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REFLECT SCIENTIFIC INC
Form 10QSB
May 10, 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 March 31, 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: March 31, 2006 -

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25,930,002 shares of common stock.

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

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

March 31, 2006 and December 31, 2005

REFLECT SCIENTIFIC, INC.
Consolidated Balance Sheets

ASSETS

| | March 31, 2006 (Unaudited) |
|----------------------------|----------------------------------|
| CURRENT ASSETS | |
| Cash | \$ 616,096 |
| Note receivable (Note 3) | 200,000 |
| Accounts receivable, (net) | 318,707 |
| Inventory, net | 318,208 |
| Prepaid expenses | 4,363 |
| | ----- |
| Total Current Assets | 1,457,374 |
| | ----- |
| FIXED ASSETS, (NET) | 20,126 |
| | ----- |
| OTHER ASSETS | |
| Deposits | 5,350 |
| | ----- |
| TOTAL ASSETS | \$ 1,482,850 |
| | ===== |

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

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REFLECT SCIENTIFIC, INC.
Consolidated Balance Sheets (Continued)

LIABILITIES AND SHAREHOLDERS' EQUITY

March 31,
2006

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(Unaudited)

CURRENT LIABILITIES

| | |
|---------------------------|------------|
| Accounts payable | \$ 157,073 |
| Accrued expenses | 11,000 |
| Income taxes payable | 27,037 |
| | ----- |
| Total Current Liabilities | 195,110 |
| | ----- |

NON-CURRENT LIABILITIES

| | |
|-----------------------|---------|
| Deferred income taxes | 32,644 |
| | ----- |
| Total Liabilities | 227,754 |
| | ----- |

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; 25,930,002 shares issued and outstanding | 259,300 |
| Additional paid-in capital | 1,526,337 |
| Accumulated deficit | (530,641) |
| | ----- |
| Total Shareholders' Equity | 1,255,096 |
| | ----- |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 1,482,850 |
| | ===== |

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 March 31, | |
|---------------------------------------|---|------------|
| | 2006 | 2005 |
| REVENUES | \$ 630,904 | \$ 507,392 |
| COST OF GOODS SOLD | 375,990 | 311,107 |
| | ----- | ----- |
| GROSS PROFIT | 254,914 | 196,285 |
| | ----- | ----- |
| OPERATING EXPENSES | | |
| Salaries and wages | 111,149 | 70,108 |
| Payroll taxes | 10,835 | 7,498 |
| Rent expense | 17,263 | 18,859 |
| General and administrative expense | 87,601 | 109,384 |
| | ----- | ----- |
| Total Operating Expenses | 226,848 | 201,735 |
| | ----- | ----- |

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| | | |
|--|------------|--------------|
| OPERATING INCOME (LOSS) | 28,066 | (5,450) |
| | ----- | ----- |
| OTHER INCOME (EXPENSE) | | |
| Interest expense | (25) | (4,114) |
| | ----- | ----- |
| Total Other Expenses | (25) | (4,114) |
| | ----- | ----- |
| INCOME (LOSS) BEFORE INCOME TAXES | 28,041 | (9,564) |
| | ----- | ----- |
| Income tax expense | 3,781 | - |
| NET INCOME (LOSS) | \$ 24,260 | \$ (9,564) |
| | ----- | ----- |
| Preferred distribution, dividends | - | (147,313) |
| NET INCOME (LOSS) PER SHARE APPLICABLE TO COMMON SHAREHOLDERS | \$ 24,260 | \$ (156,877) |
| | ===== | ===== |
| EARNINGS (LOSS) PER SHARE | \$ 0.00 | \$ (0.01) |
| | ===== | ===== |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 25,547,780 | 24,000,000 |
| | ===== | ===== |

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

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

| | For the Three Months Ended March 31, | |
|---|---|------------|
| | 2006 | 2005 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 24,260 | \$ (9,564) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 824 | 826 |
| Amortization of capitalized loan costs | - | 350 |
| Changes in operating assets and liabilities: | | |
| Increase in accounts receivable | (1,433) | (181) |
| Increase in inventory | (12,524) | (9,107) |
| Decrease in accounts payable and accrued expenses | (6,954) | (2,364) |
| Decrease in deferred income taxes | (179) | - |
| | ----- | ----- |
| Net Cash Provided (Used) by Operating Activities | 3,994 | (20,040) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Issuance of note receivable | (200,000) | - |
| | ----- | ----- |
| Net Cash Used by | | |

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| | | |
|--|------------|------------|
| Investing Activities | (200,000) | - |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Change in long term line of credit | - | (25) |
| Proceeds from preferred stock issuance | 320,000 | 436,000 |
| | ----- | ----- |
| Net Cash Provided by Financing Activities | 320,000 | 435,975 |
| | ----- | ----- |
| NET INCREASE IN CASH | 123,994 | 415,935 |
| CASH AT BEGINNING OF PERIOD | 492,102 | 80,739 |
| | ----- | ----- |
| CASH AT END OF PERIOD | \$ 616,096 | \$ 495,674 |
| | ===== | ===== |

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Cash Paid For:

| | | |
|--------------|-------|----------|
| Interest | \$ 25 | \$ 4,119 |
| 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
March 31, 2006 and December 31, 2005

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, 2005 financial statements. Operating results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

NOTE 2 EQUITY TRANSACTIONS

Private Placement of Common Stock

In late March, 2006, the Company offered and sold 400,000 shares of its common stock that are "restricted securities" as defined in Rule 144 to

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"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.

NOTE 3 SUBSEQUENT EVENT

Plan of Merger

Effective April 19, 2006, the Company entered into an Agreement and Plan of Merger with Cryomastor Inc. Under the merger agreement, the Company will issue 3,000,000 shares of its common stock that are restricted securities to the shareholders of Cryomastor, inc. as well as pay \$700,000 to the same shareholders. The Company will also advance \$300,000 to be utilized for the operations of Cryomastor, Inc. and pay a \$300,000 debt of Cryomastor, Inc. for a U.S. patent of Cryomastor systems. An employment agreement will be executed and the Company will pay to the Cryomastor shareholders 2.5% of the gross annual revenue earned by the Company.

Pursuant to this plan of merger, the Company loaned \$200,000 to Cryomastor. The principal amount of the note will be accounted for as part of the merger. In the event the plan of merger is not closed, the note will be repaid with five percent interest before December 31, 2006.

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

NOTE 3 SUBSEQUENT EVENT (Continued)

Plan of Merger (Continued)

As part of the execution and delivery of the Merger Agreement, the Company will offer a minimum of 1,000,000 shares of common stock at \$1 per share to accredited investors. This is a condition precedent to the closing of the merger.

Material Definitive Agreement

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. As consideration for the JMST Technology, the Company will issue 200,000 shares of its common stock that are restricted securities, pay the sum of \$250,000, and pay certain royalty payments as outlined in the agreement. As part of this agreement, the Company issued 400,000 shares of common stock to finance the acquisition at \$.80 per share.

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

Results of Operations.

Our revenues increased during the quarter ended March 31, 2006, to \$630,904, from \$507,392 for the quarter ended March 31, 2005, primarily

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as a result of a general improvement in sales across several product lines.

Our cost of goods increased in the quarter ended March 31, 2006, as compared to March 31, 2005, to \$375,990 from \$311,107, as a result of increased raw material costs and increased sales.

General and administrative expenses decreased to \$87,601 during the quarter ended March 31, 2006, from \$109,384 during the quarter ended March 31, 2005. This decrease was due to a reduction in research and development expenses.

Liquidity and Capital Resources.

Our cash resources at March 31, 2006, were \$616,096, with accounts receivable of \$318,707. In late March, 2006, we offered and 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. None of these shares were accorded registration rights of any kind. These funds should be adequate for the next 12 months for continuing operations; however, plans for expansion will require additional capital of between \$500,000 and \$750,000.

Forward-Looking Statements.

The Private Securities Litigation Reform Act of 1995 (the "Act") provides a safe harbor for forward-looking statements made by or on behalf of our Company. Our Company and 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.

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Item 3. Controls and Procedures.

As of the end of the period covered by this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our President and Treasurer, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our President and Treasurer concluded that our disclosure controls and procedures are effectively designed to ensure that information required to be disclosed or filed by us is recorded, processed or summarized, within the time periods specified in the rules and regulations of the Securities and Exchange Commission. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. In addition, we reviewed our internal controls over financial reporting, and there have been no changes in our internal controls or in other factors in the last fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None; not applicable.

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

As of the quarter ended March 31, 2006, 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. None of these shares were accorded registration rights of any kind.

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 April 19, 2006, which is subsequent to the date of this Quarterly Report, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Cryomastor, Inc., a California corporation ("Cryomastor"). Under the Merger Agreement, subject to closing, we will issue 3,000,000 shares of our common stock that are "restricted securities" as defined in Rule 144 of

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the Securities and Exchange Commission to the shareholders of Cryomastor, as well as pay \$700,000 to the Cryomastor shareholders, pro rata. We will also advance \$300,000 to be utilized for the operations of Cryomastor and pay a \$300,000 debt of Cryomastor for a U.S. patent that comprises Cryomastor's intellectual property. Certain Employment Agreement will also be executed and delivered; and, we are required to pay to the Cryomastor's shareholders, 2.5% of the gross annual revenue earned by us or any affiliated entity in connection with the license, sale or other distribution of the Cryomastor intellectual property ("Cryomastor Revenue"). The foregoing payment shall not be due or payable or accrue unless and until the aggregate Cryomastor Revenue for a fiscal year is projected to exceed, or actually exceeds, Three Million Dollars (\$3,000,000). The foregoing payment shall be payable in shares of our common stock valued at the greater of (i) "Market Value" at the time of the accrual of the payment; or (ii) \$1.80 per share. Market Value shall mean the average of the bid and asked prices of our common stock on the OTC Bulletin Board or any other nationally recognized medium on which our common stock is publicly traded on the date or dates when such percentage payments are due and payable. The maximum aggregate amount of shares issuable for this purpose shall be Two Million (2,000,000) shares. Payments shall be paid on a quarterly basis within 30 days of the end of each quarter, based on projected Cryomastor Revenue (payments based on actual Cryomastor Revenue shall be paid in one lump sum within 30 days of the end of the fiscal period in which they were earned). Portions of the payments so paid shall be adjusted to reconcile the actual Cryomastor Revenue within 30 days of the end of the fiscal year in which they were paid.

Pursuant to the Letter of Intent regarding this merger, we loaned \$200,000 to Cryomastor. The principal amount of the note will be accounted for as part of the merger. In the event the merger is not closed, the note will be repaid with five percent interest before December 31, 2006.

As part of the execution and delivery of the Merger Agreement, we are offering a minimum of 1,000,000 shares of our common stock at \$1 per share to "accredited investors" to fund the payments required under the Merger Agreement. This is a condition precedent to the closing of the merger. See our 8-K Current Report dated April 19, 2006, which was filed with the Securities and Exchange Commission on April 25, 2006, and which is incorporated herein by reference. See Item 6.

Effective as of April 4, 2006, we entered into a Purchase Agreement (the "Agreement") among us; JM SciTech, LLC, a limited liability company organized under the laws of the State of Colorado, and doing business as JMST Systems ("JMST"); David Carver, an individual ("Carver"); and Julie Martin, an individual ("Martin") (JMST, Carver and Martin are sometimes hereinafter referred to collectively as "Sellers"). Pursuant to the Agreement, we purchased and JMST sold all right, title and interest in and to the JMST Technology (the "JMST Technology"), as described in the Agreement; and Carver conveyed and assigned any rights he had in and to certain patents (the "Carver Patents") and related intellectual assets as described in the Agreement ("collectively, including the Carver Patents, referred to herein as the "Carver Technology"). We issued 200,000 shares of our common stock that comprised "restricted securities" as defined in Rule 144 to the JMST interest holders and paid \$250,000 to Carver; and 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, at a price of \$0.80 per share. None of these shares were accorded registration rights of any kind. See our 8-K Current Report dated April 4, 2006, which was filed with the Securities and Exchange Commission on April 7, 2006, and which is incorporated herein by reference. See Item 6.

Item 6. Exhibits.

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Exhibits.

31.1 302 Certification of Kim Boyce

31.2 302 Certification of Kevin Cooksy

32 906 Certification.

8-K Current Report dated April 19, 2006, which was filed with the Securities and Exchange Commission on April 25, 2006*

8-K Current Report dated April 4, 2006, which was filed with the Securities and Exchange Commission on April 7, 2006*

* 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: 5/9/06

/s/Kim Boyce

Kim Boyce, President

Date: 5/9/06

/s/Tom Tait

Tom Tait, Vice President

Date: 5/9/06

/s/Kevin Cooksy

Kevin Cooksy, Secretary/Treasurer