

REFLECT SCIENTIFIC INC
Form 10QSB
May 21, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended March 31, 2007

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

For the transition period from _____ to _____

Commission File No. 001-08397

REFLECT SCIENTIFIC, INC.

(Exact name of small business issuer as specified in its charter)

Utah

(State or Other Jurisdiction of
incorporation or organization)

87-0642556

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

1270 South 1380 West

Orem, Utah 84058

(Address of Principal Executive Offices)

(801) 226-4100

(Issuer's Telephone Number)

N/A

(Former name, former address and former fiscal year,
if changed since last report)

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

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

Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Not applicable.

Check whether the Issuer filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes No.

Not applicable.

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the Issuer's classes of common equity, as of the latest practicable date: May 10, 2007: Common 34,886,149 shares of common stock.

Transitional Small Business Disclosure Format (Check one): Yes No

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

REFLECT SCIENTIFIC, INC.

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007 and December 31, 2006

REFLECT SCIENTIFIC, INC.

Consolidated Balance Sheets

ASSETS

	March 31,
	2007
	(Unaudited)
CURRENT ASSETS	
Cash	\$ 163,611
Accounts receivable	909,330
Other receivables	2,325
Inventory	739,726
Prepaid assets	162,774
Total Current Assets	1,977,766
FIXED ASSETS, NET	244,303
OTHER ASSETS	
Intangible assets, net	7,198,234
Income tax receivable	24,761
Deferred tax asset	316,000
Long term prepaid asset	326,667
Deposits	13,100
Total Other Assets	7,878,762
TOTAL ASSETS	\$ 10,100,831

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

REFLECT SCIENTIFIC, INC.

Consolidated Balance Sheets (Continued)

LIABILITIES AND SHAREHOLDERS EQUITY

	March 31, 2007 (Unaudited)
CURRENT LIABILITIES	
Short term loan	\$ 24,260
Accounts payable	979,812
Accrued expenses	36,984
Income taxes payable	400
Total Current Liabilities	1,041,456
NON-CURRENT LIABILITIES	
Notes payable	49,586
Total Liabilities	1,091,042
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS EQUITY	
Preferred stock, \$0.01 per value, authorized 5,000,000 shares; No shares issued and Outstanding	-
Common stock, \$0.01 par value, authorized 50,000,000 shares; 34,050,180 and 30,688,844	

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shares issued and outstanding, respectively	340,501
Additional paid in capital	10,322,624
Subscription receivable	277,550
Accumulated deficit	(1,930,886)
Total Shareholders Equity	9,009,789
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 10,100,831

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

REFLECT SCIENTIFIC, INC.

Consolidated Statements of Operations

(Unaudited)

	For the three Months Ended March 31,	
	2007	2006
REVENUES	\$ 1,168,020	\$ 630,904
COST OF GOODS SOLD	756,988	375,990
GROSS PROFIT	411,032	254,914
OPERATING EXPENSES		
Salaries and wages	344,792	111,149
Payroll taxes	42,121	10,835
Rent expense	43,671	17,263
General and administrative expense	377,742	87,601
Total Operating Expenses	808,326	226,848
OPERATING INCOME (LOSS)	(397,294)	28,066
OTHER INCOME (EXPENSE)		
Interest expense	(61)	(25)
Total Other Expenses	(61)	(25)
NET INCOME (LOSS) BEFORE INCOME TAXES	(397,355)	28,041
Income tax benefit	-	3,781
NET INCOME (LOSS)	\$ (397,355)	\$ 24,260
BASIC AND FULLY DILUTED INCOME (LOSS) PER SHARE	\$ (0.01)	\$ 0.00

WEIGHTED AVERAGE NUMBER OF SHARES \$ OUTSTANDING	32,758,901 \$	25,547,780
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The accompanying notes are an integral part of these consolidated financial statements.

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REFLECT SCIENTIFIC, INC.

Consolidated Statements of Cash Flows

(Unaudited)

For the

Three Months Ended

March 31,

	2007	2006
Net income (loss)	\$ (397,355)	\$ 24,260
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,494	824
Amortization	81,139	-
Common stock issued for services	490,000	
Changes in operating assets and liabilities:		
Increase in accounts receivable	(519,739)	(1,433)
Increase in inventory	(374,930)	(12,524)
Decrease in income tax receivable	1,187	-
Increase in prepaid asset	(477,914)	-
Decrease in other assets	300	-
Increase (decrease) in accounts payable and accrued expenses	765,126	(7,133)
Net Cash Provided (Used) by Operating Activities	(419,692)	3,994
CASH FLOWS FROM INVESTING ACTIVITIES		
Issuance of notes receivable	-	200,000
Cash paid for fixed assets	(8,127)	-
Net Cash Used by Investing Activities	(8,127)	200,000
CASH FLOWS FROM FINANCING ACTIVITIES		
Notes payable	(6,213)	-
Proceeds from stock subscriptions	277,550	
Proceeds from common stock issuance	49,055	320,000
Net Cash Provided by Financing Activities	320,392	320,000

NET INCREASE (DECREASE) IN CASH	(107,427)	123,994
CASH AT BEGINNING OF PERIOD	271,038	492,102
CASH AT END OF PERIOD	\$ 163,611	\$ 616,096

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

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REFLECT SCIENTIFIC, INC.

Consolidated Statements of Cash Flows

(Unaudited)

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash Paid For:

Interest	\$	61	\$	25
Income taxes	\$	-	\$	-

NON-CASH FINANCING ACTIVITIES:

Stock issued pursuant to Company mergers	\$	2,435,870	\$	-
Stock subscription receivable issued	\$	257,251	\$	-
Common stock issued for services	\$	490,000		

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

REFLECT SCIENTIFIC, INC.

Notes to the Consolidated Financial Statements

March 31, 2007 and December 31, 2006

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 such rules and regulations. The information furnished in the interim condensed consolidated financial statements include 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, 2006, financial statements. Operating results for the three months ended March 31, 2007, are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

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.

Reflect Scientific, Inc., a California corporation, was incorporated on June 14, 1993, under the laws of California to engage in the manufacture of test kits for use in scientific studies.

On December 30, 2003, pursuant to an Agreement and Plan of Reorganization, the Company completed a reverse merger with the shareholders of Reflect Scientific, Inc. in which it acquired 100% of Reflect Scientific, Inc., a California corporation in exchange for 22,914,949 common shares of the Company. The terms of the acquisition are detailed in an 8-K filing dated December 31, 2003. Under the terms of the agreement, the President of Reflect Scientific, Inc. became the President of the Company and was elected to the Board of Directors; the acquisition was accounted for as a recapitalization of Reflect Scientific, Inc. because the members of Reflect Scientific, Inc. controlled the Company after the acquisition. Reflect Scientific, Inc. was treated as the acquiring entity for accounting purposes and Cole, Inc. was the surviving entity for legal purposes. There was no adjustment to the carrying values of the assets or liabilities of Reflect Scientific, Inc. and no goodwill was recorded. The operations for the year ended

December 31, 2006 and 2005 are those of Reflect Scientific, Inc.

REFLECT SCIENTIFIC, INC.

Notes to the Consolidated Financial Statements

March 31, 2007 and December 31, 2006

NOTE 3 ACQUISITIONS

Effective January 19, 2007, the Company finalized an Agreement and Plan of Merger (the Merger Agreement) with All Temp Engineering, Inc. As part of this agreement, the Company received assets valued at the following:

Trade Secrets	\$	400,000
Trademarks		100,000
Customer lists		901,000
Customer assets		161,704
Goodwill		557,296
	\$	2,120,000

The assets are amortized over a range of 9-20 years. Amortization expense for the quarter ended March 31, 2007 was \$17,513.

As consideration for these assets, the Company issued 2,000,000 shares at \$1.06 of its common stock that are restricted securities to the shareholders of All Temp Engineering, Inc. and will pay the shareholders a pro-rata running royalty totaling five percent of the gross annual revenues that will be earned on All Temp s business that will be ran as a separate division within the Company.

The Company entered into this merger after considering All Temp s business history, financial condition, and intellectual property. The Company has a desire to expand its services and attract and retain talented technical personnel and believed there were strategic and financial advantages to combining the businesses.

REFLECT SCIENTIFIC, INC.

Notes to the Consolidated Financial Statements

March 31, 2007 and December 31, 2006

NOTE 3 ACQUISITIONS (continued)

An unaudited pro forma balance sheet and income statement as of December 31, 2006, are presented below:

	Reflect As of December 31, 2006	All Temp As of December 31, 2006	Combined Historical Reflect & All Temp	Pro Forma Adjustments	Pro Forma Combined Reflect & All Temp December 31, 2006	
ASSETS						
C u r r e n t						
Assets:						
Cash	\$ 271,038	\$ -	\$ 271,038	\$ -	\$ 271,038	(1)
N o t e s receivable	-	96,236	96,236	-	96,236	(1)
Receivables	389,591	162,596	552,187	-	552,187	
Inventory	364,796	97,825	462,621	-	462,621	
P r e p a i d assets	13,852	8,189	22,041	-	22,041	
Total Current Assets	1,039,277	364,846	1,404,123		1,404,123	
Fixed Assets, (net)	211,021	4,595	215,616	-	215,616	
O t h e r						
Assets:						
Deposits	13,400	3,672	17,072	-	17,072	

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Income Tax receivable	25,948	4,786	30,734		30,734	
Deferred tax asset	316,000	72,555	388,555		388,555	
Intangibles (net)	4,736,827	-	4,736,827	2,619,372	7,356,199	(1)
Total Other Assets	5,092,175	81,013	5,173,188	2,619,372	7,792,560	
T O T A L \$ ASSETS	6,342,473	\$ 450,454	\$ 6,792,927	\$ 2,619,372	\$ 9,412,299	

REFLECT SCIENTIFIC, INC.

Notes to the Consolidated Financial Statements

March 31, 2007 and December 31, 2006

NOTE 3 ACQUISITIONS (continued)

	Reflect As of December 31, 2006	All Temp As of December 31, 2006	Combined Historical Reflect & All Temp	Pro Forma Adjustments	Pro Forma Combined Reflect & All Temp December 31, 2006
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
Current Liabilities:					
Short term loan	\$ 18,353	\$ 600,054	\$ 618,407	\$ -	\$ 618,407
Cash overdraft	-	55,640	55,640	-	55,640
Accounts payable	225,721	272,789	498,510	-	498,510
Accrued liabilities	25,949	7,209	33,158	-	33,158
Income taxes payable	400	800	1,200	-	1,200
Total Current Liabilities	270,423	936,492	1,206,915		1,206,915
Non-current liabilities:					
Notes payable	61,706	-	61,706	-	61,706
Total non-current Liabilities	61,706	-	61,706	-	61,706
Total Liabilities	\$ 332,129	\$ 936,492	\$ 1,268,621	\$ -	\$ 1,268,621
Stockholders' Equity:					
Preferred Stock	-	-	-	-	-
Common stock	306,889	13,334	320,223	(13,334)	(1)

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				20,000	326,889	(1)
Additional Paid-in capital	6,979,735	-	6,979,735	13,334		(1)
Subscription receivable				2,100,000	9,093,069	
	257,251	-	257,251	-	257,251	
Accumulated deficit	(1,533,531)	-	(1,533,531)	-	(1,533,531)	
Accumulated deficit	-	(499,372)	(499,372)	499,372	-	
Total Stockholders' Equity	6,010,344	(486,038)	5,524,306	2,619,372	8,143,678	
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY						
	\$ 6,342,473	\$ 450,454	\$ 6,792,927	\$ 2,619,372	\$ 9,412,299	

REFLECT SCIENTIFIC, INC.

Notes to the Consolidated Financial Statements

March 31, 2007 and December 31, 2006

NOTE 3 ACQUISITIONS (continued)

	Reflect As of December 31, 2006	All Temp as of December 31, 2006	Combined Historical Reflect & All Temp	Pro Forma Adjustment	Pro Forma Combined Reflect & All Temp December 31, 2006
Sales	\$ 2,572,955	\$ 1,871,737	\$ 4,444,692	- \$	4,444,692
Cost of Sales	1,519,547	1,138,382	2,657,929	-	2,657,929
Salaries and wages	779,579	539,843	1,319,422	-	1,319,422
Payroll Taxes	35,767	64,603	100,370	-	100,370
Rent expense	62,906	57,569	120,475	-	120,475
G e n e r a l & Administrative	1,303,598	506,293	1,809,891	-	1,809,891
Income (loss) from operations	(1,128,442)	(434,953)	(1,563,395)	-	(1,563,395)
O t h e r i n c o m e (expense)	(192,911)	(101,281)	(294,192)	-	(294,192)
Interest expense	25	34,961	34,986	-	34,986
Total other income (expense)	(192,936)	(136,242)	(329,178)	-	(329,178)
Income tax expense (benefit)	(342,748)	(84,208)	(426,956)	-	(426,956)
Net Income (loss)	\$ (978,630)	\$ (486,987)	\$ (1,465,617)	- \$	(1,465,617)
Basic loss per share	(0.03)				

Weighted average shares Outstanding	28,432,024	-
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Description of Adjustments and Other Notes

(1) To record the acquisition of All Temp as of the beginning of the period.

Effective March 6, 2007, the Company finalized an Agreement and Plan of Merger (the Merger Agreement) with Image Labs, International. As part of the Merger Agreement, the Company received assets valued at the following:

Trade Secrets	\$	184,400
Trademarks		70,000
Customer lists		154,850
IP Patent		105,000
Inventory		125000
	\$	709,250

The assets are amortized over a range of 9-20 years. Amortization expense for the quarter ended March 31, 2007, was \$2,570.

As consideration for these assets, the Company issued 525,000 shares at \$.97 of its common stock that are restricted securities to the shareholder of Image Labs and paid the sum of \$200,000 and agreed to pay the shareholder a 2.5 percent Running Earnout Purchase

REFLECT SCIENTIFIC, INC.

Notes to the Consolidated Financial Statements

March 31, 2007 and December 31, 2006

NOTE 3 - ACQUISITIONS (continued)

Price. An Employment Agreement was also executed and delivered. As a condition to the closing of the Merger Agreement, the Company has raised approximately \$500,000 to support the Catpro business segment of Image Labs that is to be operated as a separate business segment under the Company.

The Company entered into this merger after considering Image Lab s business history, financial condition, and intellectual property. The Company has a desire to expand its services and attract and retain talented technical personnel and believed there were strategic and financial advantages to combining the businesses.

An unaudited pro forma balance sheet as of December 31, 2006, and a pro forma income statement for the year ended December 31, 2006, for the combined (post merger) entity, is presented below:

	Reflect As of December 31, 2006	Image Labs As of December 31, 2006	Combined Historical Reflect & Image Labs	Pro Forma Adjustments	Pro Forma Combined Reflect & Image Labs December 31, 2006	
ASSETS						
C u r r e n t						
Assets:						
Cash	\$ 271,038	\$	\$ 271,038	\$ (200,000)	\$ 71,038	(1)
Receivables	389,591	1,118,775	1,508,366	-	1,508,366	
Inventory	364,796	80,157	444,953	35,019	479,972	
P r e p a i d assets	13,852	141,117	154,969	-	154,969	

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Total Current Assets	1,039,277	1,340,049	2,379,326	(164,981)	2,214,345	
Fixed Assets, (net)	211,021	30,798	241,819	-	241,819	
O t h e r Assets:						
Deposits	13,400	2,251	15,651	-	15,651	
Income Tax receivable	25,948	-	25,948		25,948	
Deferred tax asset	316,000	-	316,000		316,000	
Intangibles (net)	4,736,827	-	4,736,827	-	4,736,827	(1)
Total Other Assets	5,092,175	2,251	5,094,426	-	5,094,426	
T O T A L \$ ASSETS	6,342,473	\$ 1,373,098	\$ 7,715,571	\$ (164,981)	\$ 7,550,590	

REFLECT SCIENTIFIC, INC.

Notes to the Consolidated Financial Statements

March 31, 2007 and December 31, 2006

NOTE 3 - ACQUISITIONS (continued)

	Reflect As of December 31, 2006	Image Labs As of December 31, 2006	Combined Historical Reflect & Image Labs	Pro Forma Adjustments	Pro Forma Combined Reflect & Image Labs December 31, 2006
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
Current Liabilities:					
Short term loan	\$ 18,353	\$ -	\$ 18,353	\$ -	\$ 18,353
Cash overdraft	-	56,589	56,589	-	56,589