

REFLECT SCIENTIFIC INC  
Form 10-Q  
May 15, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2008

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

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

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(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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Large Accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

Yes  No

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

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34,245,153 shares of \$0.01 par value common stock on May 9, 2008

Transitional Small Business Disclosure Format (Check One): Yes [ ] No [X]

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**Part I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Reflect Scientific, Inc.**

FINANCIAL STATEMENTS

(UNAUDITED)

March 31, 2008

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.

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**REFLECT SCIENTIFIC, INC.**

**CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**March 31, 2008**

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**REFLECT SCIENTIFIC, INC.**

## Consolidated Condensed Balance Sheets

ASSETS

|                             | March 31,<br>2008<br>(Unaudited) | December 31,<br>2007 |
|-----------------------------|----------------------------------|----------------------|
| <b>CURRENT ASSETS</b>       |                                  |                      |
| Cash                        | \$ 1,056,366                     | \$ 1,154,162         |
| Accounts receivable         | 1,327,684                        | 1,371,770            |
| Other receivables           | 29,118                           | 28,517               |
| Inventory                   | 1,194,791                        | 727,970              |
| Prepaid assets              | 168,804                          | 168,396              |
| <b>Total Current Assets</b> | <b>3,776,763</b>                 | <b>3,450,815</b>     |
| <b>FIXED ASSETS, NET</b>    | <b>253,957</b>                   | <b>259,884</b>       |
| <b>OTHER ASSETS</b>         |                                  |                      |
| Intangible assets, net      | 5,747,778                        | 5,849,036            |
| Deferred tax asset          | 38,000                           | 38,000               |
| Long term prepaid asset     | 149,722                          | 190,555              |
| Deposits                    | 29,944                           | 29,945               |
| <b>Total Other Assets</b>   | <b>5,965,444</b>                 | <b>6,107,536</b>     |
| <b>TOTAL ASSETS</b>         | <b>\$ 9,996,164</b>              | <b>\$ 9,818,235</b>  |

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

**REFLECT SCIENTIFIC, INC.**

Consolidated Condensed Balance Sheets (Continued)

LIABILITIES AND SHAREHOLDERS EQUITY

|  | March 31,<br>2008<br>(Unaudited) | December 31,<br>2007 |
|--|----------------------------------|----------------------|
| <b>CURRENT LIABILITIES</b>   |                                  |                      |
| Accounts payable   | \$ 791,367                       | \$ 432,392           |
| Short term loan  | 146,022                          | 147,530              |
| Royalty payable  | 6,714                            | 53,565               |
| Capital leases short-term portion  | 19,757                           | 20,016               |
| Accrued expenses   | 142,452                          | 179,778              |
| Contract billings in excess  | 191,126                          | 82,708               |
| Income taxes payable   | 400                              | 400                  |
| <b>Total Current Liabilities</b>   | <b>1,297,838</b>                 | <b>916,389</b>       |
| <b>LONG-TERM LIABILITIES</b>   |                                  |                      |
| Debentures, net of Discount Warrant of \$1,014,149<br>And Discount of Beneficial Conversion Features<br>of \$532,726 | 866,625                          | 618,750              |
| Capital leases long-term portion<br>Notes payable  | 34,879                           | 40,147               |
| <b>Total Long-Term Liabilities</b>   | <b>901,504</b>                   | <b>658,897</b>       |



|   |                     |                    |
|---|---------------------|--------------------|
| <b>Total Liabilities</b>                                  | <b>2,199,342</b>    | <b>1,575,286</b>   |
| <b>SHAREHOLDERS EQUITY</b>                                |                     |                    |
| <b>Preferred stock, \$0.01 par value, authorized</b>      |                     |                    |
| <b>5,000,000 shares; No shares issued and Outstanding</b> |                     | <b>-</b>           |
| <b>Common stock, \$0.01 par value, authorized</b>         |                     |                    |
| <b>50,000,000 shares; 34,195,153 and 34,100,538</b>       |                     | <b>341,006</b>     |
| <b>shares issued and outstanding respectively</b>         | <b>341,952</b>      |                    |
| <b>Additional paid in capital</b>                         | <b>16,572,648</b>   | <b>16,512,094</b>  |
| <b>Accumulated deficit</b>                                | <b>(9,117,778)</b>  | <b>(8,610,151)</b> |
| <b>Total Shareholders Equity</b>                          | <b>7,796,822</b>    | <b>8,242,949</b>   |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>          |                     |                    |
|   | <b>\$ 9,996,164</b> | <b>9,818,235</b>   |

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

**REFLECT SCIENTIFIC, INC.**

## Consolidated Condensed Statements of Operations

(Unaudited)

|                                     | For the Three Months Ended |              |
|-------------------------------------|----------------------------|--------------|
|                                     | March 31,                  |              |
|                                     | 2008                       | 2007         |
| <b>REVENUES</b>                     | \$ 1,970,279               | \$ 1,168,020 |
| <b>COST OF GOODS SOLD</b>           | 944,025                    | 756,988      |
| <b>GROSS PROFIT</b>                 | 1,026,254                  | 411,032      |
| <b>OPERATING EXPENSES</b>           |                            |              |
| Salaries and wages                  | 617,261                    | 344,792      |
| Rent expense                        | 65,806                     | 43,671       |
| General and administrative expense  | 474,855                    | 419,863      |
| <b>Total Operating Expenses</b>     | 1,157,922                  | 808,326      |
| <b>OPERATING LOSS</b>               | (131,668)                  | (397,294)    |
| <b>OTHER INCOME (EXPENSE)</b>       |                            |              |
| Interest income                     | 6,583                      | -            |
| Interest expense                    | (382,542)                  | (61)         |
| <b>Total Other Expenses</b>         | (375,959)                  | (61)         |
| <b>NET LOSS BEFORE INCOME TAXES</b> | (507,627)                  | (397,355)    |
| <b>Income tax benefit (expense)</b> | -                          | -            |

|   |           |                   |           |                   |
|---|-----------|-------------------|-----------|-------------------|
| <b>NET LOSS</b>                                       | <b>\$</b> | <b>(507,627)</b>  | <b>\$</b> | <b>(397,355)</b>  |
| <b>BASIC AND FULLY DILUTED INCOME(LOSS) PER SHARE</b> | <b>\$</b> | <b>(0.01)</b>     | <b>\$</b> | <b>(0.01)</b>     |
| <b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>  |           |                   |           |                   |
|   |           | <b>34,963,927</b> |           | <b>32,758,901</b> |

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

**REFLECT SCIENTIFIC, INC.**

## Consolidated Condensed Statements of Cash Flows

(Unaudited)

For the

Three Months Ended

March 31,

|  | 2008                | 2007                |
|--|---------------------|---------------------|
| <b>Net loss</b>  | <b>\$ (507,627)</b> | <b>\$ (397,355)</b> |
| <b>Adjustments to reconcile net loss to net cash provided by operating activities:</b> |                     |                     |
| <b>Depreciation</b>  | <b>14,015</b>       | <b>12,494</b>       |
| <b>Amortization</b>  | <b>410,634</b>      | <b>81,139</b>       |
| <b>Common stock issued for services</b>  | <b>-</b>            | <b>490,000</b>      |
| <b>Changes in operating assets and liabilities:</b>                                    |                     |                     |
| <b>Increase in accounts receivable</b>   | <b>44,086</b>       | <b>(519,739)</b>    |
| <b>Increase in inventory</b>   | <b>(466,820)</b>    | <b>(374,930)</b>    |
| <b>Increase in other receivables</b>   | <b>(601)</b>        |                     |
| <b>Increase in income tax receivable</b>   | <b>-</b>            | <b>1,187</b>        |
| <b>Increase in prepaid asset</b>   | <b>40,425</b>       | <b>(477,914)</b>    |
| <b>Decrease in other assets</b>  | <b>-</b>            | <b>300</b>          |
| <b>Decrease in accounts payable</b>  |                     |                     |
| <b>and accrued expenses</b>  | <b>388,413</b>      | <b>765,126</b>      |
| <b>Net Cash Used by Operating Activities</b>   | <b>(77,475)</b>     | <b>(419,692)</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                     |                     |
| <b>Cash paid for fixed assets</b>  | <b>(8,088)</b>      | <b>(8,127)</b>      |
| <b>Net Cash Used by Investing Activities</b>   | <b>(8,088)</b>      | <b>(8,127)</b>      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                     |                     |
| <b>Payments on notes payable</b>   | <b>(10,724)</b>     | <b>(6,213)</b>      |

|  |                     |                   |
|--|---------------------|-------------------|
| <b>Lines of Credit</b>                     | <b>(1,509)</b>      | <b>-</b>          |
| <b>Proceeds from stock subscriptions</b>   | <b>-</b>            | <b>277,550</b>    |
| <b>Proceeds from common stock issuance</b> | <b>-</b>            | <b>49,055</b>     |
| <b>Net Cash from Financing Activities</b>  | <b>(12,233)</b>     | <b>320,392</b>    |
| <b>NET</b>                                 | <b>(97,796)</b>     | <b>(107,427)</b>  |
| <b>INCREASE (DECREASE) IN CASH</b>         |                     |                   |
| <b>CASH AT BEGINNING OF PERIOD</b>         | <b>1,154,162</b>    | <b>271,038</b>    |
| <b>CASH AT END OF PERIOD</b>               | <b>\$ 1,056,366</b> | <b>\$ 163,611</b> |

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

**REFLECT SCIENTIFIC, INC.**

Consolidated Condensed Statements of Cash Flows (continued)

(Unaudited)

**SUPPLEMENTAL CASH FLOW INFORMATION:**

**Cash Paid For:**

|                     |           |              |           |           |
|---------------------|-----------|--------------|-----------|-----------|
| <b>Interest</b>     | <b>\$</b> | <b>8,950</b> | <b>\$</b> | <b>61</b> |
| <b>Income taxes</b> | <b>\$</b> | <b>-</b>     | <b>\$</b> | <b>-</b>  |

**NON-CASH FINANCING ACTIVITIES:**

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

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





**REFLECT SCIENTIFIC, INC.**

Notes to the Consolidated Condensed Financial Statements

March 31, 2008

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 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, 2007 financial statements. Operating results for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

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 September 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. Effective January 19, 2007 the Company finalized an Agreement and Plan of Merger agreement with All Temp Engineering, Inc. Effective March 6, 2007, the Company finalized an Agreement and Plan of Merger agreement with Image Labs, International. The terms of the agreements are detailed in a 10-QSB filing dated March 31, 2007. The Company entered into these mergers after considering All Temp s and Image Lab s business history, financial condition, and intellectual property. The Company has a desire to expand its services and attract and

**REFLECT SCIENTIFIC, INC.**

Notes to the Consolidated Condensed Financial Statements

March 31, 2008

NOTE 2 -

ORGANIZATION AND DESCRIPTION OF BUSINESS (continued)

retain talented technical personnel and believed there were strategic and financial advantages to combining the businesses.

NOTE 3 CONVERTIBLE DEBENTURES AND WARRANTS

On June 29, 2007, the Company entered into an agreement to sell \$2,500,000 in 12% senior convertible debentures with a maturity date of June 29, 2009, with interest due quarterly. At the closing, the Company prepaid the first quarterly interest payment out of the proceeds of the offering from escrow and placed in escrow the second quarterly interest payment for a total of \$150,000. The agreement allows for the Company to pay the interest in cash or in duly authorized, validly issued, fully paid and non-assessable shares of common stock at the interest conversion rate, or a combination thereof.

The debentures have a conversion price of \$0.65. If the Company, at any time while the debenture is outstanding, pays stock dividends, subdivides outstanding shares, sells or grants any option to purchase or dispose of common stock at an effective price lower than the conversion price, issue rights, options or warrants at a price lower than the conversion price, etc., the Company shall promptly deliver to each Holder a notice setting forth the conversion price after such adjustment and provide a brief statement of facts requiring such adjustment. In addition, if the volume weighted average price for each of any 20 consecutive trading days exceeds 250% of the conversion price, the Company may, within one trading day deliver a written notice to the holder and force the holder to convert a principal amount of the debenture equal to all or part of the holder's portion of the forced conversion amount.

The agreement also provides for the issuance of 1,923,077 A warrants and 1,923,077 B warrants. The warrants are exercisable at a price of \$0.80 per share for the A warrant and \$1.00 per share for the B warrant and expire June 29, 2012. The Company valued the warrants using the Black-Scholes option pricing model. For the purpose of the valuation of the warrants, the Company calculated a volatility of 66.48% on its common stock and used the U. S. Treasury bill rate of 4.94% for its risk free rate. Then the Company allocated a portion of the proceeds to the warrants, based on the relative fair value basis, in the amount of \$1,639,029 which is recognized as a contra liability

account and will be amortized as interest expense over the 2 year term of the agreement. The intrinsic value of beneficial conversion of the debentures was valued at \$5,677,491, which exceeds the effective value of the debentures of \$860,971. Therefore, the discount assigned to the beneficial conversion feature is limited to \$860,971 and is recognized as a contra liability account and will be amortized as interest expense over the 2 year term of the agreement.

As payment for services provided, the Company also issued 192,308 A warrants and 192,308 B warrants which were valued at \$475,925 using the Black-Scholes option pricing model and expensed in the current period.

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**REFLECT SCIENTIFIC, INC.**

## Notes to the Consolidated Condensed Financial Statements

March 31, 2008

## NOTE 3 CONVERTIBLE DEBENTURES AND WARRANTS (continued)

The debentures and warrants have anti-dilution protections, and the Company has agreed to certain registration rights for the resale of the shares of common stock underlying the debentures and warrants.

A summary of the status of the Company's outstanding stock warrants as of March 31, 2008 and changes during the period then ended is presented below:

|                                |                             | 2008 |                                       |
|--------------------------------|-----------------------------|------|---------------------------------------|
|                                |                             |      | Weighted<br>Average<br>Exercise Price |
|                                | Shares                      |      |                                       |
| Outstanding, beginning of year | 4,230,770                   | \$   | .90                                   |
| Granted                        | -                           |      | -                                     |
| Expired/Cancelled              | -                           |      | -                                     |
| Exercised                      | -                           |      | -                                     |
| Outstanding March 31, 2008     | 4,230,770                   | \$   | .90                                   |
| Exercisable                    | 4,230,770                   | \$   | .90                                   |
|                                | <b>Outstanding</b>          |      | <b>Exercisable</b>                    |
|                                | <b>Weighted<br/>Average</b> |      | <b>Number<br/>Exercisable at</b>      |

| <b>Range of Exercise<br/>Prices</b> |             | <b>Number outstanding<br/>at March 31, 2008</b> | <b>Remaining<br/>Contractual Life</b> | <b>March 31,<br/>2008</b> |
|-------------------------------------|-------------|---|---------------------------------------|---------------------------|
| \$                                  | <b>0.80</b> | <b>2,115,385</b>                                | <b>5.00</b>                           | <b>2,115,385</b>          |
|                                     | <b>1.00</b> | <b>2,115,385</b>                                | <b>5.00</b>                           | <b>2,115,385</b>          |
|                                     |             | <b>4,230,770</b>                                |                                       | <b>4,230,770</b>          |

NOTE 4 EQUITY TRANSACTIONS

During the three month period ended March 31, 2008, the Company issued 94,615 shares of its common stock for the conversion of \$61,500 debt pursuant to the convertible debenture agreement dated June 29, 2007

NOTE 5 SUBSEQUENT EVENT

On May 1, 2008 the company issued 50,000 shares of its common stock for the conversion of \$32,500 of debt related to the convertible debenture.

## **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 three month periods ended March 31, 2008 and 2007, 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-KSB for the year ended December 31, 2007.

### 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. Including in this focus will be the continued development and commercialization of our ultra low temperature refrigerator line. 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 way to cool such rooms. We also will continue to focus on the expansion of our detector line and contract manufacturing operations.

Management focus over the last several years was on the acquisition and development of our product lines. Management now feels they have the core product lines in place to now refocus its efforts on the commercialization of the product lines. As such much of the focus over the next twelve months will be on marketing our products and expanding our customer base.

Our revenues increased from the quarter ended March 31, 2007, of \$1,168,020 to \$1,970,279 for the quarter ended March 31, 2008. This reflects the completion of the prior acquisitions as well as the growing acceptance of our products in the market place. We anticipate this trend to continue in the future as we continue to expand our marketing and sales efforts related to our product line. The long term growth of our product line as our products are new to the marketplace. We expect based on sales in the first three months of 2008, that the product lines are becoming commercially accepted and that sales will continue to increase.

We do not anticipate we will emphasize acquisitions as we have in the past and instead will focus on managing our current product line. This will require a focus from management on the sales of these products. We completed a capital raise in June 2007, with the hope we will be able to use the capital to aggressively market our products and pay for the expansion resulting from the acquisitions. We anticipate the future business growth over the next twelve months to come from our current product line.



## Results of Operations

### March 31, 2008 and 2007

Our revenues increased during the quarter ended March 31, 2008, to \$1,970,279 from \$1,168,020 for the quarter ended March 31, 2007, as our products gain more commercial acceptance.

Our cost of goods increased in the quarter ending March 31, 2008, as compared to March 31, 2007 to \$944,025 from \$756,988. The difference was the result of increased sales. Overall, as a percentage of sales, our cost of goods sold was only approximately 48% for the three months ended March 31, 2008 compared to 64% for the quarter ended March 31, 2007. We anticipate the cost of goods sold percentage to vary by quarter depending on which products make up the largest percentage of sales during the quarter. Once our products are in the market place longer, our cost of goods sold percentage should become more fixed as a percentage of sales.

Although sales increased, the increase was not sufficient to offset additional expenses as we again expanded our operations during the quarter ended March 31, 2008. Salaries and wages increased to \$617,261 during the quarter ended March 31, 2008, compared to \$344,792 for the quarter ended March 31, 2007. This increase reflects the closing of all of our acquisitions and the hiring of additional personnel. We felt it was necessary to retain additional personnel in an effort to effectively market our products and take advantage of business opportunities. Rent expense also increased as we began covering the expenses of businesses acquired in the first quarter of 2007.

Even with the increase in operating expenses from \$808,326 for the quarter ended March 31, 2007 to \$1,157,922 for the quarter ended March 31, 2008, our operating loss decreased to \$131,668 from \$397,294 for the comparable period in 2007. We expect that as sales continue to increase, we will be able to continue to reduce our operating loss this year.

Interest expense was \$382,542 for the quarter ended March 31, 2008. This interest expense related to interest on our debentures of \$73,167 for the quarter and \$309,375 related to the amortization of the discounts on the debenture.

## Seasonality and Cyclicity

We do not believe our business is cyclical.

### Liquidity and Capital Resources

Our cash resources at March 31, 2008, were \$1,056,366, with accounts receivable of \$1,327,684 and inventory of \$1,194,791. We have relied on revenues and sales of equity and debt securities for cash resources. Our working capital on March 31, 2008, was \$2,478,925 compared to \$2,534,426 on December 31, 2007. To complete acquisitions and to fund our expanding operations, much of the working capital was used in the first part of 2007 requiring us to raise additional capital which was completed in June 2007. This capital was used to increase our manufacturing resulting in increased inventory. We hope to devote some of the available cash to marketing to help increase sales over the next twelve months.

Historically, we have financed our working capital requirements through capital funding which have generated sufficient funds to offset shortfalls and cover losses. As we continue to expand our operations, we anticipate seeking additional capital through the sale of equity securities. It is highly likely, we will again seek additional capital in the equity markets. At this time we do not know the extent of the overall financing will need in the future. Financing will depend on how well our products are received in the marketplace.

Our long term liabilities were \$901,504 on March 31, 2008. This reflects a debenture of \$2,413,500, although only \$866,625 is reflected because of the discounts on the debenture, in June 2009, the debenture will be due and the total amount owed will be \$2,367,500, less any future conversions. If the debentures are not converted, we would probably have to seek some additional debt or equity financing to help repay the debenture. The amount of debt or

equity financing required will be dependent on how our operations perform over the next twelve months. If sales continue to increase, we may be able to repay part of the debentures with operating profits.

For the quarter ended March 31, 2008, our net cash used by operating activities was approximately \$77,476 which was down from \$419,692 for the quarter ended March 31, 2007. We were pleased with this reduction as it reflects our business operations are starting to cover our cash needs.

We anticipate losses to continue as we expand our sales efforts. Since the products are new to the marketplace, we are not sure how sales will be in upcoming quarters but we expect they will continue to increase and should start covering our expenses.

### **Off-Balance Sheet Arrangements**

We have no off balance sheet arrangements as of March 31, 2008.

### **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 Disclosures About Market Risk.**

This item is not required for Small Reporting Companies.

**Item 4T. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our President and CFO, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our President and CFO concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective such that the information required to be disclosed by us in reports filed under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our President and CFO, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes of accounting principles generally accepted in the United States.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Our management, with the participation of the President and CFO, evaluated the effectiveness of our internal control over financial reporting as of March 31, 2008. Based on this evaluation, our management, with the participation of the President and CFO, concluded that, as of March 31, 2008, our internal control over financial reporting was effective.

**Changes in internal control over financial reporting**

There have been no changes in internal control over financial reporting.

**PART II - OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

None

**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 March 31, 2008.

**Use of Proceeds of Registered Securities**

None; not applicable.

**Purchases of Equity Securities by Us and Affiliated Purchasers**

During the three months ended March 31, 2008, we have not purchased any equity securities nor have any officers or directors of the Company.

**ITEM 3. Defaults Upon Senior Securities**

We are not aware of any defaults upon senior securities.

**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 March 31, 2008.

**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*          |

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|      |   |  |
|------|---|--|
| 3.2  | Articles of Amendment to Articles of 10-SB Registration Statement*<br>Incorporation               |  |
| 3.3  | By-Laws   | 10-SB Registration Statement*                  |
| 3.4  | Articles of Amendment to Articles of 8-K Current Report dated December 31, 2003*<br>Incorporation |  |
| 3.5  | Articles of Amendment to Articles of 8-K Current Report dated December 31, 2003*<br>Incorporation |  |
| 3.6  | Articles of Amendment   | September 30, 2004 10-QSB Quarterly<br>Report* |
| 3.7  | By-Laws Amendment   | September 30, 2004 10-QSB Quarterly<br>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*        |
| 14   | Code of Ethics  | December 31, 2003 10-KSB Annual Report*        |
| 21   | Subsidiaries of the Company   | December 31, 2004 10-KSB Annual Report*        |
| 31.1 | 302 Certification of Kim Boyce  |  |
| 31.2 | 302 Certification of David Strate   |  |
| 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:

May 15, 2008

By: /s/ Kim Boyce

Kim Boyce, CEO, President and Director

Date:

May 15, 2008

By: /s/ Tom Tait

Tom Tait, Vice President and Director

Date:

May 15, 2008

By: /s/ David Strate

David Strate, CFO