

REFLECT SCIENTIFIC INC  
Form 10QSB  
May 21, 2007

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-QSB**

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**[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 \$<br>OUTSTANDING | 32,758,901 \$ | 25,547,780 |
|-----------------------------------------------------|---------------|------------|

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

**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     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |              |           |
| Issuance of notes receivable                                                      | -            | 200,000   |
| Cash paid for fixed assets                                                        | (8,127)      | -         |
| Net Cash Used by Investing Activities                                             | (8,127)      | 200,000   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |              |           |
| 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.

**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<br>December 31,<br>2006 | All Temp As<br>of December<br>31, 2006 | Combined<br>Historical<br>Reflect & All<br>Temp | Pro Forma<br>Adjustments | Pro Forma<br>Combined<br>Reflect & All<br>Temp<br>December 31,<br>2006 |     |
|----------------------------|---------------------------------------|----------------------------------------|-------------------------------------------------|--------------------------|------------------------------------------------------------------------|-----|
| <b>ASSETS</b>              |                                       |                                        |                                                 |                          |                                                                        |     |
| <b>C u r r e n t</b>       |                                       |                                        |                                                 |                          |                                                                        |     |
| <b>Assets:</b>             |                                       |                                        |                                                 |                          |                                                                        |     |
| Cash                       | \$ 271,038                            | \$ -                                   | \$ 271,038                                      | \$ -                     | \$ 271,038                                                             | (1) |
| N o t e s<br>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<br>assets    | 13,852                                | 8,189                                  | 22,041                                          | -                        | 22,041                                                                 |     |
| Total<br>Current<br>Assets | 1,039,277                             | 364,846                                | 1,404,123                                       |                          | 1,404,123                                                              |     |
| Fixed<br>Assets, (net)     | 211,021                               | 4,595                                  | 215,616                                         | -                        | 215,616                                                                |     |
| <b>O t h e r</b>           |                                       |                                        |                                                 |                          |                                                                        |     |
| <b>Assets:</b>             |                                       |                                        |                                                 |                          |                                                                        |     |
| Deposits                   | 13,400                                | 3,672                                  | 17,072                                          | -                        | 17,072                                                                 |     |

|                       |           |            |              |              |              |     |
|-----------------------|-----------|------------|--------------|--------------|--------------|-----|
| 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<br>December 31,<br>2006 | All Temp As<br>of December<br>31, 2006 | Combined<br>Historical<br>Reflect & All<br>Temp | Pro Forma<br>Adjustments | Pro Forma<br>Combined<br>Reflect & All<br>Temp<br>December 31,<br>2006 |
|-------------------------------------------------------|---------------------------------------|----------------------------------------|-------------------------------------------------|--------------------------|------------------------------------------------------------------------|
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b> |                                       |                                        |                                                 |                          |                                                                        |
| 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) |
|                                           |              |            |              | 2,100,000    | 9,093,069    |     |
| Subscription receivable                   |              |            |              |              |              |     |
|                                           | 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)

|                                    |                                       |                                        |                                              |                         | Pro Forma<br>Combined Reflect<br>& All Temp<br>December 31, 2006 |
|------------------------------------|---------------------------------------|----------------------------------------|----------------------------------------------|-------------------------|------------------------------------------------------------------|
|                                    | Reflect As of<br>December<br>31, 2006 | All Temp as of<br>December 31,<br>2006 | Combined<br>Historical Reflect &<br>All Temp | Pro Forma<br>Adjustment |                                                                  |
| 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 &<br>Administrative  | 1,303,598                             | 506,293                                | 1,809,891                                    | -                       | 1,809,891                                                        |
| Income (loss) from<br>operations   | (1,128,442)                           | (434,953)                              | (1,563,395)                                  | -                       | (1,563,395)                                                      |
| O t h e r i n c o m e<br>(expense) | (192,911)                             | (101,281)                              | (294,192)                                    | -                       | (294,192)                                                        |
| Interest expense                   | 25                                    | 34,961                                 | 34,986                                       | -                       | 34,986                                                           |
| Total other income<br>(expense)    | (192,936)                             | (136,242)                              | (329,178)                                    | -                       | (329,178)                                                        |
| Income tax expense<br>(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   | 28,432,024 | - |
| shares Outstanding |            |   |

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<br>December 31,<br>2006 | Image Labs As<br>of December 31,<br>2006 | Combined<br>Historical<br>Reflect & Image<br>Labs | Pro Forma<br>Adjustments | Pro Forma<br>Combined<br>Reflect &<br>Image Labs<br>December 31,<br>2006 |     |
|-------------------------|---------------------------------------|------------------------------------------|---------------------------------------------------|--------------------------|--------------------------------------------------------------------------|-----|
| <b>ASSETS</b>           |                                       |                                          |                                                   |                          |                                                                          |     |
| <b>C u r r e n t</b>    |                                       |                                          |                                                   |                          |                                                                          |     |
| <b>Assets:</b>          |                                       |                                          |                                                   |                          |                                                                          |     |
| 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<br>assets | 13,852                                | 141,117                                  | 154,969                                           | -                        | 154,969                                                                  |     |

|               |           |              |              |              |              |     |
|---------------|-----------|--------------|--------------|--------------|--------------|-----|
| Total         |           |              |              |              |              |     |
| Current       |           |              |              |              |              |     |
| Assets        | 1,039,277 | 1,340,049    | 2,379,326    | (164,981)    | 2,214,345    |     |
| Fixed         | 211,021   | 30,798       | 241,819      | -            | 241,819      |     |
| Assets, (net) |           |              |              |              |              |     |
| 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   | 4,736,827 | -            | 4,736,827    | -            | 4,736,827    | (1) |
| (net)         |           |              |              |              |              |     |
| Total Other   | 5,092,175 | 2,251        | 5,094,426    | -            | 5,094,426    |     |
| Assets        |           |              |              |              |              |     |
| T O T A L \$  | 6,342,473 | \$ 1,373,098 | \$ 7,715,571 | \$ (164,981) | \$ 7,550,590 |     |
| ASSETS        |           |              |              |              |              |     |

**REFLECT SCIENTIFIC, INC.**

## Notes to the Consolidated Financial Statements

March 31, 2007 and December 31, 2006

## NOTE 3 - ACQUISITIONS (continued)

|                                                                        | Reflect As of<br>December 31,<br>2006 | Image Labs<br>As of<br>December 31,<br>2006 | Combined<br>Historical<br>Reflect &<br>Image Labs | Pro Forma<br>Combined<br>Reflect &<br>Image Labs<br>December 31,<br>2006 |
|------------------------------------------------------------------------|---------------------------------------|---------------------------------------------|---------------------------------------------------|--------------------------------------------------------------------------|
|                                                                        |                                       |                                             |                                                   | Pro Forma<br>Adjustments                                                 |
| <b>LIABILITIES AND<br/>STOCKHOLDERS'<br/>E Q U I T Y<br/>(DEFICIT)</b> |                                       |                                             |                                                   |                                                                          |
| Current Liabilities:                                                   |                                       |                                             |                                                   |                                                                          |
| Short term loan                                                        | \$ 18,353                             | \$ -                                        | \$ 18,353                                         | \$ -                                                                     |
| Cash overdraft                                                         | -                                     | 56,589                                      | 56,589                                            | -                                                                        |
| Accounts payable                                                       | 225,721                               | 199,817                                     | 425,538                                           | -                                                                        |
| Accrued liabilities                                                    | 25,949                                | 22,485                                      | 48,434                                            | -                                                                        |
| Income taxes payable                                                   | 400                                   | -                                           | 400                                               | -                                                                        |
| Total Current Liabilities                                              | 270,423                               | 278,891                                     | 549,314                                           | 549,314                                                                  |
| Non-current liabilities:                                               |                                       |                                             |                                                   |                                                                          |
| Notes payable                                                          | 61,706                                | -                                           | 61,706                                            | -                                                                        |
| Contract billing in excess                                             | -                                     | 419,976                                     | 419,976                                           | -                                                                        |
| Total non-current Liabilities                                          | 61,706                                | 419,976                                     | 481,682                                           | -                                                                        |
| Total Liabilities                                                      | \$ 332,129                            | \$ 698,867                                  | \$ 1,030,996                                      | \$ -                                                                     |

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Stockholders' Equity:

|                            |             |         |             |           |             |
|----------------------------|-------------|---------|-------------|-----------|-------------|
| Preferred Stock            | -           | -       | -           | -         | -           |
| Common stock               | 306,889     | 100     | 306,989     | (100)     | 306,889 (1) |
| Additional Paid-in capital | 6,979,735   | 4,900   | 6,984,635   | 100       | (1)         |
|                            | -           | -       | -           | 504,250   | 7,788,985   |
| Subscription receivable    |             |         |             |           |             |
|                            | 257,251     | -       | 257,251     | -         | 257,251     |
| Accumulated deficit        |             |         |             |           |             |
|                            | (1,533,531) | -       | (1,533,531) | -         | (1,533,531) |
| Retained earnings          | -           | 669,231 | 669,231     | (669,231) | -           |
| Total Stockholders' Equity | 6,010,344   | 674,231 | 6,684,575   | (164,981) | 6,519,594   |

TOTAL LIABILITIES  
AND  
SHAREHOLDERS  
EQUITY

\$ 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<br>December<br>31, 2006 | All Temp as of<br>December 31,<br>2006 | Combined<br>Historical Reflect<br>& All Temp | Pro Forma<br>Combined Reflect<br>& All Temp<br>December 31,<br>2006 |
|------------------------------------|---------------------------------------|----------------------------------------|----------------------------------------------|---------------------------------------------------------------------|
|                                    |                                       |                                        |                                              | Pro Forma<br>Adjustment                                             |
| Sales                              | \$ 2,572,955                          | \$ 3,756,303                           | \$ 6,329,258                                 | - \$ 6,329,258                                                      |
| Cost of Sales                      | 1,519,547                             | 2,427,651                              | 3,947,198                                    | - 3,947,198                                                         |
| Salaries and wages                 | 779,579                               | 425,413                                | 1,204,992                                    | - 1,204,992                                                         |
| Payroll Taxes                      | 35,767                                | 34,823                                 | 70,590                                       | - 70,590                                                            |
| Rent expense                       | 62,906                                | 40,708                                 | 103,614                                      | - 103,614                                                           |
| G e n e r a l &<br>Administrative  | 1,303,598                             | 415,342                                | 1,718,940                                    | - 1,718,940                                                         |
| Income (loss) from<br>operations   | (1,128,442)                           | 412,366                                | (716,076)                                    | - (716,076)                                                         |
| O t h e r i n c o m e<br>(expense) | (192,911)                             | (20,979)                               | (213,890)                                    | - (213,890)                                                         |
| Interest expense                   | (25)                                  | (12,037)                               | (12,062)                                     | - (12,062)                                                          |
| Total other income<br>(expense)    | (192,936)                             | (33,016)                               | (225,952)                                    | - (225,952)                                                         |

|                                        |    |            |            |            |      |            |
|----------------------------------------|----|------------|------------|------------|------|------------|
| Income tax expense<br>(benefit)        |    | (342,748)  | -          | (342,748)  | -    | (342,748)  |
| Net Income (loss)                      | \$ | (976,630)  | \$ 379,350 | (597,280)  | \$ - | (597,280)  |
| Basic loss per share                   |    | (0.03)     | 37.93      | (0302)     |      | (0.02)     |
| Weighted average<br>shares Outstanding |    | 28,432,024 | 10,000     | 28,442,024 | -    | 28,442,024 |

#### NOTE 4 EQUITY TRANSACTIONS

During the quarter ended March 31, 2007, the Company issued 2,000,000 shares issued pursuant to the merger with All Temp for \$2,120,000; 525,000 shares issued pursuant to the purchase of Image Labs for \$509,250; 500,000 shares issued as part of an employment agreement valued at \$490,000; and 336,336 shares valued at \$257,252 issued for common stock subscriptions.

Effective February 14, 2007, the Company entered into an Investment Banking Agreement to complete an offer and sale of up to \$2,000,000 in principal amount in the aggregate, of the Company's Senior Subordinated Convertible Debentures with warrants exercisable for common stock of the Company. None of these Senior Subordinated Convertible Debentures had been sold as of May 21, 2007.





**REFLECT SCIENTIFIC, INC.**

Notes to the Consolidated Financial Statements

March 31, 2007 and December 31, 2006

**NOTE 5 ACQUISITION OF JMST TECHNOLOGY**

On March 27, 2006, the Company completed a private placement of its securities pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), and/or Rule 506 of Regulation D, resulting in 400,000 shares being sold at \$.80 per share. These restricted securities were sold for the purpose of raising cash to purchase patents from an individual. In a separate transaction the Company issued 200,000 restricted securities to JMST shareholders to acquire the JSMT product technology and potential customers list. The 200,000 shares of common stock issued in the JMST acquisition were restricted securities and similar in all respects to the 400,000 shares which had been sold days earlier for cash at \$.80 per share. Accordingly, management has now determined that the common stock issued in the JMST acquisition should have been valued at \$.80 per share, which was the fair value of the common stock at the time of issuance. The effect of the restatement is as follows:

Consolidated Balance Sheet as of March 31, 2007:

As Originally

|                            | Reported        | As Adjusted     | Effect of Change |
|----------------------------|-----------------|-----------------|------------------|
| Intangible assets          | \$ 7,378,234    | \$ 7,198,234    | \$ (180,000)     |
| Additional paid in capital | \$ (10,502,624) | \$ (10,322,624) | \$ 180,000       |

The March 31, 2007, balance sheet and footnotes reflect the above changes. The Company will file a 10KSB-A to amend the December 31, 2006 10KSB Annual Report.

NOTE 6 ACQUISITION OF CRYOMASTER, INC.

On June 27, 2006, the Company completed the acquisition of the business of Cryomastor, Inc. pursuant to an Agreement and Plan of Merger (the "Cryomastor Merger Agreement"), under which Cryomastor became a wholly-owned subsidiary and changed its name to Cryometrix, Inc. The Company recorded goodwill in connection with the acquisition. Goodwill resulted primarily from our expectation of synergies from the integration of the acquired company's technology (Cryomastor) with the Company's technology and the acquired company's (Cryomastor) access to several important customers.

As consideration for the acquisition of Cryomastor, the Company issued 3,000,000 shares at \$1.25 of its common stock that are restricted securities to the shareholders of Cryomastor, as well as paying \$700,000 to the same shareholders. The value of the common stock was determined by the current market value of the Company's common stock as publicly traded on the OTCBB. The Company also provided \$300,000 to be utilized for the operations of Cryomastor and agreed to pay a \$300,000 debt of Cryomastor for a U.S. patent of Cryomastor systems. An Employment Agreement was also executed, and the Company will pay to the Cryomastor shareholders 2.5% of the gross annual revenue earned by the Company on this line of business. The results of operations of the acquired companies have been included in our operations from the date of acquisition.

**REFLECT SCIENTIFIC, INC.**

Notes to the Consolidated Financial Statements

March 31, 2007 and December 31, 2006

**NOTE 6 ACQUISITION OF CRYOMASTER, INC. (continued)**

The amounts allocated to acquire the patents and customer lists are being amortized over their useful lives of 10 to 12 years. The useful life was based upon the estimated life of the technology in the biotech market. We determined the fair value of the acquired patents based upon the appraised value of projected cash flows related to the freezers, and the value of the customer lists were based upon projected value of future sales.

The Cryomastor Merger Agreement also requires the Company to pay royalty payments based upon revenues associated with this product. The royalty cost will be expensed to operations when incurred. No other contingent consideration was associated with this acquisition.

The Company will file a 10KSB-A to amend the December 31, 2006 10KSB Annual Report.

**NOTE 7 SUBSEQUENT EVENTS FOOTNOTE**

The Company executed a promissory note on May 1, 2007 for \$300,000 to a shareholder of the Company. The note carries an interest rate of 8.75% and is payable in full 30 days from the date of signing.

Subsequent to quarter end on May 21, 2007, the Company executed a promissory note for \$100,000 to a shareholder of the Company. The note carries an interest rate of 8.75% and is payable in full 30 days from the date of signing.

The Company issued 370,000 shares of common stock subsequent to March 31, 2007, for services provided.





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

### **Plan of Operation**

For the next 12 months, we see:

- (1) A continued expansion of our core business through the development and commercialization of new products that have already been identified to meet existing market opportunities. This plan of expansion will be supported by ongoing efforts to create strategic marketing alliances that are designed to increase net present value by optimizing cost and speed to market. Several new products are currently pending commercialization.
- (2) The continuation of a complementary growth initiative, through strategic acquisitions, to improve our position with respect to tools, technologies and intellectual property as well as providing a near term increase in earnings.
- (3) As part of an ongoing management process, our fund raising efforts and support for the above initiatives will be continuously reviewed and prioritized to ensure that returns are commensurate with levels of investment.

In the first quarter of 2007, the acquisitions of All Temp Engineering and Image Labs International were completed providing us with targeted technology and incremental share in the general Life Sciences markets.

### **All Temp Engineering Acquisition**

All Temp Engineering, Inc., a California Corporation, which provides repair services, installation and engineering for environmental control systems, was acquired through a merger agreement on Jan 19, 2007, for 2,000,000 shares of our common stock. We believe that the services All Temp provides to its customers are an integral part of our strategic product and commercialization plan to gain rapid penetration into the \$1 Billion ultra low temperature storage market.

Strong technical synergies exist between All Temp Engineering and our Cryometrix subsidiary (acquired in 2006) based on the Cryometrix Ultra Low Temperature ( ULT ) storage system and a shared customer segment. All Temp is recognized as one of the leaders in its field and is one of the largest companies of its kind in California.

### **Image Labs International Acquisition**

Smithgall and Associates, Inc., a Georgia corporation, doing business as Image Labs International in Montana, was acquired on Feb 28, 2007. Image Labs shareholders were issued 525,000 shares of our common stock and paid \$200,000 in cash. Image Labs is engaged in the manufacture and sale of large scale industrial analytical inspection systems as well as possessing key technologies in machine vision, robotics and software. Image Labs is a leader in its market. We expect several engineering synergies that exist with our other businesses to have a positive bearing on future projects for new product development and improvement of existing product lines.

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

Our revenues increased during the quarter ended March 31, 2007, to \$1,168,020 from \$630,904 for the quarter ended March 31, 2006, primarily as a result of increased business from our acquisitions.

Our cost of goods increased in the quarter ended March 31, 2007, as compared to March 31, 2006, to \$706,901 from \$375,990. The difference was partly as a result of increased sales, costs of goods included from acquisitions and raw material price increases.

General and administrative expenses increased to \$362,066 in the quarter ended March 31, 2007, from \$87,601 for the quarter ended March 31, 2006. This was due to a substantial increase in legal and accounting fees related to acquisitions, Securities and Exchange Commission regulations compliance, increased operational costs from new acquisitions, acquisition audits, amortization and other one time costs relating to the acquisitions.

Our cash resources in the quarter ended March 31, 2007, were \$163,611, with accounts receivable of \$909,330 and inventory of \$789,813. We have relied on revenues and sales of preferred stock for cash resources.



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

We have no off balance sheet arrangements as of December 31, 2006, or March 31, 2007.

### **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 is illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

### **Item 3(a)T. Controls and Procedures.**

#### **Management's annual 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 President and Secretary, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our President and Secretary 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 President and Secretary, 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 President and Secretary 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 has materially affected our internal controls over financial reporting.

#### **Changes in internal control over financial reporting**

We have had no changes in internal control over financial reporting during the quarter ended March 31, 2007.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings.**

None; not applicable.

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

**Recent Sales of Unregistered Securities**

Unregistered Securities sold during the quarter ended March 31, 2007:

| To whom                           | Date       | Number of shares | Consideration                    |
|-----------------------------------|------------|------------------|----------------------------------|
| All Temp Engineering shareholders | 01/26/2007 | 2,000,000        | All Temp Engineering acquisition |
| Sales to 15 accredited investors  |            |                  |                                  |
|                                   | 02/02/2007 | 336,336          | \$.75 per share                  |
| Eric Pierson                      | 03/09/2007 | 500,000          | Employment Agreement bonus       |
| Image Lab shareholders            | 03/31/2007 | 525,000          | Image Labs acquisition           |

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 of 1933, as amended (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.

**Use of Proceeds of Registered Securities**

None; not applicable.

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

#### SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

| Period                                              | (a) Total Number of<br>Shares (or Units)<br>Purchased | (b) Average Price<br>Paid per Share (or<br>Unit) | (c) Total Number of<br>Shares (or Units)<br>Purchased as Part of<br>Publicly Announced<br>Plans or Programs | (d) Maximum<br>Number (or<br>Approximate Dollar<br>Value) of Shares (or<br>Units) that may yet<br>be Purchased Under<br>the Plans or<br>Programs |
|-----------------------------------------------------|-------------------------------------------------------|--------------------------------------------------|-------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| Month #1 January 1, 2007 through January 31, 2007   | None                                                  | None                                             | None                                                                                                        | None                                                                                                                                             |
| Month #2 February 1, 2007 through February 28, 2007 | None                                                  | None                                             | None                                                                                                        | None                                                                                                                                             |
| Month #3 March 1, 2007 through March 31, 2007       | None                                                  | None                                             | None                                                                                                        | None                                                                                                                                             |
| Total                                               | None                                                  | None                                             | None                                                                                                        | None                                                                                                                                             |

**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.**

(a) None; not applicable.

**(b) Nominating Committee**

During the quarterly period ended March 31, 2007, there were no changes in the procedures by which security holders may recommend nominees to our Board of Directors.

**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*          |

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|      |                                                    |                                             |
|------|----------------------------------------------------|---------------------------------------------|
| 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* |
| 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 Kevin Cooksy                  |                                             |
| 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 June 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

In accordance with the requirements of the Exchange Act, the Registrant has caused this Quarterly Report to be signed on its behalf by the undersigned, thereunto duly authorized.

### REFLECT SCIENTIFIC, INC.

*Date: May 21, 2007*

*By: /s/Kim Boyce  
Kim Boyce, President and Director*

*Date: May 21, 2007*

*By: /s/Tom Tait  
Tom Tait, Vice President and Director*

*Date: May 21, 2007*

*By: /s/Kevin Cooksy  
Kevin Cooksy, Secretary/Treasurer*