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REFLECT SCIENTIFIC INC
Form 10QSB
August 18, 2006

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

FORM 10-QSB

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

For the quarterly period ended June 30, 2006

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

For the transition period from _____ to _____

Commission File No. 000-31377

REFLECT SCIENTIFIC, INC.

(Name of Small Business Issuer in its Charter)

UTAH

87-0642556

(State or Other Jurisdiction of
incorporation or organization)

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

970 Terra Bella Avenue
Mountain View, California, 94043

(Address of Principal Executive Offices)

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

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

(1) Yes No (2) Yes No
--- --- --- ---

Indicate by check mark whether the Registrant 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.

Applicable Only to Corporate Issuers

Indicate the number of shares outstanding of each of the Registrant's classes
of common stock, as of the latest practicable date: June 30, 2006 -

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29,130,002 shares of common stock.

Transitional small business disclosure format (check one): Yes No

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

REFLECT SCIENTIFIC, INC.

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

REFLECT SCIENTIFIC, INC.
Consolidated Balance Sheets

ASSETS

| | June 30, 2006 (Unaudited) |
|----------------------------|---------------------------------|
| CURRENT ASSETS | |
| Cash | \$ 154,051 |
| Restricted cash | 258,470 |
| Accounts receivable, (net) | 394,595 |
| Inventory, net | 543,917 |
| Prepaid expenses | 14,363 |
| | ----- |
| Total Current Assets | 1,365,396 |
| | ----- |
| FIXED ASSETS (NET) | 33,770 |
| | ----- |
| OTHER ASSETS | |
| Intangible assets (net) | 5,434,009 |
| Income tax receivable | 24,761 |
| Deposits | 5,350 |
| | ----- |
| Total other assets | 5,464,120 |
| | ----- |
| TOTAL ASSETS | \$ 6,863,286 |
| | ===== |

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

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REFLECT SCIENTIFIC, INC.
Consolidated Balance Sheets (Continued)

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LIABILITIES AND SHAREHOLDERS' EQUITY

| | June 30, 2006 (Unaudited) |
|--|---------------------------------|
| CURRENT LIABILITIES | |
| Accounts payable | \$ 245,116 |
| Notes payable | 262,235 |
| Common stock payable | 1,028,500 |
| Accrued expenses | 93,929 |
| Income taxes payable | 400 |
| Total Current Liabilities | 1,630,180 |
| NON-CURRENT LIABILITIES | |
| Deferred income taxes | 32,676 |
| Total Liabilities | 1,662,856 |
| COMMITMENTS AND CONTINGENCIES | |
| SHAREHOLDERS' EQUITY | |
| Preferred stock, \$0.01 par value, authorized 5,000,000 shares; 10,000 shares issued and outstanding | 100 |
| Common stock, \$0.01 par value, authorized 50,000,000 shares; 29,130,002 shares issued and outstanding | 291,300 |
| Additional paid-in capital | 5,584,337 |
| Retained earnings | (675,307) |
| Total Shareholders' Equity | 5,200,430 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 6,863,286 |

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

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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---------------------------|--|------------|--------------------------------------|--------------|
| | 2006 | 2005 | 2006 | 2005 |
| REVENUES | \$ 624,277 | \$ 547,349 | \$ 1,255,181 | \$ 1,054,741 |
| COST OF GOODS SOLD | 383,796 | 282,735 | 759,786 | 593,842 |
| GROSS PROFIT | 240,481 | 264,614 | 495,395 | 460,899 |
| OPERATING EXPENSES | | | | |
| Salaries and wages | 112,008 | 91,239 | 223,157 | 161,347 |
| Payroll taxes | 10,422 | 6,115 | 21,257 | 13,613 |

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| | | | | |
|---|--------------|--------------|--------------|--------------|
| Rent expense | 21,398 | 19,448 | 38,661 | 38,307 |
| General and administrative expense | 269,429 | 145,160 | 357,030 | 250,430 |
| Total Operating Expenses | 413,257 | 261,962 | 640,105 | 463,697 |
| OPERATING INCOME (LOSS) | (172,776) | 2,652 | (144,710) | (2,798) |
| OTHER INCOME (EXPENSE) | | | | |
| Sundry income | - | - | - | - |
| Miscellaneous income (expense) | - | - | - | - |
| Interest expense | - | (4,264) | (25) | (8,378) |
| Total Other Income (Expense) | - | (4,264) | (25) | (8,378) |
| NET INCOME (LOSS) BEFORE INCOME TAX | (172,776) | (1,612) | (144,735) | (11,176) |
| INCOME TAX PROVISION (BENEFIT) | (28,110) | - | (24,329) | - |
| NET INCOME (LOSS) | \$ (144,666) | \$ (1,612) | \$ (120,406) | \$ (11,176) |
| Preferred distribution, dividends | - | (444,633) | - | (591,946) |
| NET LOSS PER SHARE APPLICABLE TO COMMON SHAREHOLDERS | \$ (144,666) | \$ (446,245) | \$ (120,406) | \$ (603,122) |
| EARNINGS PER SHARE | \$ (0.01) | \$ (0.02) | \$ (0.00) | \$ (0.03) |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 26,220,112 | 24,229,670 | 25,883,593 | 24,115,470 |

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

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REFLECT SCIENTIFIC, INC. AND SUBSIDIARY
Consolidated Statements of Shareholder's Equity

| | Preferred Stock | | Common Stock | | Additional | Retained |
|-------------------------------------|-----------------|--------|--------------|---------|--------------------|----------|
| | Shares | Amount | Shares | Amount | Paid-in Capital | Earnings |
| Balance, December 31, 2004 | - | - | 24,000,000 | 240,000 | (183,319) | 106,936 |
| Preferred stock issued for cash | 436,000 | 4,360 | - | - | 431,640 | - |
| Preferred stock issued for cash | 264,000 | 2,640 | - | - | 261,360 | - |
| Common stock issued for services | - | - | 380,000 | 3,800 | 5,256 | - |
| Conversion of | | | | | | |

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| | | | | | | |
|---|-----------|---------|------------|-----------|-------------|-------------|
| preferred stock into common stock | (690,000) | (6,900) | 1,150,002 | 11,500 | (4,600) | - |
| Beneficial conversion of convertible preferred stock | - | - | - | - | 700,000 | - |
| Amortization of beneficial conversion feature of convertible preferred stock | - | - | - | - | - | (700,000) |
| Net income for the year ended December 31, 2005 | - | - | - | - | - | 38,163 |
| Balance, December 31, 2005 | 10,000 | 100 | 25,530,002 | 255,300 | 1,210,337 | (554,901) |
| Common stock issued for cash (unaudited) | - | - | 400,000 | 4,000 | 316,000 | - |
| Common stock issued pursuant to merger with Cryomaster (unaudited) | - | - | 3,000,000 | 30,000 | 3,720,000 | - |
| Common stock issued pursuant to JM SciTech, LLC purchase (unaudited) | - | - | 200,000 | 2,000 | 338,000 | - |
| Net loss for the six months ended June 30, 2006 (unaudited) | - | - | - | - | - | (120,406) |
| Balances, June 30, 2006 (unaudited) | 10,000 | \$ 100 | 29,130,002 | \$291,300 | \$5,584,337 | \$(675,307) |

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

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REFLECT SCIENTIFIC, INC.
Consolidated Statements of Cash Flows
(Unaudited)

| | For the Six Months Ended June 30, | |
|--|--------------------------------------|-------------|
| | 2006 | 2005 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ (120,406) | \$ (11,176) |
| Adjustments to reconcile net income to net cash provided by operating | | |

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| | | |
|--|-------------|------------|
| activities: | | |
| Depreciation | 1,860 | 1,650 |
| Amortization of capitalized loan costs | - | 525 |
| Amortization of intangible assets | 7,567 | - |
| Common stock issued for services | - | 9,056 |
| Changes in operating assets and liabilities: | | |
| Increase in restricted cash | (258,470) | - |
| Increase in accounts receivable | (77,321) | (66,118) |
| Increase in inventory | (238,233) | (40,944) |
| Increase in income tax receivable | (24,761) | - |
| Increase in prepaid asset | (10,000) | - |
| Increase (decrease) in accounts payable and accrued expenses | 140,999 | 17,485 |
| | ----- | ----- |
| Net Cash Used by Operating Activities | (578,765) | (89,522) |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash paid for intangible assets | (1,093,106) | - |
| Cash paid for fixed assets | (14,680) | - |
| | ----- | ----- |
| Net Cash Used by Investing Activities | (1,107,786) | - |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Change in long term line of credit | - | (25) |
| Proceeds from stock subscription | 1,028,500 | - |
| Proceeds from common stock issuance | 320,000 | - |
| Proceeds from preferred stock issuance | - | 700,000 |
| | ----- | ----- |
| Net Cash (Used) Provided by Financing Activities | 1,348,500 | 699,975 |
| | ----- | ----- |
| NET INCREASE (DECREASE) IN CASH | (338,051) | 610,453 |
| CASH AT BEGINNING OF PERIOD | 492,102 | 80,739 |
| | ----- | ----- |
| CASH AT END OF PERIOD | \$ 154,051 | \$ 691,192 |
| | ===== | ===== |

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Cash Paid For:

| | | |
|--------------|-------|----------|
| Interest | \$ 25 | \$ 8,378 |
| Income taxes | \$ - | \$ - |

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

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REFLECT SCIENTIFIC, INC.
Notes to the Consolidated Financial Statements
June 30, 2006

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

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The accompanying unaudited condensed 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 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 financial statements be read in conjunction with the Company's most recent audited financial statements and notes thereto included in its December 31, 2005 financial statements. Operating results for the six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. It is noted that no results of Cryomastor operations were included in the financial statements for this period as Cryomastor was purchased June 27, 2006, and no operations occurred during the last 3 days of the quarter. From this time forward all operations will be included in the consolidated financial statements.

NOTE 2 - ACQUISITION OF REFLECT SCIENTIFIC

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

NOTE 3 - ACQUISITIONS

On April 19, 2006, the Company entered into a Merger Agreement with Cryomastor Inc. that was effective at June 27, 2006. As part of this Merger Agreement, the Company received assets valued at the following:

| | | |
|----------------|----|-----------|
| Patents | \$ | 3,081,777 |
| Customer Lists | | 480,000 |
| Goodwill | | 1,289,799 |
| | | ----- |
| | \$ | 4,851,576 |
| | | ===== |

As consideration for these assets, the Company issued 3,000,000 shares at \$1.25 of its common stock that are "restricted securities" to the shareholders of Cryomastor, Inc. as well as paid \$700,000 to the same shareholders. The Company also advanced \$300,000 to be utilized for the operations of Cryomastor, Inc. and is obligated to pay a \$300,000 debt of

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Cryomastor, Inc. for a U.S. patent of the Cryomastor systems. Certain employment agreements have been executed, and the Company will pay to the Cryomastor shareholders 2.5% of the gross annual revenue earned by the Company, subject to the satisfaction of certain conditions.

As part of the execution and delivery of the Merger Agreement, the Company offered a minimum of 1,000,000 and a maximum of 1,500,000 shares of common stock at \$1 per share to accredited investors. At June 30, 2006, 1,028,500 shares had been sold; and at the closing of this offering on July 31, 2006, 1,073,500 shares had been sold. As of June 30, 2006, the Company had not issued these shares.

The funds raised in this offering were placed in escrow in the name of the Company. As of June 30, 2006, \$258,470 remained in escrow and was subsequently distributed to the prior owners of Cryomastor.

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REFLECT SCIENTIFIC, INC.
Notes to the Consolidated Financial Statements
June 30, 2006 and December 31, 2005

NOTE 3 - ACQUISITIONS (continued)

The Company acquired Cryomaster because the business was synergistic with the Company as they both serve the Biotech industry. The business offers a growth opportunity for the Company because of products that can fill a market need.

Effective April 4, 2006 the Company entered into an agreement to purchase JM SciTech, LLC. Pursuant to this agreement, the Company purchased and JM SciTech, LLC sold all rights, title and interest in and to the JMST Technology. This resulted in the Company obtaining assets valued as follows:

| | |
|-------------------|------------|
| Intangible assets | \$ 350,000 |
| Goodwill | 240,000 |
| | ----- |
| | \$ 590,000 |
| | ===== |

As consideration for the JMST Technology, the Company issued 200,000 shares at \$1.70 of its common stock that are restricted securities, paid the sum of \$250,000, and will pay certain royalty payments as outlined in the agreement. As part of this agreement, the Company issued 400,000 shares of common stock that are "restricted securities" as defined in Rule 144 to "accredited investors" only, to finance the acquisition of JM SciTech, LLC. These shares were sold at a price of \$0.80 per share. None of these shares were accorded registration rights of any kind.

The Company acquired JMST because the business was synergistic with the Company as they both serve the Biotech industry. The business offered a strong growth opportunity, a successful business model, ongoing sales, innovation and four patents.

NOTE 4 - SUBSEQUENT EVENTS

Effective August 3, 2006, the Company signed a Letter of Intent to purchase All Temp Engineering. As consideration for the purchase, the Company will issue 2,000,000 shares of its common stock that are

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restricted securities.

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

Results of Operations.

Three Months Ended June 30, 2006, compared to Three Months Ended June 30, 2005.

Our revenues increased during the quarter ended June 30, 2006, to \$624,277, from \$547,349 for the quarter ended June 30, 2005, primarily as a result of a general improvement in sales across several product lines.

Our cost of goods increased in the quarter ended June 30, 2006, as compared to June 30, 2005, to \$383,796 from \$282,735, as a result of increased raw material costs and increased sales.

General and administrative expenses increased to \$269,429 during the quarter ended June 30, 2006, from \$145,160 during the quarter ended June 30, 2005. This increase was due to increased legal and accounting activity for acquisitions.

Six Months Ended June 30, 2006, compared to Six Months Ended June 30, 2005.

Our revenues increased during the six months ended June 30, 2006, to \$1,255,181, from \$1,054,741 for the six months ended June 30, 2005, also primarily as a result of a general improvement in sales across several product lines.

Our cost of goods increased in the six months ended June 30, 2006, as compared to June 30, 2005, to \$759,786 from \$593,842, also as a result of increased raw material costs and increased sales.

General and administrative expenses increased to \$357,030 during the six months ended June 30, 2006, from \$250,430 during the six months ended June 30, 2005. This increase was due to one-time charges associated with moving and acquisition consolidation into the Orem facility.

Liquidity and Capital Resources.

Our cash resources at June 30, 2006, were \$154,051, with accounts receivable of \$394,595. We sold 400,000 shares of our common stock that are "restricted securities" as defined in Rule 144 to "accredited investors" only, to finance the acquisition of JM SciTech, LLC. These shares were sold at a price of \$0.80 per share. We also sold an additional 1,028,500 shares of our common stock during the quarter ended June 30, 2006, to finance the purchase of Cryomastor, Inc. None of these shares were accorded registration rights of any kind. Our cash resources should be adequate for the next 12 months for continuing operations; however, plans for expansion will require additional capital of between \$500,000 and \$750,000. See the Company's 8-K Current Reports respectively dated April 4, 2006 (filed on April 7, 2006), and June 27, 2006 (filed June 30, 2006), which are incorporated herein by reference. See Item 6.

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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 Quarterly Report and other filings with the Securities and Exchange Commission and in reports to our Company's stockholders. Management believes that all statements that express expectations and projections with respect to future matters, as well as from developments beyond our Company's control, including changes in global economic conditions are forward-looking statements within the meaning of the Act. These statements are made on the basis of management's views and assumptions, as of the time the statements are made, regarding future events and business performance. There can be no assurance, however, that management's expectations will necessarily come to pass. Factors that may affect forward-looking statements include a wide range of factors that could materially affect future developments and performance, including the following:

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

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

Item 3. Controls and Procedures.

As of the end of the period covered by this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our President and 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.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None; not applicable.

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

As of the quarter ended June 30, 2006, we issued 3,000,000 shares of our common stock at \$1.25 per share to the shareholders of Cryomastor, Inc., in consideration for assets valued at \$4,851,576. We also issued 200,000 shares of our common stock at \$1.70 per share in consideration for the JMST Technology assets valued at \$590,000. To fund these acquisitions, we privately sold 1,028,500 shares of our common stock for the Cryomastor acquisition at \$1 per share; and 400,000 shares for the JMST acquisition at \$1.70 per share. All shares were "restricted securities" as defined in Rule 144 of the Securities and Exchange Commission; and none were accorded any registration rights. See the Company's 8-K Current Reports respectively dated June 27, 2006 (filed on June 30, 2006), and April 4, 2006 (filed April 7, 2006), which are incorporated herein by reference. See Item 6.

We issued all of these securities to persons who were "accredited investors"; 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, under which state law is preempted.

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.

Effective August 3, 2006, which is subsequent to the date of this Quarterly Report, we signed a Letter of Intent to purchase All Temp Engineering. As consideration for the purchase, the Company will issue 2,000,000 shares of its common stock that are "restricted securities." All Temp Engineering is owned by the former shareholders of Cryomastor, Inc.

Item 6. Exhibits.

Exhibits.

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

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See the Company's 8-K Current Reports respectively dated April 4, 2006 (filed on April 7, 2006), and June 27, 2006 (filed June 30, 2006), which are incorporated herein by reference.*

* Incorporated herein by reference.

SIGNATURES

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

REFLECT SCIENTIFIC, INC.

Date: 8/17/06

/s/Kim Boyce

Kim Boyce, President

Date: 8/17/06

/s/Tom Tait

Tom Tait, Vice President

Date: 8/17/06

/s/Kevin Cooksy

Kevin Cooksy, Secretary/Treasurer