines, marketing the products and expanding its customer base, it will continue to look for potential acquisitions.

Our revenues during the reporting periods have decreased during 2010 compared to 2009 revenues. We believe this decrease is due in most part to the current economic trends. Our technology products require large capital outlays from our customers and the downturn in the economy has caused hesitancy on the part of our potential customers to commit funds to capital investments. We do not expect this trend to continue. Our products are new to the marketplace and we expect the demand to grow as our products become more familiar. We believe the product lines are becoming commercially accepted and that sales will increase.

We do not anticipate we will emphasize acquisitions as we have in the past and instead will focus on managing and commercializing our current product lines. This will require a focus from management on the sales of these products. We anticipate the future business growth over the next twelve months to come from our current product lines.

Results of Operations

Three Months Ended September 30, 2010 and 2009

	For the three months ended September 30,		
	2010	2009	Change
Revenues	$ 735,344	$ 1,075,098	$ (339,754)
Cost of goods sold	443,941	682,728	(238,787)
Gross profit			

291,403

392,370

(100,967)

Operating expenses

279,550

593,718

(314,168)

Other income (expense)

(133,841)

(106,450)

(27,391)

Net loss from continuing operations

(121,988)

(307,798)

185,810

Loss from discontinued operations

-

(624,784)

624,784

Net loss

$

(121,988)

$

(932,582)

$

810,594

Revenues decreased during the quarter ended September 30, 2010, to $735,344 from $1,075,098 for the quarter ended September 30, 2009, a decrease of $339,754. Sales of the Reflect Scientific product lines were $735,344 for the three months ended September 30, 2010, an increase of $174,283 over the $561,062 in sales for the three month period ended September 30, 2009. No revenues were generated in 2010 from Cryometrix/All Temp Engineering, as we are continuing to refine and commercialize the freezer technologies. Revenues from Cryometrix/All Temp were $514,036 for the three month period ended September 30, 2009. We anticipate consolidated revenues for the remaining reporting period of 2010 will approximate those reported for this three month period.

As a result of reduced sales, cost of goods decreased in the quarter ending September 30, 2010, as compared to September 30, 2009 to $443,941 from $682,728, a decrease of $238,787. Gross profit percentage increased to 40% for the three months ended September 30, 2010, compared to 36% for the three months ended September 30, 2009. While the gross profit margin will vary by quarter depending on the mix of products sold, we are actively working to obtain more favorable pricing from our vendors in order to increase the margins realized on product sales.

Operating expenses were reduced significantly in the current period. This reduction is the result of cost reduction efforts implemented by management, primarily related to the operating efficiencies gained from consolidating the California operations and the disposition of the Montana operations. Operating expenses for the three months ended September 30, 2010 were $279,550, a reduction of $314,168 from the $593,718 in operating expenses recorded for the three month period ended September 30, 2009. Operating expenses for the remaining reporting period in 2010 are expected to remain at approximately the levels shown for the period of this report.

The loss from continuing operations for the three month period ended September 30, 2010 was $121,988, a $185,810 reduction from the $307,798 loss for the three month period ended September 30, 2009. Management continues to look for opportunities to reduce ongoing operating expenses.

The loss from discontinued operations for the 2009 period was $624,784. The continuing losses incurred by the Image Labs and Miralogix subsidiary were a major consideration in our decision to divest that product line and focus our efforts on our green technology products.

The net loss for the three months ended September 30, 2010 was $121,988, or $0.01 per share. This compares to a loss of $932,582, or $0.03 per share, for the three months ended September 30, 2009.

Nine Months Ended September 30, 2010 and 2009

	For the nine months ended September 30,		
	2010	2009	Change
Revenues	$ 1,832,630	$ 2,860,851	$ (1,028,221)
Cost of goods sold	975,378	1,557,225	(581,847)
Gross profit			

857,252

1,303,626

(446,374)

Operating expenses

875,064

1,998,502

(1,123,438)

Other income (expense)

(401,541)

(1,531,635)

1,130,094

Net loss from continuing operations

(419,353)

(2,226,511)

1,807,158

Loss from discontinued operations

(199,909)

(1,078,385)

878,476

Loss on disposal of discontinued operations

(947,941)

-

(947,941)

Net loss

$

(1,567,203)

$

(3,304,896)

$	1,737,693

Revenues during the nine months ended September 30, 2010 were $1,832,630, a decrease of $1,028,221 from $2,860,851 for the nine months ended September 30, 2009. Revenue from the the Reflect Scientific product lines were $1,832,630 for the nine months ended September 30, 2010, an increase of $145,130 from the $1,687,501 for the same period in 2009. No revenues were generated in 2010 from Cryometrix/All Temp Engineering, as we continue to refine and commercialize the freezer technologies. During the nine month period ended September 30, 2009, revenue of $1,173,350 was generated from Cryometrix/All Temp Engineering, which revenue decrease accounts for the change in year over year comparatives.

Cost of goods sold decreased in the nine months ending September 30, 2010, as compared to the same period ended September 30, 2009 to $975,378 from $1,557,225, a decrease of $581,847. Gross profit percentage increased to 47% for the nine months ended September 30, 2010, compared to 45% for the nine months ended September 30, 2009. The gross profit margin will vary by quarter depending on the mix of products sold, but we are actively working to increase the margins realized on product sales.

Operating expenses have been reduced significantly in 2010. This reduction results from cost efficiencies implemented by management, coupled with the operating expense reductions gained from consolidating the California operations and the disposition of the Montana operations. Operating expenses for the nine months ended September 30, 2010 were $875,064, a reduction of $1,123,438 from the $1,998,502 in operating expenses recorded for the nine month period ended September 30, 2009.

The loss from continuing operations for the nine month period ended September 30, 2010 was $419,353, a $1,807,158 reduction from the $2,226,511 loss for the nine month period ended September 30, 2009. The default penalty on the debentures of $690,000 realized in 2009 is included in the 2009 loss.

The loss from discontinued operations for the nine months ended September 30, 2010 was $199,909, all of which was incurred during the first two months of the period. In addition, the loss due to disposition was $947,941. The loss from discontinued operations incurred during the nine month period ended September 30, 2009 was $1,078,385, as they represent expenses for the entire nine month period. The continuing losses incurred by the Image Labs and Miralogix subsidiary were a major consideration in our decision to divest that product line and focus our efforts on our green technology products.

The net loss for the nine months ended September 30, 2010 was $1,567,203, or $0.05 per share. This compares to a loss of $3,304,896, or $0.10 per share, for the nine months ended September 30, 2009.

<u>Seasonality and Cyclicality</u>

We do not believe our business is cyclical.

Liquidity and Capital Resources

Our cash resources at September 30, 2010, were $141,545, with accounts receivable of $408,555 and inventory of $397,072. To date we have relied on revenues and sales of equity and debt securities for our cash resources. Our working capital deficit on September 30, 2010, was $3,116,352, due primarily to the $2,925,000 in outstanding debentures and $658,125 in accrued interest on those debentures. Working capital on December 31, 2009 was a deficit of $2,621,941.

Management is working to obtain financing to enable it to retire the outstanding debentures and provide the capital needed to commercialize the low temperature freezer and refrigeration technology. There can be no assurance that funds will be available, or that terms of available funds will be acceptable to the Company. The inability of Company to obtain funding at acceptable terms could negatively impact its ability to execute its business plan.

For the nine month period ended September 30, 2010, our net cash from operating activities was $88,858 which was an increase from the nine month period ended September 30, 2009 where the Company used cash of $314,139.

Off-Balance Sheet Arrangements

We lease office and warehouse space under a non-cancelable operating lease in Utah. Future minimum lease payments under the operating lease at September 30, 2010 are $222,358 for that facility. In addition, we have automobile leases with future minimum lease payments of $26,784.

Forward-looking Statements

The Private Securities Litigation Reform Act of 1995 (the Act) provides a safe harbor for forward-looking statements made by or on behalf of our Company. Our Company and our representatives may from time to time make written or oral statements that are forward-looking, including statements contained in this Annual Report and other filings with the Securities and Exchange Commission and in reports to our Company s stockholders. Management believes that all statements that express expectations and projections with respect to future matters, as well as from developments beyond our Company s control including changes in global economic conditions are forward-looking statements within the meaning of the Act. These statements are made on the basis of management s views and assumptions, as of the time the statements are made, regarding future events and business performance. There can be no assurance, however, that management s expectations will necessarily come to pass. Factors that may affect forward- looking statements include a wide range of factors that could materially affect future developments and performance, including the following:

Changes in Company-wide strategies, which may result in changes in the types or mix of businesses in which our Company is involved or chooses to invest; changes in U.S., global or regional economic conditions, changes in U.S. and global financial and equity markets, including significant interest rate fluctuations, which may impede our Company s access to, or increase the cost of, external financing for our operations and investments; increased competitive pressures, both domestically and internationally, legal and regulatory developments, such as regulatory actions affecting environmental activities, the imposition by foreign countries of trade restrictions and changes in international tax laws or currency controls; adverse weather conditions or natural disasters, such as hurricanes and earthquakes, labor disputes, which may lead to increased costs or disruption of operations.

This list of factors that may affect future performance and the accuracy of forward-looking statements are illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Not required

Item 4. Controls and Procedures

(a)

Management s Report on Internal Control Over Financial Reporting.

As of the end of the period covered by this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon this evaluation, our Chief Executive Officer and Principal Financial Officer concluded that information required to be disclosed is recorded, processed, summarized and reported within the specified periods, and is accumulated and communicated to management, including our Chief Executive Officer and Principal Financial Officer, to allow for timely decisions regarding required disclosure of material information required to be included in our periodic Securities and Exchange Commission reports. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and our Chief Executive Officer and Principal Financial Officer have concluded that our disclosure controls and procedures are effective to a reasonable assurance level of achieving such objectives. However, it should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. In addition, we reviewed our internal controls over financial reporting, and there have been no changes in our internal controls or in other factors in the last fiscal quarter that have materially affected our internal controls over financial reporting.

(b)

Changes in Internal Control Over Financial Reporting.

There were no changes in our internal control over financial reporting during the period covered by this Quarterly Report.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

On October 16, 2009, the Company filed a complaint in the Third District Court in the State of Utah in which it seeks the return of the stock issued for the acquisition of Cryomastor. The action alleges misrepresentation and, in addition to the return of the stock, seeks monetary damages. In May 2010 the defendant responded with the filing of a countersuit.

In June 2010 a complaint was filed against the Company for failure to pay $20,946 of a $65,000 contract. The amount relates to HVAC equipment resold on a contract job for which the Company has not been paid.

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

Recent Sales of Unregistered Securities

We have not sold any restricted securities during the three months ended September 30, 2010.

Use of Proceeds of Registered Securities

None; not applicable.

Purchases of Equity Securities by Us and Affiliated Purchasers

During the three months ended September 30, 2010, we have not purchased any equity securities nor have any officers or directors of the Company.

ITEM 3. Defaults Upon Senior Securities

As of September 30, 2010 the Company is in default on its Senior Secured Convertible Debenture. The Company was unable to repay the debenture as demanded by the debenture holders. The total amount under default was $2,300,000 plus a default principle of 30% or $690,000. The total amount currently in default is $2,925,000 after $65,000 of the debentures and penalty were converted in September 2009. Under the terms of the debenture the interest rate increases from 12% to 18% upon default. The company is not current on its interest payments.

In August 2010, management reached agreement with all but one of the debenture holders on a plan to settle the debentures held by them that are in default. The settlement agreement is contingent upon the Company making a cash payment to them in the amount of $300,000 and the issuance of 1,200,000 shares of restricted common stock in full satisfaction of the indebtedness. The Company is currently working on securing the funding to enable it to fulfill the payment obligation under this agreement.

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the quarter ended September 30, 2010.

ITEM 5. Other Information.

None

ITEM 6. Exhibits

(a) Exhibits.

Exhibit No.	Title of Document	Location if other than attached hereto
3.1	Articles of Incorporation	10-SB Registration Statement*
3.2	Articles of Amendment to Articles of Incorporation	10-SB Registration Statement*
3.3	By-Laws	10-SB Registration Statement*
3.4	Articles of Amendment to Articles of Incorporation	8-K Current Report dated December 31, 2003*
3.5	Articles of Amendment to Articles of Incorporation	8-K Current Report dated December 31, 2003*

3.6

Articles of Amendment

September 30, 2004 10-QSB Quarterly Report*

3.7

By-Laws Amendment

September 30, 2004 10-QSB Quarterly Report*

4.1

Debenture

8-K Current Report dated June 29, 2007*

4.2

Form of Purchasers Warrant

8-K Current Report dated June 29, 2007*

4.3

Registration Rights Agreement

8-K Current Report dated June 29, 2007*

4.4

Form of Placement Agreement

8-K Current Report dated June 29, 2007*

10.1

Securities Purchase Agreement

8-K Current Report dated June 29, 2007*

10.2

Placement Agent Agreement

8-K Current Report dated June 29, 2007*

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Code of Ethics

December 31, 2003 10-KSB Annual Report*

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Subsidiaries of the Company

December 31, 2004 10-KSB Annual Report*

31.1

302 Certification of Kim Boyce

31.2

302 Certification of Keith Merrell

32

906 Certification

Exhibits

Additional Exhibits Incorporated by Reference

*

Reflect California Reorganization

8-K Current Report dated December 31, 2003

*

JMST Acquisition

8-K Current Report dated April 4, 2006

*

Cryomastor Reorganization

8-K Current Report dated September 27, 2006

*

Image Labs Merger Agreement Signing

8-K Current Report dated November 15, 2006

*

All Temp Merger Agreement Signing

8-K Current Report dated November 17, 2006

*

All Temp Merger Agreement Closing

8-KA Current Report dated November 17, 2006

*

Image Labs Merger Agreement Closing

8-KA Current Report dated November 15, 2006

* Previously filed and incorporated by reference.

SIGNATURES

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

Reflect Scientific, Inc.

(Registrant)

Date:

November 10, 2010

By: /s/ Kim Boyce

Kim Boyce, CEO, President

and Director

Date:

November 10, 2010

By: /s/ Tom Tait

Tom Tait, Vice President and

Director

Date:

November 10, 2010

By: /s/ Keith Merrell

Keith Merrell, CFO, Principal

Financial Officer

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Total
Balance at December 31, 2018
$
10,300,000

$
36,520,840

$
68,965,410

$
—

$
(13,302,164
)

$
102,484,086

Net loss
—

—

(926,522
)

—

—

(926,522
)
Cumulative adjustment due to adoption of ASC 842 (see Note 12)
—

—

4,622,500

—

—

4,622,500

Issuance of 89,154 shares of common stock from treasury
—

(832,419
)

—

—

832,419

—

Employee stock option and grant compensation

—

615,739

—

—

—

615,739

Balance at March 31, 2019
$
10,300,000

$
36,304,159

$
72,661,388

$
—

$
(12,469,745
)

$
106,795,802

See accompanying notes to condensed consolidated financial statements.

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Synalloy Corporation
Notes to Condensed Consolidated Financial Statements (unaudited)

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

1. Basis of Financial Statement Presentation
The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included as required by Regulation S-X, Rule 10-01. Operating results for the three-month period ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.
Certain prior period amounts have been reclassified to conform to the current period presentation, including changes in the fair value of the Company's earn-out liabilities from "Other Expense (Income)" to "Operating Income (Loss)" on the accompanying Condensed Consolidated Statements of Operations.

2. Recently Issued Accounting Standards
Recently Issued Accounting Standards - Adopted
In February 2016, the FASB issued ASU No. 2016-02 "Leases (Topic 842)", as amended, which generally requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet and to provide enhanced disclosures surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements. The Company adopted the new standard as of January 1, 2019 on a modified retrospective basis, which does not require comparative periods to be restated. On adoption, we recognized additional operating lease liabilities of $38,016,006 based on the present value of the remaining minimum rental payments as of January 1, 2019. We additionally recognized corresponding right-of-use assets for operating leases totaling $37,072,072. On January 1, 2019, the Company also recorded cumulative-effect increases to equity and deferred tax assets totaling $4,622,500 and $1,310,850, respectively, related to a deferred gain for a sale leaseback transaction that occurred in 2016 and was being amortized into earnings under the prior accounting. The adoption of this standard did not have a material impact on the consolidated statement of operations or cash flows for the three months ended March 31, 2019. See Note 12.

Recently Issued Accounting Standards - Not Yet Adopted
In August 2018, the FASB issued ASU No. 2018-13 "Fair Value Measurement (Topic 820)". The updated guidance improves the disclosure requirements on fair value measurements. The updated guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for any removed or modified disclosures. The Company is currently assessing the timing and impact of adopting the updated provisions.

3. Revenues
Revenues are recognized when control of the promised goods or services is transferred to our customers upon shipment, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

The following table presents the Company's revenues, disaggregated by product group. Substantially all of the Company's revenues are derived from contracts with customers where performance obligations are satisfied at a point-in-time.

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Synalloy Corporation
Notes to Condensed Consolidated Financial Statements (unaudited)

	Three Months Ended	
	Mar 31, 2019	Mar 31, 2018
Storage tank and vessel	$9,828,955	$5,775,772
Seamless carbon steel pipe and tube	8,586,505	8,432,613
Stainless steel pipe	45,995,384	31,283,862
Galvanized pipe	6,692,235	—
Specialty chemicals	13,700,753	12,988,355
Total revenues	$84,803,832	$58,480,602

Arrangements with Multiple Performance Obligations
Our contracts with customers may include multiple performance obligations. For such arrangements, revenue for each performance obligation is based on its standalone selling price and revenue is recognized as each performance obligation is satisfied. The Company generally determines standalone selling prices based on the prices charged to customers using the adjusted market assessment approach or expected cost plus margin.

Deferred Revenues
Deferred revenues are recorded when cash payments are received in advance of satisfying the performance obligation, including amounts which are refundable. The deferred revenue balance increased $43,344 during the first three months of 2019 to $220,979 as of March 31, 2019 due to receiving $838,069 in advance of satisfying our performance obligations during the period, offset by $794,725 of revenue that was recognized during the period after satisfying the performance obligations that were included in the beginning deferred revenue balance or entered into during the current period. Deferred revenues are included in "Accrued expenses and other current liabilities" on the accompanying Condensed Consolidated Balance Sheets.

Our payment terms vary by the financial strength or location of our customer and the products offered. The length of time between invoicing and when payment is due is not significant. For certain customers, payment is required before the products or services are delivered to the customer.

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

	Mar 31, 2019	Dec 31, 2018
Raw materials	$58,479,988	$59,778,767
Work-in-process	18,095,167	21,033,532
Finished goods	37,582,787	33,389,087
	$114,157,942	$114,201,386

5. Stock options and restricted stock
During the first three months of 2019 and 2018, no stock options were exercised by officers or employees of the Company. Stock compensation expense for the three-month periods ended March 31, 2019 and March 31, 2018 was $615,739 and $192,201, respectively.
In 2016, the Compensation & Long-Term Incentive Committee (the "Committee") of the Company's Board of Directors granted performance restricted stock awards (“2016 Performance Stock Award”) to officers and certain key management-level employees. The 2016 Performance Stock Award vested three years from the grant date based on continuous service, with the number of shares earned (0% to 150% of the target award) depending on the extent to which the Company achieves certain financial performance targets measured over the period from January 1, 2016 to December 31, 2018. On February 8, 2019, the Committee approved the vesting of the 2016 Performance Stock Award

for a total of 46,477 restricted shares at a grant date market price of $8.05.

Synalloy Corporation
Notes to Condensed Consolidated Financial Statements (unaudited)

On February 8, 2019, the Committee approved grants under the Company's 2015 Stock Awards Plan to certain management employees of the Company where 44,949 shares with a market price of $15.72 per share were granted under the Plan. These stock awards vest in either 20 percent or 33 percent increments annually, beginning one year after the date of grant. In order for the awards to vest, the employee must be in the continuous employment of the Company since the date of the award. Any portion of an award that has not vested is forfeited upon termination of employment. The Company may terminate any portion of the award that has not vested upon an employee's failure to comply with all conditions of the award or the 2015 Stock Awards Plan. An employee is not entitled to any voting rights with respect to any shares not yet vested, and the shares are not transferable.

The diluted earnings per share calculations exclude the effect of potentially dilutive shares when the inclusion of those shares in the calculation would have an anti-dilutive effect. For the three-month period ended March 31, 2019 there is no difference in the number of shares used to calculate basic and diluted shares outstanding because their effect would have been anti-dilutive due to the Company reporting a net loss. For the three-month period ended March 31, 2018, the Company had weighted average shares of common stock, in the form of stock grants and options of 117,879 which were not included in the diluted earnings per share calculation as their effect was anti-dilutive.

6. Income Taxes

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company is no longer subject to U.S. federal examinations for years before 2014 or state income tax examinations for years before 2013. During the first three months of 2019, the Company did not identify nor reserve for any unrecognized tax benefits.

The effective tax rate was 30.5 percent and 21.6 percent for the three months ended March 31, 2019 and 2018, respectively. The March 31, 2019 effective tax rate is higher than the statutory rate of 21 percent due to state taxes, net of the federal benefit, and discrete tax benefits on our stock compensation plans. The March 31, 2018 effective tax rate was higher than the statutory rate of 21 percent due to state taxes, net of the federal benefit.

Synalloy Corporation
Notes to Condensed Consolidated Financial Statements (unaudited)

7. Segment Information

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

	Three Months Ended	
	Mar 31, 2019	Mar 31, 2018
Net sales		
Metals Segment	$71,103,079	$45,492,247
Specialty Chemicals Segment	13,700,753	12,988,355
	$84,803,832	$58,480,602
Operating income (loss)		
Metals Segment	$1,436,642	$6,016,531
Specialty Chemicals Segment	614,214	863,489
Unallocated corporate expenses	2,308,423	1,502,721
Acquisition related costs	281,854	—
Earn-out adjustments	16,523	154,060
Operating (loss) income	(555,944)	5,223,239
Interest expense	1,023,941	313,984
Change in fair value of interest rate swaps	47,561	(73,204)
Other (income) loss, net	(294,667)	88,296
(Loss) income before income taxes	$(1,332,779)	$4,894,163

	As of	
	Mar 31, 2019	Dec 31, 2018
Identifiable assets		
Metals Segment	$216,759,542	$192,195,733
Specialty Chemicals Segment	27,801,913	28,174,675
Corporate [1]	43,035,888	8,028,438
	$287,597,343	$228,398,846
Goodwill		
Metals Segment	$15,488,796	$8,445,262
Specialty Chemicals Segment	1,354,730	1,354,730
	$16,843,526	$9,799,992

(1) As of March 31, 2019, this amount included $36,759,065 in right-of-use assets that were recorded with the adoption of ASC 842 ("Leases"). Refer to Note 12 for additional information.

8. Fair Value of Financial Instruments

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

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

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

Synalloy Corporation
Notes to Condensed Consolidated Financial Statements (unaudited)

Level 3 - Unobservable inputs that are supported by little or no market activity for assets or liabilities and includes certain pricing models, discounted cash flow methodologies and similar techniques.
The Company's financial instruments include cash and cash equivalents, accounts receivable, derivative instruments, accounts payable, earn-out liabilities, revolving line of credit, term loan, and equity investments.
Level 1 Financial Instruments
For short-term instruments, other than those required to be reported at fair value on a recurring basis and for which additional disclosures are included below, management concluded the historical carrying value is a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization. Therefore, as of March 31, 2019 and December 31, 2018, the carrying amounts for cash and cash equivalents, accounts receivable, accounts payable, the Company's revolving line of credit, which is based on a variable interest rate, and term loan approximate their fair value.
During the first quarter of 2019, the Company sold shares of its equity securities investments. Proceeds from the sale totaled $849,815 which resulted in a realized gain of $325,811 that is included in "Other expense (income)" on the accompanying Condensed Consolidated Statements of Operations.
During the first quarter of 2019, the Company also recorded a net unrealized loss of $53,125 on the investments in equity securities held as of March 31, 2019, which is included in "Other expense (income)" on the accompanying Condensed Consolidated Statements of Operations.
The fair value of equity securities held by the Company as of March 31, 2019 and December 31, 2018 was $2,901,423 and $2,935,000, respectively, and is included in “Prepaid expenses and other current assets” on the accompanying Consolidated Balance Sheets.
Level 2 Financial Instruments
The Company has one interest rate swap contract, which is classified as a Level 2 financial instrument as it is not actively traded and is valued using pricing models that use observable market inputs. The fair value of the contract was an asset of $99,904 and $147,465 at March 31, 2019 and December 31, 2018, respectively. The interest rate swap was priced using discounted cash flow techniques. Changes in its fair value were recorded to other income (expense) with corresponding offsetting entries to current assets or liabilities, as appropriate. Significant inputs to the discounted cash flow model include projected future cash flows based on projected one-month LIBOR and the average margin for companies with similar credit ratings and similar maturities.
To manage the impact on earnings of fluctuating nickel prices, the Company occasionally enters into six-month forward option contracts, which are classified as Level 2. At March 31, 2019 and December 31, 2018, the Company did not have any such contracts in place.
Level 3 Financial Instruments
The fair value of contingent consideration ("earn-out") liabilities resulting from the 2017 MUSA-Stainless acquisition, 2018 MUSA-Galvanized acquisition, and 2019 American Stainless acquisition (see Note 9) are classified as Level 3. The fair value of the MUSA-Stainless earn-out was estimated by applying the Monte Carlo Simulation approach using management's projection of pounds to be shipped and future price per unit. The fair value of the MUSA-Galvanized earn-out and ASTI earn-out were estimated by applying the probability-weighted expected return method, using management's projection of pounds to be shipped and future price per unit. Each quarter-end, the Company re-evaluates its assumptions for all earn-out liabilities and adjusts to reflect the updated fair values. Changes in the estimated fair value of the earn-out liabilities are reflected in the results of operations in the periods in which they are identified. Changes in the fair value of the earn-out liabilities may materially impact and cause volatility in the Company's operating results.

The following table presents a summary of changes in fair value of the Company's earn-out liabilities during the period:

	MUSA-Stainless	MUSA-Galvanized	ASTI	Total
Balance at December 31, 2018	$ 4,251,584	$ 3,357,800	$—	$7,609,384
Fair value of the earn-out liability associated with the American Stainless acquisition	—	—	6,148,230	6,148,230
Earn-out payments during the period	(370,289)	(190,473)	—	(560,762)
Changes in fair value during the period	343,710	(392,958)	65,771	16,523
Balance at March 31, 2019	$ 4,225,005	$ 2,774,369	$6,214,001	$13,213,375

For the three-month period ended March 31, 2018, the Company recorded a $154,060 charge related to changes in the fair value of the MUSA-Stainless earn-out liability.

There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 in the three-month period ended March 31, 2019 or year ended December 31, 2018. During the first three months of 2019, there have been no changes in the fair value methodologies used by the Company.

9. Acquisitions

Acquisition of the Assets and Operations of American Stainless Tubing, Inc.

On January 1, 2019, the Company's wholly-owned subsidiary, ASTI Acquisition, LLC, a North Carolina limited liability company (“ASTI”), completed the purchase of substantially all of the assets and operations of American Stainless Tubing, Inc., a North Carolina corporation ("American Stainless"), in Statesville and Troutman, North Carolina. The purchase price for the all-cash acquisition was $21,895,409, subject to a post-closing working capital adjustment. The Company funded the acquisition with a new five-year $20,000,000 term note and a draw against its recently increased $100,000,000 asset-based line of credit (see Note 10).

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

American Stainless will receive quarterly earn-out payments for a period of three years following closing. Pursuant to the asset purchase agreement between ASTI and American Stainless, earn-out payments will equate to six and one-half percent (6.5 percent) of ASTI’s revenue over the three-year earn-out period. As of January 1, 2019, the Company forecasted earn out payments to be $6,700,858, for which the Company established a fair value of $6,148,230 using a probability-weighted expected return method and a discount rate of five percent. In determining the appropriate discount rate to apply to the contingent payments, the risk associated with the functional form of the earn-out, and the credit risk associated with the payment of the earn-out were all considered. The fair value of the contingent consideration was estimated by applying the Probability Weighted Expected Return method using management's estimates of pounds to be shipped and future price per unit. At March 31, 2019 the fair value of the earn-out totaled $6,214,001 with $2,713,830 of this liability classified as a current liability since the payments will be made quarterly.

Synalloy Corporation
Notes to Condensed Consolidated Financial Statements (unaudited)

The fair value assigned to the customer list intangible will be amortized on an accelerated basis over 15 years. The excess of the consideration transferred over the fair value of the net tangible and identifiable intangible assets is reflected as goodwill. Goodwill consists of manufacturing cost synergies expected from combining American Stainless' production capabilities with the Metals Segment current operations. All of the goodwill recognized was assigned to the Company's Metals Segment and is expected to be deductible for income tax purposes. The preliminary allocation of the total consideration paid to the fair value of the assets acquired and liabilities assumed as of January 1, 2019 is as follows:

Inventories	$5,564,000
Accounts receivable	3,533,921
Other current assets - production and maintenance supplies	605,613
Property, plant and equipment	2,793,173
Customer list intangible	10,000,000
Goodwill	7,043,534
Contingent consideration (earn-out liability)	(6,148,230)
Accounts payable	(1,400,009)
Other liabilities	(96,593)
	$21,895,409

ASTI's results of operations since acquisition are reflected in the Company's consolidated statements of operations as follows:

	Three Months Ended Mar 31, 2019
Net sales	$9,513,220
Income before income taxes	107,121

For the three-month period ended March 31, 2019, cost of sales included $1,147,000 representing the fair value above predecessor cost associated with acquired inventory that was sold during the quarter.

The following unaudited pro-forma information is provided to present a summary of the combined results of the Company's operations with American Stainless as if the acquisition had occurred on January 1, 2018. The unaudited pro-forma financial information is for information purposes only and is not necessarily indicative of what the results would have been had the acquisition been completed on the date indicated above.

Pro-Forma

	Three Months Ended Mar 31, 2018
Pro-forma net sales	$67,006,777
Pro-forma net (loss) income	$3,208,122
(Loss) earnings per share:	
Basic	$0.37
Diluted	$0.37

Pro-forma net income was reduced for the three-month period ended March 31, 2018 for the following:

- Amortization of American Stainless’ customer list intangible of $312,501;
-

- Additional rent expense related to the Company's lease of American Stainless' real estate from Store Capital of $121,449 ;
- An estimated amount of interest expense associated with the additional borrowings to fund the American Stainless acquisition of $210,970;

Synalloy Corporation
Notes to Condensed Consolidated Financial Statements (unaudited)

- Depreciation of $41,252 related to the incremental fair value above historical cost for acquired property, plant and equipment; and
- An decrease in the provision for income taxes of $173,144 related to the impact of the other pro-forma adjustments and American Stainless' previous status as a pass-through entity for income tax purposes prior to the acquisition.

Acquisition of the Galvanized Pipe and Tube Assets of Marcegaglia USA, Inc.

On July 1, 2018, Bristol Metals, LLC ("BRISMET"), a subsidiary of the Company's Metals Segment, acquired Marcegaglia USA, Inc.'s ("MUSA") galvanized tube assets and operations ("MUSA-Galvanized") located in Munhall, PA. The purchase price for the transaction totaled $10,378,281. The assets purchased and liabilities assumed from MUSA include accounts receivable, inventory, equipment, and accounts payable.

Munhall-Galvanized's results of operations since acquisition are reflected in the Company's consolidated statements of operations as follows:

	Three Months Ended Mar 31, 2019
Net sales	$6,692,235
Income before income taxes	346,403

10. Long-term Debt

On December 20, 2018, the Company amended its Credit Agreement with its bank to refinance and increase its Line of Credit (the "Line") from $80,000,000 to $100,000,000 and to create a new 5-year term loan in the principal amount of $20,000,000 (the “Term Loan”). The Term Loan was used to finance the purchase of substantially all of the assets of American Stainless (see Note 9). The Term Loan’s maturity date is February 1, 2024, and shall be repaid in 60 consecutive monthly installments. Interest on the Term Loan is calculated using the One Month LIBOR Rate (as defined in the Credit Agreement), plus 1.90 percent. The Line will be used for working capital needs and as a source for funding future acquisitions. The maturity date of the Line has been extended to December 20, 2021. Interest on the Line remains unchanged and is calculated using the One Month LIBOR Rate, plus 1.65 percent. Borrowings under the Line are limited to an amount equal to a Borrowing Base calculation that includes eligible accounts receivable and inventory.

Pursuant to the Credit Agreement, the Company is subject to certain covenants including maintaining a minimum fixed charge coverage ratio, maintaining a minimum tangible net worth, and a limitation on the Company’s maximum amount of capital expenditures per year, which is in line with currently projected needs. At March 31, 2019, the Company was in compliance with all debt covenants.

11. Contingencies

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

Management is not currently aware of any asserted or unasserted matters which could have a material effect on the financial condition or results of operations of the Company.

Synalloy Corporation
Notes to Condensed Consolidated Financial Statements (unaudited)

12. Leases

Adoption of ASC Topic 842, "Leases"
On January 1, 2019, the Company adopted Topic 842 using the modified retrospective method applied to leases that were in place as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 840. The Company's portfolio of leases contains both finance and operating leases that relate primarily to real estate agreements and manufacturing equipment agreements. Substantially all of the value of the Company's lease portfolio relates to a real estate master lease agreement with Store Master Funding XII, LLC, an affiliate of Store Capital Corporation ("Store") that was entered into in 2016, and amended with the 2018 MUSA-Galvanized and 2019 ASTI acquisitions. As of March 31, 2019, operating lease liabilities related to the master lease agreement with Store totaled $37,192,255, or 96 percent of the total lease liabilities on the accompanying condensed consolidated balance sheet.

Practical Expedients and Elections
The Company elected the package of practical expedients permitted under the transition guidance, which allowed us to carryforward our historical lease classification, our assessment on whether a contract is or contains a lease, and our initial direct costs for any leases that exist prior to adoption of the new standard. We did not elect the hindsight practical expedient to determine the reasonably certain lease term for existing leases. We also elected to combine lease and non-lease components, and elected the short-term lease recognition exemption for all leases that qualify.
Deferred Gain on Sale Leaseback
On January 1, 2019, the Company recorded cumulative-effect adjustments to increase equity and deferred tax assets totaling $4,622,500 and $1,310,850, respectively, related to the derecognition of the deferred gain on its sale leaseback, consistent with transition guidance set forth in ASC 842-10-65-1.
Discount Rate
To determine the present value of minimum future lease payments for operating leases at January 1, 2019, the Company was required to estimate a rate of interest that we would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment (the "incremental borrowing rate" or "IBR"). The Company determined the appropriate IBR by identifying a reference rate and making adjustments that take into consideration financing options and certain lease-specific circumstances. For the reference rate, treasury rates for five years, 10 years, and 30 years were used as they cover the periods of the leases. The Company additionally used the Damodaran Credit Rating Model, which assesses a credit rating based on the interest coverage ratio and relates this to credit ratings of other large public manufacturers. Inputs required include EBIT, interest expense, future minimum lease payments, outstanding debt, and a reference rate. Based on this assessment of the aforementioned qualitative and quantitative factors, the Company determined that 7.32 percent was an appropriate incremental borrowing rate to apply to its portfolio of real-estate operating leases. The Company elected to utilize a single discount rate for its portfolio of operating leases because of similar lease characteristics; the resulting calculation does not differ materially from applying the standard to the individual leases.
Weighted average discount rates for operating and finance leases are as follows:

Operating Leases	7.32 %
Finance Leases	11.85 %

Balance Sheet Presentation
Operating and finance lease amounts included in the Consolidated Balance Sheet are as follows:

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Financial Statement Line Item	Classification	March 31, 2019
Right-of-use assets, operating leases	Assets	$36,759,065
Right-of-use assets, finance leases	Property, plant, and equipment	532,062
Current lease liabilities, operating leases	Current liabilities	3,473,925
Current lease liabilities, finance leases	Current liabilities	235,685
Non-current lease liabilities, operating leases	Non-current liabilities	34,366,152
Non-current lease liabilities, finance leases	Non-current liabilities	539,073

Total Lease Cost
Individual components of the total lease cost incurred by the Company for the three month period ended March 31, 2019 is as follows:

	Mar 31, 2019
Operating lease cost	$1,005,191
Finance lease cost	
Amortization of right-of-use assets	43,714
Interest on finance lease liabilities	20,297
Short-term lease cost	—
Total lease cost	$1,069,202

Amortization of assets held under finance leases is included in depreciation expense. Minimum rental payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent.

Maturity of Leases
The amount of undiscounted future minimum lease payments under operating leases are as follows:

Remainder of 2019	$2,622,191
2020	3,562,092
2021	3,635,376
2022	3,672,731
2023	3,563,383
2024	3,634,651
Thereafter	48,553,620
Total undiscounted minimum future operating lease payments	69,244,044
Imputed Interest	31,403,967
Total operating lease liabilities recorded as of March 31, 2019	$37,840,077

The amount of undiscounted future minimum lease payments under finance leases are as follows:

Remainder of 2019	$238,206
2020	329,534
2021	335,462
2022	11,998
Total undiscounted minimum future finance lease payments	915,200
Imputed Interest	140,442
Total finance lease liabilities recorded as of March 31, 2019	$774,758

Additional Information
Weighted average remaining lease terms for operating and finance leases as of March 31, 2019 are as follows:

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Operating Leases	207 months
Finance Leases	33 months

During the three-month period ended March 31, 2019, right-of-use assets obtained in exchange for new operating lease liabilities totaled $4,900,243.

On January 1, 2019, the Company and Store Master Funding XII, LLC, entered into an Amended and Restated Master Lease Agreement (the “Master Lease”), pursuant to which the Company will lease the Statesville and Troutman, NC facilities, purchased by Store from American Stainless on January 1, 2019, for the remainder of the initial term of 20 years set forth in the Master Lease, with two renewal options of ten years each. Because the Company is reasonably certain to exercise these renewal options, the options are not considered in determining the lease term, and associated potential option payments are excluded from lease payments. The Master Lease includes a rent escalator equal to the lesser of 1.25 times the percentage increase in the Consumer Price Index since the previous increase or 2 percent.

Undiscounted future minimum lease payments under non-cancellable operating leases accounted for under ASC 840 "Leases" were as follows:

	Dec 31, 2018
2019	$3,207,053
2020	3,243,694
2021	3,238,745
2022	3,224,810
2023	3,102,815
Thereafter	45,337,403

Undiscounted future minimum lease payments under non-cancellable capital leases accounted for under ASC 840 "Leases" were as follows:

	Dec 31, 2018
2019	$354,299
2020	329,534
2021	335,462
2022	11,998
2023	—
Total minimum lease payments	1,031,293
Less imputed interest costs	164,826
Present value of minimum lease payments	$866,467

13. Goodwill and Intangible Assets

As a result of the January 1, 2019 American Stainless acquisition, the Company recognized $7,043,534 in Goodwill for the excess of consideration transferred over the fair value of the acquired net tangible and identifiable intangible assets.

The Company also recorded a $10,000,000 intangible asset on a preliminary basis for the fair value of the customer relationships that were acquired, to be amortized on an accelerated basis over 15 years.

The balance of intangible assets subject to amortization at March 31, 2019 and December 31, 2018 is as follows:

	March 31, 2019	December 31, 2018
Intangible assets, gross	$32,622,000	$22,622,000
Accumulated amortization of intangible assets	(13,849,639)	(12,925,888)
Intangible assets, net	$18,772,361	$9,696,112

Estimated amortization expense related to intangible assets for the next five years is as follows:

Remainder of 2019	$2,660,675
2020	3,296,195
2021	3,104,819
2022	2,790,361
2023	1,245,083
2024	1,083,974
Thereafter	4,628,111

Synalloy Corporation
Notes to Condensed Consolidated Financial Statements (unaudited)

14. Stock Repurchase Program

On February 21, 2019, the Board of Directors authorized a stock repurchase program for up to 850,000 shares of its outstanding common stock over twenty-four months. The shares will be purchased from time to time at prevailing market prices, through open market or privately negotiated transactions, depending on market conditions. Under the program, the purchases will be funded from available working capital, and the repurchased shares will be returned to the status of authorized, but unissued shares of common stock or held in treasury. There is no guarantee as to the exact number of shares that will be repurchased by the Company, and the Company may discontinue purchases at any time that management determines additional purchases are not warranted.

During the three-month period ended March 31, 2019 the Company did not purchase any shares under the stock repurchase program.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
The following is management's discussion of certain significant factors that affected the Company during the three-month period ended March 31, 2019.
Consolidated net sales for the first quarter of 2019 totaled $84,803,832, an increase of $26,323,230 or 45 percent compared to net sales for the first quarter of 2018 of $58,480,602. Excluding ASTI's and Munhall-Galvanized's net sales, consolidated net sales for the first quarter of 2019 increased $10,283,081, or 17.6 percent compared to net sales for the first quarter of 2018.
The Company recorded a net loss of $926,522, or $0.10 diluted loss per share for the first quarter of 2019, compared to net income of $3,835,163 or $0.44 diluted earnings per share for the same quarter in the prior year. Excluding the financial results of ASTI and Munhall-Galvanized, net loss for the first quarter of 2019 decreased $5,076,967, or 126 percent compared to net income for the first quarter of 2018.
Impact of 2019 and 2018 Acquisitions on Financial Results
The first quarter of 2019 includes financial results in the Company's Metals Segment related to the MUSA-Galvanized acquisition (which closed on July 1, 2018) as follows:
a. For the first quarter of 2019, net sales for Munhall-Galvanized totaled $6,692,235 with pre-tax income of $346,403.

The first quarter of 2019 include financial results in the Company's Metals Segment related to the American Stainless acquisition (which closed on January 1, 2019) as follows:
a. For the first quarter of 2019, net sales for ASTI totaled $9,513,220, with pre-tax income of $107,121.

Metals Segment
Metals Segment net sales for the first quarter of 2019 totaled $71,103,079, an increase of $25,610,832 or 56 percent from the first quarter of 2018. Excluding the net sales of ASTI and Munhall-Galvanized, Metals Segment net sales for the first quarter of 2019 increased $9,405,377, or 21 percent, compared to net sales for the first quarter of 2018.
Sales for the first quarter of 2019 compared to the prior year are summarized as follows:

	Sales Increase (decrease) from prior year period			
	$	%	Average selling price [1]	Units shipped
First quarter				
Storage tank and vessel	$4,053,183	70.2%	66.6%	3.6%
Seamless carbon steel pipe and tube	153,892	1.8%	11.0%	(9.2)%
Stainless steel pipe	14,711,521	47%	15.3%	31.7%
Galvanized pipe	6,692,236	n/a	n/a	n/a
Total first quarter change	$25,610,832			

[1] Average price increases for the first quarter of 2019 as compared to the first quarter of 2018 primarily relate to the following:
- Storage tank and vessels - product mix change to larger, more complex tanks;
- Seamless carbon steel pipe and tube - pass through of higher input material costs primarily related to the imposition of Section 232 Aluminum and Steel Import Tariffs;
- Stainless steel pipe - pass through of input and cost increases related to:

a. Alloy surcharges decrease of seven percent;
b. Increase of alloy mix with higher nickel content of seven percent; and
c. Base raw material input mill pricing, higher cost mix of roll and plate input materials, and import tariffs of approximately 15 percent.

For the overall Metals Segment, with the addition of the galvanized product line pricing (from the July 1, 2018 MUSA-Galvanized acquisition), pricing averages were impacted by the lower average selling prices of galvanized products as compared to other product lines in the Metals Segment. The inclusion of galvanized products lowered average pricing for the first quarter ended March 31, 2019 by 23 percent.
The Metals Segment's operating income decreased $4,579,889 to $1,436,642 for the first quarter of 2019 compared to operating income of $6,016,531 for the first quarter of 2018.

Current year operating results were affected by the following factors:

a. Nickel prices and resulting surcharges for 304 and 316 alloys ended the first quarter of 2019 lower than the previous two quarters, with surcharges decreasing by $0.05 and $0.06 per pound, respectively from December 2018 and $0.16 and $0.19 per pound, respectively, from September 2018. That combined reduction in the nickel indices resulted in substantially lower pricing in the first quarter, generating a net unfavorable operating impact of $3,375,470 related to metal pricing. Compared to a period of rising nickel pricing in the first quarter of 2018, which generated metal pricing gains of $2,453,633, the first quarter of 2019 was unfavorable $5,829,103 compared to the first quarter of 2018;

b. The January 1, 2019 acquisition of ASTI lowered first quarter operating income by $1,357,946, primarily from purchase price accounting that marks up purchased inventory to fair value selling price, thus eliminating all profits on inventory sold during the period;

c. Year-over-year improvements in welded pipe and tube, including organic growth as well as the addition of ASTI, and substantial improvement in Palmer tank sales, yielded volume and product mix related incremental operating profits totaling $2,770,276; and

d. Seamless carbon pipe and tube showed an improvement of 1.8 percent in sales, however, the impact of higher priced tariff materials, lower pricing driven by increased distributor inventories and some lower margin first quarter project business, all resulted in compressed margins of approximately three percent, lowering operating profit by approximately $212,637. Some of those impacts should moderate as the year progresses, resulting in more favorable margin performance.

Specialty Chemicals Segment
Net sales for the Specialty Chemicals Segment in the first quarter of 2019 totaled $13,700,753, representing a $712,398 or 5 percent increase from the first quarter of 2018.
Net sales continued to benefit during the first quarter of 2019 primarily from organically-driven demand in both Contract/Toll Manufacturing and Proprietary Products.
Operating income for the Specialty Chemicals Segment for the first quarter of 2019 was $614,214, a total that met plan expectations for the seasonally low, first quarter of the year. The result represents a nine percent improvement over the first quarter of 2018, excluding a $313,000 favorable gain booked in the first quarter of 2018 from a successful legal claim.

Other Items

Unallocated corporate expenses for the first quarter of 2019 increased $805,702, or 54 percent, to $2,308,423 (approximately three percent of sales) compared to $1,502,721 (approximately three percent of sales) for the first quarter of 2018. The first quarter increase resulted primarily from higher professional fees ($307,390), higher stock option/grant compensation ($279,332), and higher employee benefits ($93,516).

Acquisition related costs were $1,639,800 for the first quarter of 2019 ($1,357,946 recorded in Metals Segment Cost of Sales/SG&A and $281,854 in unallocated SG&A) resulting from costs associated with the January 1, 2019 American Stainless acquisition. This compares to $186,763 (mainly in Metals Segment Cost of Sales) during the first quarter of 2018.

Interest expense was $1,023,941 and $313,984 for the first quarters of 2019 and 2018, respectively. The increase was primarily related to higher average debt outstanding in the first quarter of 2019, as additional borrowings were required primarily related to acquisitions and to support working capital requirements associated with increased business activity.

During the first quarter of 2019, the Company recorded a realized gain of $325,811 on the sale of equity securities, offset by a net unrealized loss of $53,125 on the investments in equity securities held as of March 31, 2019, both of which are included in "Other expense (income)" on the accompanying Condensed Consolidated Statements of Operations.

The effective tax rate was 30.5 percent for the three-month period ended March 31, 2019. The March 31, 2019 effective tax rate is higher than the statutory rate of 21 percent due to state taxes, net of the federal benefit, and discrete tax benefits on our stock compensation plans. The effective tax rate was 21.6 percent for the three-month period ended March 31, 2018. The 2018 effective tax rate was higher than the federal statutory rate of 21 percent due to state tax expense, net of the federal benefit.

The Company's cash balance decreased $1,615,686 to $604,586 as of March 31, 2019 compared to $2,220,272 at December 31, 2018. Fluctuations affecting cash flows during the period were comprised of the following:

a. Net inventories remained relatively consistent at March 31, 2019 when compared to December 31, 2018, mainly due to efforts to balance inventory with projected business levels. Excluding the impact of American Stainless' acquired inventory, the Company generated $5,189,552 of operating cash flows from the relief of inventory during the three months ended March 31, 2019. Inventory turns increased from 1.81 turns at December 31, 2018, calculated on a three-month average basis, to 2.15 turns at March 31, 2019;
b. Accounts payable increased $5,365,961 as of March 31, 2019 as compared to December 31, 2018. The majority of the increase is related to increased levels of purchasing activity across all sectors of the business, including late first quarter receipts of inventory that were still unpaid on normal terms at the end of the quarter. Accounts payable days outstanding were approximately 36 days at March 31, 2019 compared to 37 days at December 31, 2018;
c. Net accounts receivable increased $5,793,111 at March 31, 2019 as compared to December 31, 2018, which primarily resulted from a 14 percent increase in sales for the last two months of the first quarter 2019 compared to the last two months of the fourth quarter of 2018. Days sales outstanding, calculated using a three-month average basis, decreased from 52 days outstanding at the end of December 2018, to 50 days at the end of the first quarter 2019;
d. On January 1, 2019, the Company paid $21,895,409 to complete the American Stainless acquisition (refer to Note 9 for further details);
e. The Company purchased and sold equity securities during the three-month period ended March 31, 2019, which resulted in net cash proceeds of $306,273;
f. Capital expenditures for the first three months of 2019 were $964,240; and
g. The Company paid out $560,762, during the first three months of 2019 related to the earn-out liability from the 2017 MUSA-Stainless and 2018 MUSA-Galvanized acquisitions.

The Company increased its overall debt balance by $15,075,829 during the first three months of 2019 and had $91,481,287 of total borrowings outstanding as of March 31, 2019 with its lender. Covenants under the Credit Agreement include maintaining a minimum fixed charge coverage ratio, maintaining a minimum tangible net worth, and a limitation on the Company’s maximum amount of capital expenditures per year, which is in line with currently projected needs. As of March 31, 2019, the Company had $25,198,137 of remaining available capacity under its Line.

The Company was in compliance with all covenants as of March 31, 2019.

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

This quarterly report includes and incorporates by reference "forward-looking statements" within the meaning of the federal securities laws. All statements that are not historical facts are "forward-looking statements." The words "estimate," "project," "intend," "expect," "believe," "should," "anticipate," "hope," "optimistic," "plan," "outlook," "should," "could," "may" and similar expressions identify forward-looking statements. The forward-looking statements are subject to certain risks and uncertainties, including without limitation those identified below, which could cause actual results to differ materially from historical results or those anticipated. Readers are cautioned not to place undue reliance on these forward-looking statements. The following factors could cause actual results to differ materially from historical results or those anticipated: adverse economic conditions; the impact of competitive products and pricing; product demand and acceptance risks; raw material and other increased costs; raw materials availability; employee relations; ability to maintain workforce by hiring trained employees; labor efficiencies; customer delays or difficulties in the production of products; new fracking regulations; a prolonged decrease in oil and nickel prices; unforeseen delays in completing the integrations of acquisitions; risks associated with mergers, acquisitions, dispositions and other expansion activities; financial stability of our customers; environmental issues; unavailability of debt financing on acceptable terms and exposure to increased market interest rate risk; inability to comply with covenants and ratios required by our debt financing arrangements; ability to weather an economic downturn; loss of consumer or investor confidence and other risks detailed from time-to-time in the Company's SEC filings. The Company assumes no obligation to update the information included in this report.

Item 3. Quantitative and Qualitative Disclosures about Market Risks

Information about the Company's exposure to market risk was disclosed in its Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the SEC on March 18, 2019. There have been no material quantitative or qualitative changes in market risk exposure since the date of that filing.

Item 4. Controls and Procedures

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

Changes in Internal Control over Financial Reporting

During the first quarter of 2019, the Company implemented controls to support the adoption of the new lease accounting standard ASU No. 2016- 02, “Leases (Topic 842)". The Company has not identified any other changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting

PART II

Item 1. Legal Proceedings

It is not unusual for us and our subsidiaries to be involved in various unresolved legal actions, administrative proceedings and claims in the ordinary course of business involving, among other things, product liability, commercial, employment, workers' compensation, and environmental matters. We establish reserves in a manner that is consistent with accounting principles generally accepted in the U.S. for costs associated with such matters when a liability is probable and those costs are capable of being reasonably estimated. We cannot predict with any certainty the outcome of these unresolved legal actions or the range of possible loss or recovery. Based on current information, however, we believe that the eventual outcome of these unresolved legal actions, either individually or in the aggregate, will not have a material adverse effect on our financial position, results of operations or cash flows. There were no material changes in our Legal Proceedings, as discussed in Part I, Item 3 in the Company's Annual Report on Form 10-K for the period ending December 31, 2018.

Item 1A. Risk Factors

There were no material changes in our assessment of risk factors as discussed in Part I, Item 1A in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certifications of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer
32	Certifications Pursuant to 18 U.S.C. Section 1350
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
*	In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed "furnished" and not "filed."

SIGNATURES

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

SYNALLOY CORPORATION
(Registrant)

Date:	April 30, 2019	By:	/s/ Craig C. Bram
			Craig C. Bram
			President and Chief Executive Officer
			(principal executive officer)
Date:	April 30, 2019	By:	/s/ Dennis M. Loughran
			Dennis M. Loughran
			Senior Vice President and Chief Financial Officer
			(principal accounting officer)