

Edgar Filing: REFLECT SCIENTIFIC INC - Form 10QSB

REFLECT SCIENTIFIC INC
Form 10QSB
November 14, 2005

U. S. Securities and Exchange Commission
Washington, D. C. 20549

FORM 10-QSB

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

For the quarterly period ended September 30, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 000-31377

REFLECT SCIENTIFIC, INC.

(Name of Small Business Issuer in its Charter)

UTAH

87-0642556

(State or Other Jurisdiction of
incorporation or organization)

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

970 Terra Bella Avenue
Mountain View, California, 94043

(Address of Principal Executive Offices)

Issuer's Telephone Number: (650) 960-0300

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Sections 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.

(1) Yes No (2) Yes No
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Indicate by check mark whether the Registrant is a shell company (as defined
in Rule 12b-2 of the Exchange Act). Yes No
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APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Not applicable.

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the Registrant's classes

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of common stock, as of the latest practicable date:

September 30, 2005

24,380,000

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements. -----

The Financial Statements of the Company required to be filed with this 10-QSB Quarterly Report were prepared by management, and commence on the following page, together with Related Notes. In the opinion of management, the Financial Statements fairly present the financial condition of the Company.

REFLECT SCIENTIFIC, INC.

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005 and December 31, 2004

REFLECT SCIENTIFIC, INC.
Consolidated Balance Sheets

ASSETS

	September 30, 2005 (Unaudited)	December 31, 2004
CURRENT ASSETS		
Cash	\$ 461,586	\$ 80,739
Accounts receivable, net	335,302	281,173
Inventory, net	353,145	260,012
Prepaid expenses	800	800
	-----	-----
Total Current Assets	1,150,833	622,724
	-----	-----
FIXED ASSETS (NET)	21,775	24,249
	-----	-----
OTHER ASSETS		
Deposits	5,350	5,350
Capitalized loan costs, net	4,900	5,600
	-----	-----
Total Other Assets	10,250	10,950
	-----	-----
TOTAL ASSETS	\$ 1,182,858	\$ 657,923
	=====	=====

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

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REFLECT SCIENTIFIC, INC.
Consolidated Balance Sheets (Continued)

LIABILITIES AND SHAREHOLDERS' EQUITY

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	September 30, 2005 (Unaudited)	December 31, 2004
CURRENT LIABILITIES		
Accounts payable	\$ 185,584	\$ 131,610
Accrued expenses	10,656	23,955
Income taxes payable	30,705	30,705
	-----	-----
Total Current Liabilities	226,945	186,270
	-----	-----
NON-CURRENT LIABILITIES		
Long term line of credit	-	269,036
Deferred income taxes	39,000	39,000
	-----	-----
Total Non-Current Liabilities	39,000	308,036
	-----	-----
Total Liabilities	265,945	494,306
	-----	-----
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred stock, \$0.01 par value, authorized 5,000,000 shares, 700,000 shares issued and outstanding	7,000	-
Common stock, \$0.01 par value, authorized 50,000,000 shares; 24,380,000 shares issued and outstanding	243,800	240,000
Additional paid-in capital (deficit)	514,937	(183,319)
Retained earnings	151,176	106,936
	-----	-----
Total Shareholders' Equity	916,913	163,617
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,182,858	\$ 657,923
	=====	=====

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

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REFLECT SCIENTIFIC, INC.
Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
REVENUES	\$ 573,572	\$ 522,600	\$ 1,628,313	\$1,604,307
COST OF GOODS SOLD	326,041	319,435	919,883	963,470
	-----	-----	-----	-----
GROSS PROFIT	247,531	203,165	708,430	640,837
	-----	-----	-----	-----
OPERATING EXPENSES				
Salaries and wages	88,784	87,091	250,131	263,273

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Payroll taxes	7,803	7,127	21,416	22,558
Rent expense	21,454	19,306	59,761	57,364
General and administrative expense	72,490	88,127	322,921	226,295
Total Operating Expenses	190,531	201,648	654,229	569,487
OPERATING INCOME	57,000	1,517	54,201	71,350
OTHER INCOME (EXPENSE)				
Sundry income	-	-	-	5,000
Miscellaneous expense	-	-	-	(301)
Interest expense	(1,583)	(3,051)	(9,961)	(8,759)
Total Other Income (Expense)	(1,583)	(3,051)	(9,961)	(4,060)
NET INCOME (LOSS) BEFORE INCOME TAX	55,417	(1,534)	44,240	67,290
INCOME TAX EXPENSE	-	-	-	13,200
NET INCOME	\$ 55,417	\$ (1,534)	\$ 44,240	\$ 54,090
Preferred distribution, dividends	(108,054)	-	(700,000)	-
NET INCOME (LOSS) PER SHARE APPLICABLE TO COMMON SHAREHOLDERS	\$ (52,637)	\$ (1,534)	\$ (655,759)	\$ 54,090
EARNINGS PER SHARE	\$ 0.00	\$ (0.00)	\$ 0.00	\$ 0.00
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	24,380,000	24,000,000	24,204,615	24,000,000

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

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REFLECT SCIENTIFIC, INC.
Consolidated Statements of Shareholders' Equity

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid-in Capital	Retained Earnings
Balance, December 31, 2004	24,000,000	240,000	-	-	(183,319)	106,936
Preferred stock issued for cash (unaudited)	-	-	436,000	4,360	431,640	-
Preferred stock issued for cash (unaudited)	-	-	264,000	2,640	261,360	-
Common stock issued for services						

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(unaudited)	380,000	3,800	-	-	5,256	-
Net income for the nine months ended September 30, 2005 (unaudited)	-	-	-	-	-	44,240
Balances, September 30, 2005 (unaudited)	24,380,000	\$243,800	700,000	\$7,000	\$ 514,937	\$ 151,176

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 Nine Months Ended
September 30,
2005 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 44,240	\$ 54,090
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,474	1,676
Amortization of capitalized loan costs	700	350
Common stock issued for services	9,056	-
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(54,129)	(86,666)
(Increase) in inventory	(93,133)	(31,079)
Increase (decrease) in accounts payable and accrued expenses	40,675	(26,124)
Net Cash (Used) by Operating Activities	(50,117)	(87,753)

CASH FLOWS FROM INVESTING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES

Change in long term line of credit	(269,036)	(25)
Contributed capital	-	22,522
Proceeds from preferred stock issuance	700,000	-
Net Cash Provided by Financing Activities	430,964	22,497
NET (INCREASE) DECREASE IN CASH	380,847	(65,256)
CASH AT BEGINNING OF PERIOD	80,739	99,924
CASH AT END OF PERIOD	\$ 461,586	\$ 34,668

NON-CASH INVESTING AND FINANCING ACTIVITIES:

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Cash Paid For:

Interest	\$	9,961	\$	3,051
Income taxes	\$	-	\$	-

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

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REFLECT SCIENTIFIC, INC.
Notes to the Consolidated Financial Statements
September 30, 2005 and December 31, 2004

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, 2004 financial statements. Operating results for the nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

NOTE 2 - ACQUISITION OF REFLECT SCIENTIFIC

On December 30, 2003, pursuant to an agreement and plan of reorganization, the Company completed a reverse merger with the shareholder of Reflect Scientific, Inc. in which it acquired 100% of Reflect Scientific, Inc., a California Company 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.

NOTE 3 EQUITY TRANSACTIONS

Dividends

The holders of the Series A Preferred Stock are entitled to dividends at the rate of 8 percent per year of the liquidation preference of \$1.00 per share, payable annually, if and when declared by the board of

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directors. Dividends are not cumulative and the board of directors are under no obligation to declare dividends.

Convertibility

Upon the approval of the Board of Directors, Series A Preferred Stock may be convertible into the Company's common stock by dividing \$1.00 plus any unpaid dividends by 50% of the five day average closing bid price of the common shares. The Company's board of directors has subsequently voted to amend the terms of the conversion price of the Series A Preferred Stock to be \$0.60 per share.

During the period the Company sold 700,000 shares of Series A Convertible Preferred Stock in exchange for proceeds of \$700,000. As a result of the beneficial conversion feature inherent in the conversion rights and preferences of Series A Preferred Stock, the Company has recognized a deemed dividend of \$700,000. This deemed dividend was calculated based on the conversion price above at the time of conversion. Because the Company does not have sufficient retained earnings, dividends were recorded in additional paid-in-capital and have a net affect of zero in that account and is therefore not presented on the statement of shareholders' equity as a separate item. This beneficial conversion feature was recorded to additional paid in capital and will be recorded as a deemed dividend to preferred shareholders (accretion) over the period to the instruments earliest conversion date. This date was July 19, 2005. Subsequent to September 30, 2005, and as of the date of this report, holders of the preferred shares have converted all 700,000 shares into 1,166,667 shares of common stock.

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Item 2. Management's Discussion and Analysis or Plan of Operation.

Results of Operations.

Our revenues increased during the quarter ended September 30, 2005, to \$573,572, from \$522,600 for the quarter ended September 30, 2004, primarily as a result of a general improvement in sales across several product lines.

Our cost of goods increased in the quarter ended September 30, 2005, as compared to September 30, 2004, to \$326,041 from \$319,435, as a result of increased raw material costs and increased sales.

General and administrative expenses decreased to \$72,490 during the quarter ended September 30, 2005, from \$88,127 during the quarter ended September 30, 2004. This decrease was due to a reduction in research and development expenses.

Our revenues increased during the nine months ended September 30, 2005, to \$1,628,313, from \$1,604,307 for the nine months ended September 30, 2004, again primarily as a result of increased sales across several product lines.

Our cost of goods decreased in the nine months ending September 30, 2005, as compared to September 30, 2004, to \$919,883 from \$963,470, as a result of a one time inventory obsolescence write off that was taken in 2004.

General and administrative expenses increased to \$322,921 during the nine months ended September 30, 2005, from \$226,296 during the nine months ended September 30, 2004. This increase was due to increased operational

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expenses, primarily legal and accounting expenses.

Liquidity and Capital Resources.

Our cash resources at September 30, 2005, were \$461,586, with accounts receivable of \$335,302. We have relied on revenues and lines of credit for our cash resources; and have received gross proceeds of \$700,000 during the first six months of 2005 from the sale of Series A Convertible Preferred Stock at \$1.00 per share. At September 30, 2005, we had paid off our line of credit. These funds should be adequate for the next 12 months for continuing operations; however, plans for expansion will require additional capital of between \$500,000 and \$750,000.

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 its representatives may from time to time make written or oral statements that are "forward- looking," including statements contained in this Quarterly 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 is illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

Item 3. Controls and Procedures.

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 President and Treasurer, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our President and Treasurer concluded that our disclosure controls and procedures are effectively designed to ensure that information required to be disclosed or filed by us is recorded, processed or summarized, within the time periods specified in the

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rules and regulations of the Securities and Exchange Commission. 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 has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None; not applicable.

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

2004 Convertible Preferred Stock.

As of the quarter ended June 30, 2005, we sold 700,000 shares of our 2004 Series A Convertible Preferred Stock at an offering price of \$1.00 per share to 26 persons who were "accredited investors" as that term is defined in Regulation D of the Securities and Exchange Commission. Subsequent to September 30, 2005, and as of the date of this Quarterly Report, holders of the preferred shares have converted all 700,000 shares into 1,166,667 shares of common stock.

We also issued 380,000 shares of common stock for services during the quarter ended June 30, 2005, valued at \$.0238 per share or \$9,056.00.

We issued all of these securities to persons who were either "accredited investors," or "sophisticated investors" who, by reason of education, business acumen, experience or other factors, were fully capable of evaluating the risks and merits of an investment in our company; and each had prior access to all material information about us. We believe that the offer and sale of these securities were exempt from the registration requirements of the Securities Act, pursuant to Sections 4(2) and 4(6) thereof, and Rule 506 of Regulation D of the Securities and Exchange Commission and from various similar state exemptions.

Item 3. Defaults Upon Senior Securities.

None; not applicable.

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

None; not applicable.

Item 5. Other Information.

None; not applicable.

Item 6. Exhibits.

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Exhibits.

- 31.1 302 Certification of Kim Boyce
- 31.2 302 Certification of Kevin Cooksy
- 32 906 Certification.

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.

Date: 11/10/05

/s/Kim Boyce

Kim Boyce, President

Date: 11/10/05

/s/Tom Tait

Tom Tait, Vice President

Date: 11/10/05

/s/Kevin Cooksy

Kevin Cooksy, Secretary/Treasurer