AeroVironment Inc
Form DEF 14A
August 21, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
The Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2)**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

AEROVIRONMENT, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No Fee Required

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid with preliminary materials:

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing party:

(4) Date filed:

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Notice of 2015 Annual Meeting of Stockholders and Proxy Statement

Friday, October 2, 2015
at 9:00 a.m., local time
994 Innovators Way
Simi Valley, CA 93065

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Q&A FROM OUR CHAIRMAN AND CHIEF EXECUTIVE OFFICER

"Throughout the year, we meet with our stockholders and discuss a variety of topics. Frequently received questions and comments are addressed below."

Explain why AeroVironment's growing cash balance supports the company's business objectives.

Holding a significant amount of cash and liquid investments helps position us to create long-term stockholder value in important ways. Our long-term growth strategy is to maintain market leadership, grow our core business and secure market adoption of our innovative solutions in a number of our strategic growth initiatives. Securing market adoption and positioning us for market leadership in these large growth initiatives depends on our ability to invest decisively and quickly when the opportunity arises. Preserving our cash and liquid investments for this type of deployment positions us for the greatest return on investment for our stockholders. In addition, across our business we typically compete against very large, established competitors with deep pockets for large, strategically important contracts. Besides ensuring that we have the resources to make the investments required, our cash and liquid investments demonstrate to potential customers considering adoption of these new solutions that we have the necessary staying power, balancing the perceived risk of doing business with a smaller innovative company like AeroVironment.

What makes predicting the timing of market adoption so difficult?

Predicting market adoption involves predicting the future, which is far from an exact science. Our experience with innovation has taught us that the timing and rate of market adoption can be influenced by multiple factors, many of which can be beyond our control. Adoption and its timing can be influenced by customer perceptions of the cost and benefit impact of the innovation, customer perceptions of increased risk of adopting and funding an innovative solution, government regulations and economic conditions. As a result, we attempt to manage our investments carefully and strive to avoid investing too early and stranding assets or investing too late and missing the value creation opportunity for our stockholders.

When will your capital base be sufficient to achieve your growth objectives?

Our board of directors continuously monitors our cash and investments against the capital requirements of our business to determine if and when we possess sufficient resources to secure the maximum return on our growth opportunities, which we believe represent the highest potential return on our invested capital possible. Given the multiple long-term opportunities in our growth portfolio, each with difficult-to-predict timing of market adoption and potential capital requirements that range from tens of millions of dollars to hundreds of millions of dollars, the board of directors has not concluded that we possess excess cash.

What types of milestones will indicate continued progress in your growth portfolio?

The pathway to market adoption consists of many incremental milestones that can lead to large long-term market growth. Some of these milestones may relate to technical accomplishments, relationships with key early adopters, regulatory achievements, successful demonstrations and customer trial adoption. Revealing some of these milestones could help competitors learn from our investments or could violate customer confidentiality agreements. Other milestones are public in nature, such as large customers wishing to make public their adoption of an innovative solution that helps them succeed. When the disclosure of a milestone would not compromise customer or competitive concerns, we attempt to do so. When we are unable to disclose specific milestones, we attempt to provide context in our public communications with stockholders that reflects the progress we feel we are making. In all cases we manage investments carefully to ensure the highest long-term stockholder value.

How are you able to address defense and commercial markets concurrently?

We are proud to develop and deliver innovative unmanned aircraft and tactical missile system solutions that help protect U.S. and allied troops while enabling them to perform their jobs more effectively. Prior to the broad adoption of our small unmanned aircraft systems, or UAS, by the U.S. Department of Defense ("DOD"), most of our revenue historically came from non-defense customers and we continue to serve commercial customers and consumers in markets where we maintain leading market positions. We view ourselves as a technology solutions provider whose largest market is currently the global defense industry. We continue to see growth opportunities among allied military forces and within the DOD, and with changes to airspace regulations for unmanned aircraft, we anticipate a growing and potentially large opportunity for our small UAS solutions in domestic and international commercial markets. Our Efficient Energy Systems, or EES, business remains focused primarily on commercial and consumer markets. The common thread in our two business segments is the development of innovative technology-based solutions for large markets in which we can gain a first mover advantage and generate high long-term return on invested capital.

You serve as both Chairman and Chief Executive Officer of the Company. What steps are taken to ensure independent oversight at the board level?

Our board of directors' leadership structure provides strong independent oversight. A combined Chairman of the Board and Chief Executive Officer is only one element of our leadership structure. It also includes a Lead Independent Director, and active and strong non-employee directors and board committees led by independent directors. The board regularly reviews this and other governance issues to best serve the interest of stockholders and believes this structure currently serves the business and stockholders well. At this time the board believes the combined roles provides an informed and agile direction from the board to management to optimize shareholder value in executing a complex strategy and with uncertain timing high potential returns on invested capital.

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AEROVIRONMENT, INC.

NOTICE OF 2015 ANNUAL MEETING OF STOCKHOLDERS

Dear Stockholders,

We are pleased to invite you to join to the board of directors and executive team of AeroVironment, Inc. (the "company") at our 2015 annual meeting of stockholders. Important information relating to the annual meeting is detailed below:

TIME: 9:00 a.m. Pacific Time on Friday, October 2, 2015.

PLACE: *The company's offices at:*
994 Innovators Way
Simi Valley, CA 93065

			Unanimous Recommendations of Board of Directors
ITEMS OF BUSINESS:	(1)	Elect Timothy E. Conver and Arnold L. Fishman, each to serve as a Class III director for a three-year term;	FOR
	(2)	Ratify the selection of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending April 30, 2016;	FOR
	(3)	Approve an amendment to the company's Amended and Restated Certificate of Incorporation to provide for the annual election of all directors; and	FOR
	(4)	Transact such other business as may properly come before the annual meeting or any adjournments or postponements thereof.	

RECORD DATE: You can vote if you were a stockholder of the company at the close of business on August 14, 2015.

MEETING ADMISSION: **Registered Stockholders**. If you are a registered stockholder (i.e., your shares are NOT held in an account at a brokerage firm, bank, dealer or other similar organization), you or your legal representatives attending the meeting must bring an acceptable form of identification to the meeting, such as a driver's license. Legal representatives must also bring copies of any proxy or power of attorney evidencing the legal representative's right to represent the stockholder at the meeting.

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Beneficial Stockholders. If you are a beneficial stockholder (i.e., your shares are held by a brokerage firm, bank, dealer or similar organization (often referred to as "holding in street name")) you should come to the beneficial stockholders' table prior to the meeting. In order to be admitted, beneficial stockholders must bring account statements or letters from their brokers or banks showing that they owned AeroVironment stock as of August 14, 2015. In order to vote at the meeting, beneficial stockholders must bring legal proxies, which they can obtain only from their brokers or banks.

VOTING BY PROXY:

Registered Stockholders. To assure that your vote is recorded promptly, please vote as soon as possible, even if you plan to attend the annual meeting in person. Instructions for voting are on your proxy card. If you attend the annual meeting, you may also submit your vote in person, and any previous votes you submitted will be superseded by the vote that you cast at the annual meeting.

You are urged to date, sign and promptly return the proxy card in the envelope provided to you, or to use the telephone or internet method of voting described on your proxy card, so that if you are unable to attend the meeting your shares can be voted.

Beneficial Stockholders. If your shares are held in the name of a broker, bank or other holder of record, follow the voting instructions you receive from the holder of record to vote your shares. Brokers are not permitted to vote your shares at the annual meeting with respect to the election of directors or to amend the company's Amended and Restated Certificate of Incorporation to provide for the annual election of all directors without your instructions as to how to vote. Please instruct your broker how to vote your shares using the voting instructions provided by your broker.

This proxy statement is issued in connection with the solicitation of a proxy on the enclosed form by the board of directors of

AeroVironment, Inc. for use at our 2015 annual meeting of stockholders. We will begin distributing this proxy statement, a form of proxy and our 2015 annual report on or about September 2, 2015.

Thank you for your support.

Timothy E. Conver
Chairman and Chief Executive Officer

Simi Valley, California
August 21, 2015

YOUR VOTE IS IMPORTANT

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON OCTOBER 2, 2015

This notice, the accompanying proxy statement, and our 2015 annual report to stockholders, which includes our annual report on Form 10-K for the fiscal year ended April 30, 2015, are available on our website at investor.avinc.com/financials.cfm.

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PROXY SUMMARY

This proxy statement is furnished to our stockholders in connection with the solicitation of proxies by the board of directors of AeroVironment, Inc. for our 2015 annual meeting of stockholders to be held on Friday, October 2, 2015, and any adjournments or postponements thereof, for the purposes set forth in the attached notice of annual meeting of stockholders. Our principal executive offices are located at 900 Innovators Way, Simi Valley, California 93065. Enclosed with this proxy statement is a copy of our 2015 annual report, which includes our Form 10-K (without exhibits) for the fiscal year ended April 30, 2015. However, the 2015 annual report is not intended to be a part of this proxy statement or a solicitation of proxies.

This summary highlights information contained elsewhere in this proxy statement. This summary does not contain all of the information that you should consider and you should read the entire proxy statement before voting. For more complete information regarding the company's 2015 performance, please review our annual report on Form 10-K for the fiscal year ended April 30, 2015. This proxy statement and the accompanying proxy card are first being distributed to stockholders on or about September 2, 2015.

VOTING AND MEETING INFORMATION

It is important that you vote in order to impact the future of the company. Please carefully review the proxy materials for the 2015 annual meeting of stockholders, which will be held on Friday, October 2, 2015, at 9:00 a.m. local time, at the company's offices at 994 Innovators Way, Simi Valley, CA 93065, and follow the instructions below to cast your vote on all of the voting matters.

Who is Eligible to Vote

You are entitled to vote at the 2015 annual meeting of stockholders if you were a stockholder of record at the close of business on August 14, 2015, the record date of the meeting. On the record date, there were 23,539,173 shares of common stock issued and outstanding and entitled to vote at the annual meeting. The holders of our common stock are entitled to one vote per share on any proposal presented at the annual meeting. We have no other voting securities outstanding.

Voting in Advance of the Meeting

Even if you plan to attend the 2015 annual meeting of stockholders in person, please vote right away using one of the following advance voting methods (see page 66 for additional details). Make sure to have your proxy card or voting instruction form in hand and follow the instructions.

You can vote in advance in one of three ways:

Visit the website listed on your proxy card/voting instruction form to vote **VIA THE INTERNET**

Call the telephone number on your proxy card/voting instruction form to vote **BY TELEPHONE**

Sign, date and return your proxy card/voting instruction form in the enclosed envelope to vote **BY MAIL**

Attending and Voting at the Annual Meeting

All stockholders of record may vote in person at the 2015 annual meeting of stockholders. Beneficial owners may vote in person at the meeting if they have a legal proxy, as described on page 65.

Important Note about Meeting Admission Requirements: If you plan to attend the meeting in person, you should review the important details on admission requirements on page 65.

Electronic Document Delivery

Instead of receiving future copies of our notice of annual meeting, proxy statement and the annual report on Form 10-K by mail, stockholders of record and most beneficial owners can elect to receive an email that will provide electronic links to these documents. Opting to receive our proxy materials online will save us the cost of producing and mailing documents and also will give you an electronic link to the proxy voting site.

Roadmap of Voting Matters

Stockholders are being asked to vote on the following matters at the 2015 annual meeting of stockholders:

Item 1. Election of Directors (page 8) The board believes that the combination of qualifications, skills and experiences of the director nominees would contribute to an effective and well-functioning board. The director nominees possess the necessary qualifications to assist the board in providing effective oversight of the business and strategic advice and counsel to the company's management.	**FOR each Director Nominee**
Item 2. Ratification of the Appointment of Ernst & Young LLP as Independent Registered Public Accounting Firm (page 59) The Audit Committee has appointed Ernst & Young LLP to serve as the company's Independent Auditors for the fiscal year ending April 30, 2016. The Audit Committee and the board believe that the continued retention of Ernst & Young LLP to serve as the company's independent registered public accounting firm is in the best interests of the company and its stockholders. As a matter of good corporate governance, stockholders are being asked to ratify the Audit Committee's selection of the independent registered public accounting firm.	**FOR**
Item 3. Proposal to Amend the Company's Amended and Restated Certificate of Incorporation to Provide for Annual Election of All Directors (Page 61) The board has approved an amendment to the company's Amended and Restated Certificate of Incorporation to eliminate the board's classified	**FOR**

structure and to provide for the election of all directors annually. The board has put forth this proposal to allow our stockholders to vote on this amendment in response to a stockholder proposal requesting the board take all actions necessary (except actions required to be taken by the stockholders) to declassify our board of directors that received support from a majority of the stockholders voting at our 2014 annual meeting.

QUESTIONS AND ANSWERS (PAGE 64)

Please see the Questions and Answers section beginning on page 64 for important information about the proxy materials, voting, the annual meeting, company documents, communications and the deadlines to submit stockholder proposals for the 2016 annual meeting of stockholders. Additional questions may be directed to Investor Relations at (626) 357-9983 x4245 or ir@avinc.com.

CORPORATE GOVERNANCE (PAGE 22)

The company is committed to good corporate governance, which promotes the long-term interests of stockholders, strengthens board and management accountability and helps build public trust in the company. Highlights of our governance practices include:

High proportion of independent directors (5 of 7)

Director resignations required from directors receiving more "withhold" votes than "for" votes in an uncontested election

Lead Independent Director

Independent Audit, Compensation and Nominating and Corporate Governance Committees

Regular executive sessions of independent directors

Regular board and committee self-evaluations

Active stockholder engagement

Anti-hedging and anti-short sale policies for executives, directors and employees

Executive compensation driven by pay-for-performance philosophy

Share ownership guidelines and share retention policy for executives and directors

Compensation recovery policy for executives

DIRECTOR NOMINEES AND OTHER DIRECTORS (PAGES 13-19)

ıptcy or two years prior to that time;

in a criminal proceeding or named subject to a pending criminal proceeding (excluding traffic er minor offenses);

any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court sdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his y type of business, securities or banking activities; or

a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or utures Trading Commission to have violated a federal or state securities or commodities law, has not been reversed, suspended or vacated.

Section 16(a) of the Exchange Act

ne Exchange Act requires that our executive officers and directors and persons who beneficially 0% of our common stock, file initial reports of stock ownership and reports of changes in stock ne Securities and Exchange Commission. Officers, directors, and greater than 10% owners are cable regulations to furnish our Company with copies of all Section 16(a) forms that they file.

a review of the copies of such forms furnished to us or written representations from certain ve that during our calendar year ended December 31, 2007, all filing requirements applicable to tors and 10% stockholders were met by such persons.

l a Code of Ethics that applies to all of our directors and executive officers serving in any Company, including our principal executive officer, principal financial officer, principal r or controller or persons performing similar functions, which Code of Ethics was attached to annual Report for the year ended December 31, 2003. See Part III, Item 13.

nmittee

blished a Nominating and Corporate Governance Committee because we believe that our three f Directors is able to effectively manage the issues normally considered by a Nominating and nance Committee.

e

t Committee, and we are not required to have an audit committee; we do not believe the lack of
tee will have any adverse effect on our financial statements, based upon our current operations.
nether an audit committee may be necessary in the future.

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ve Compensation

ble sets forth the aggregate compensation paid by us for services rendered during the periods

SUMMARY COMPENSATION TABLE

	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) (e)	Option Awards ($) (f)	Non-Equity Incentive Plan Compensation ($) (g)	Nonqualified Deferred Compensation ($) (h)	All Other Compensation ($) (i)	Total Earnings ($) (j)
/07	$105,000	0	0	3,214,456	0	0	0	$3,319,456
/06	$105,000	0	0	0	0	0	0	$105,000
/05	$105,000	0	0	0	0	0	0	$105,000
/07	$63,077	0	0	139,101	0	0	0	$202,178
/06	$60,000	0	*	0	0	0	0	$60,000
/05	$50,769	0	*	0	0	0	0	$50,769
/07	0	0	0	0	0	0	0	0
/06	0	0	*	0	0	0	0	0
/05	0	0	*	0	0	0	0	
/07	0	0	0	0	0	0	0	0
/06	0	0	*	0	0	0	0	0
/05	0	0	*	0				0
/07	$21,250	0	0	0	0	0	0	$21,250

st 28, 2006, the following persons were issued the following shares of our common stock that ecurities, for services rendered and all valued at approximately $0.03 per share: Tom Tait, vin Cooksy, 15,000 shares; Craig D. Morrison, M.D., 10,000 shares.

, 2005, the following persons were issued the following shares of our common stock that were ties, for services rendered and all valued at approximately $0.03 per share: Tom Tait, 50,000 oksy, 25,000 shares; Craig D. Morrison, M.D., 100,000 shares; and Pamela Boyce, 50,000

hired in October, 2007. His annual salary is currently set at $85,000.

ity Awards

Outstanding Equity Awards At Fiscal Year-End

Option Awards					Stock Awards			
of es ng sed (#) ble	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (#)
00	4,800,000	None	$1.32	December 31, 2012	None	None	None	None
0	200,000	None	$1.20	December 31, 2012	None	None	None	None

f Directors

ed or in ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
	(c)	(d)	(e)	(f)	(g)	(h)
e	None	None	None	None	None	None

y Ownership of Certain Beneficial Owners and Management

hip of Certain Beneficial Owners

ble sets forth, as of March 14, 2008, the names, addresses and number of shares of common owned by all persons known to the management of Reflect Scientific to be beneficial owners of the outstanding shares of common stock, and the names and number of shares beneficially ectors of Reflect Scientific and all executive officers and directors of Reflect Scientific as a indicated, each beneficial owner listed exercises sole voting power and sole dispositive power neficially owned).

his table, information as to the beneficial ownership of shares of common stock is determined in he rules of the Securities and Exchange Commission and includes general voting power and/or with respect to securities. Except as otherwise indicated, all shares of our common stock are ed, and sole investment and voting power is held, by the person named. For purposes of this

f persons is deemed to have "beneficial ownership" of any shares of common stock, which such ght to acquire within 60 days after the date hereof. The inclusion herein of such shares listed d does not constitute an admission of beneficial ownership.

re calculated based upon a total number of 34,195,153 shares of common stock outstanding as plus, in the case of the individual or entity for which the calculation is made, that number of nts owned by such individual or entity that are currently exercisable or exercisable within 60

ame and Address of Beneficial wner	Amount and Nature of Beneficial Owner	Percentage of Outstanding Common stock
rincipal Shareholders		
im Boyce(1)	21,718,250	63.84%
270 South 1380 West		
rem, Utah 84058		
ain Family Revocable Trust	2,530,000	7.44%
)57 Cienega Road		
ollister, California 95023		
icholas J. Henneman	2,470,000	7.26%
O. Box 1175		
385 Diablo Hills Road		
res Pinos, California 95075-1175		
fficers and Directors		
im Boyce	21,718,250	63.84%
om Tait(2)	361,000	1.1%
evin Cooksy	40,000	.12%
raig D. Morrison, M.D.	210,000	.62%
ll directors and executive officers f the Company as a group (Four dividuals)	22,329,250 ========	65.64% ======

0,000 shares issuable upon exercise of stock options with an exercise price of $1.32 per share. xercisable at any time within five years from their date of issuance in December 2007.

000 shares issuable upon exercise of stock options with an exercise price of $1.20 per share. xercisable at any time within five years from their date of issuance in December 2007.

rol

ent or planned transactions that would or are expected to result in a change of control of our

rized for Issuance under Equity Compensation Plans

	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a)
	(a)	(b)	(c)
tion plans rity	None	None	None
tion plans security	5,000,000	$1.32	1,500,000
	5,000,000	$1.32	1,500,000
	=======		=======

<u>Relationships and Related Transactions</u>

h Related Persons

aterial transactions, or series of similar transactions, during our Company s last fiscal year, or
posed transactions, or series of similar transactions, to which our Company or any of our
r is to be a

e amount involved exceeded the lesser of $120,000 or one percent of the average of our total l for the last three completed fiscal years and in which any director, executive officer or any ho is known to us to own of record or beneficially more than five percent of any class of our any member of the immediate family of any of the foregoing persons, had an interest.

suer

im Boyce, our President and a director, may be deemed to be our Parent by virtue of his oldings in our Company.

h Promoters and control persons

aterial transactions, or series of similar transactions, during our Company s last five fiscal years, proposed transactions, or series of similar transactions, to which we or any of our subsidiaries party, in which the amount involved exceeded $120,000 and in which any promoter or founder mber of the immediate family of any of the foregoing persons, had an interest.

s

tle of Document	Location if other than attached hereto
rticles of Incorporation	10-SB Registration Statement*
rticles of Amendment to Articles of corporation	10-SB Registration Statement*
-Laws	10-SB Registration Statement*
rticles of Amendment to Articles of corporation	8-K Current Report dated December 31, 2003*
rticles of Amendment to Articles of corporation	8-K Current Report dated December 31, 2003*
rticles of Amendment	September 30, 2004 10-QSB Quarterly Report*
-Laws Amendment	September 30, 2004 10-QSB Quarterly Report*

ebenture	8-K Current Report dated June 29, 2007*
orm of Purchasers Warrant	8-K Current Report dated June 29, 2007*
egistration Rights Agreement	8-K Current Report dated June 29, 2007*
orm of Placement Agreement	8-K Current Report dated June 29, 2007*
egal Opinion and Consent	This Filing
ecurities Purchase Agreement	8-K Current Report dated June 29, 2007*
acement Agent Agreement	8-K Current Report dated June 29, 2007*
MST Purchase Agreement	8-k Current Report dated April 4, 2006*
ryomastor Merger Agreement	8-K Current Report dated April 19, 2006*
nage Labs Merger Agreement	8-K Current Report dated November 15, 2006*
l Temp Merger Agreement	8-K Current Report dated November 17, 2006*
ode of Ethics	December 31, 2003 10-KSB Annual Report*
ubsidiaries of the Company	December 31, 2006 10-KSB Annual Report*
onsent of HJ & Associates	This Filing
onsent of Mantyla McReynolds	This Filing
02 Certification of Kim Boyce	This Filing
02 Certification of David Strate	This Filing
06 Certifications	This Filing

with the Securities and Exchange Commission in the form indicated and incorporated by

bits Incorporated by Reference

eflect California Reorganization	8-K Current Report dated December 31, 2003
MST Acquisition	8-K Current Report dated April 4, 2006
ryomastor Reorganization	8-K Current Report dated June 27, 2006
nage Labs Merger Agreement Signing	8-K Current Report dated November 15, 2006
l Temp Merger Agreement Signing	8-K Current Report dated November 17, 2006
l Temp Merger Agreement Closing	8-KA Current Report dated November 17, 2006
nage Labs Merger Agreement Closing	8-KA Current Report dated November 15, 2006
ebenture Placement	8-K Current Reported dated

l and incorporated by reference.

al Accounting Fees and Services

a summary of the fees billed to us by our principal accountants during the fiscal years ended 07 and 2006:

		2007		2006
	$	15,307	$	66,668
s	$	0	$	0
	$	0	$	1,408
	$	0	$	274
	$	15,307	$	68,350

sists of fees for professional services rendered by our principal accountants for the audit of our tatements and review of the financial statements included in our Forms 10-QSB or services that vided by our principal accountants in connection with statutory and regulatory filings or

es - Consists of fees for assurance and related services by our principal accountants that are d to the performance of the audit or review of our financial statements and are not reported s.

sts of fees for professional services rendered by our principal accountants for tax compliance, planning.

Consists of fees for products and services provided by our principal accountants, other than the under Audit fees, Audit-related fees, and Tax fees above.

Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent

n Audit Committee; therefore, there is no Audit Committee policy in this regard. However, we al in advance of the performance of professional services to be provided to us by our principal tionally, all services rendered by our principal accountant are performed pursuant to a written between us and the principal accountant.

SIGNATURES

th Section 13 or 15(d) of the Securities Exchange Act, the Company caused this Report to be lf by the undersigned, thereunto duly authorized.

REFLECT SCIENTIFIC, INC.

2008	*By:*	*/s/Kim Boyce* *Kim Boyce, President and Director*
2008	*By:*	*/s/David Strate* *David Strate, Chief Financial Officer* *(Principal Accounting Officer*

h the Securities Exchange Act, this Report has been signed below by the following persons on pany and in the capacities and on the dates indicated:

REFLECT SCIENTIFIC, INC.

2008	*By:*	*/s/Kim Boyce* *Kim Boyce, President and Director*
2008	*By:*	*/s/Tom Tait* *Tom Tait, Vice President and Director*

2008 *By:* */s/Kevin Cooksy*

Kevin Cooksy, Secretary/Treasurer and Director

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

C O N T E N T S

olidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

s and Shareholders of

Inc. and Subsidiaries

the accompanying consolidated balance sheet of Reflect Scientific, Inc. and Subsidiaries as of 07, and the related consolidated statements of operations, stockholder s equity and cash flows for ded. These consolidated financial statements are the responsibility of the Company s r responsibility is to express an opinion on these consolidated financial statements based on our

ur audit in accordance with standards of the Public Company Accounting Oversight Board Those standards require that we plan and perform the audit to obtain reasonable assurance about olidated financial statements are free of material misstatement. The Company has determined ired to have, nor were we engaged to perform, an audit of its internal control over financial udit included consideration of internal control over financial reporting as a basis for designing that are appropriate in the circumstances, but not for the purposes of expressing an opinion on of the Company s internal controls over financial reporting. Accordingly, we express no such t includes examining, on a test basis, evidence supporting the amounts and disclosures in the ncial statements. An audit also includes assessing the accounting principles used and significant y management, as well as evaluating the overall consolidated financial statement presentation. our audit provides a reasonable basis for our opinion.

e consolidated financial statements referred to above present fairly, in all material respects, the ncial position of Reflect Scientific, Inc. and Subsidiaries as of December 31, 2007, and the erations and their cash flows for the year then ended in conformity with accounting principles d in the United States of America.

ynolds, LLC

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EPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

irectors of

Inc.

the accompanying consolidated statements of operations, stockholders equity and cash flows of , Inc. for the year ended December 31, 2006. These consolidated financial statements are the the Company s management. Our responsibility is to express an opinion on these consolidated ts based on our audit.

r audit in accordance with the standards of the Public Company Accounting Oversight Board hose standards require that we plan and perform the audit to obtain reasonable assurance about lidated financial statements are free of material misstatement. An audit includes examining, on nce supporting the amounts and disclosures in the consolidated financial statements. An audit ssing the accounting principles used and significant estimates made by management, as well as verall consolidated financial statement presentation. We believe that our audit provides a or our opinion.

e consolidated financial statements referred to above present fairly, in all material respects, the ts of operations and cash flows of Reflect Scientific, Inc. for the year ended December 31, 2006 United States generally accepted accounting principles.

s restated the consolidated financial statements for the year ended December 31, 2006 to correct s acquisition of certain intangible assets which is described in Note 11. The Company has also better describe its acquisition and valuation of a business. (December 31, 2006 10-KSB/A) s, LLC

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xcept for Notes 11 and 12 as to which the date is May 21, 2007

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Consolidated Balance Sheet

ASSETS

		December 31, 2007
ETS		
	$	1,154,162
ble, net (Note 2)		1,371,770
s		28,517
4)		727,970
		168,396
sets		3,450,815
NET (Note 3)		259,884
S		
net		5,849,036
ong-term		190,555
set		38,000
		29,945
ts		6,107,536
S	$	9,818,235

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

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Consolidated Balance Sheet (Continued)

LIABILITIES AND SHAREHOLDERS EQUITY

		December 31, 2007
BILITIES		
le	$	432,392
of credit		147,530
		53,565
s in excess		82,708
short term portion		20,016
es		179,778
yable		400
bilities		916,389
LIABILITIES		
enture (net of discount Note 11)		618,750
long-term portion		40,147
rent Liabilities		658,897
es		1,575,286
S AND CONTINGENCIES (Note 5)		
RS EQUITY		

0.01 per value, authorized 5,000,000 shares;		
d and outstanding		-
0.01 par value, authorized 50,000,000 shares;		
res issued and outstanding		341,006
in capital		16,512,094
cit		(8,610,151)
rs Equity		8,242,949
TIES AND SHAREHOLDERS EQUITY	$	9,818,235

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

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

		For the Year Ended December 31,	
		2007	2006
	$	8,020,266 $	2,572,955
)S SOLD		4,633,278	1,519,547
		3,386,988	1,053,408
(PENSES			
es		1,752,103	815,346
		243,871	62,906
pensation		3,353,557	-
nistrative expense		3,447,791	1,303,598
Expenses		8,797,322	2,181,850
COME (LOSS)		(5,410,334)	(1,128,442)
E (EXPENSE)			
lebt		-	(200,000)
		17,209	23,707
asset		-	(16,618)
		(1,405,494)	(25)
penses		(1,388,285)	(192,936)
) BEFORE INCOME TAX EXPENSE		(6,798,619)	(1,321,378)

se (benefit)		278,000		(342,748)
	$	(7,076,619)	$	(978,630)
LLY DILUTED INCOME(LOSS) PER SHARE	$	(0.21)	$	(0.03)
ERAGE NUMBER OF SHARES OUTSTANDING	$	34,328,678	$	28,432,024

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

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholder s Equity

	Preferred Stock		Common Stock				
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Stock Subscription	Accumulated Deficit
er 2005	10,000	$ 100	25,530,002	$255,300	$1,210,347	-	$(554,902)
sued for	-	-	400,000	4,000	316,000		-
sued er with	-		3,000,000	30,000	3,720,000		-
sued ciTech, stated)	-		200,000	2,000	158,000		-
sued for	-		1,073,500	10,735	1,062,765		-
sued for	-		415,000	4,150	390,100		-
sued for	-		53,675	537	51,528		-
sts	-		-	-	(52,065)		-
	-		-	-	-	257,251	-
	(10,000)	(100)	16,667	167	(67)	-	-
tal	-	-	-	-	123,127	-	-
ear 31, 2006	-		-	-	-		(978,630)

ber 31,	-	$ -	30,688,844	$306,889	$6,979,735	$257,251	$(1,533,532)
sued for	-	-	336,336	3,363	253,889	(257,251)	-
sued for sidiaries	-	-	2,525,000	25,250	2,604,000	-	-
sed for ement	-	-	500,000	5,000	485,000	-	-
sued for	-	-	168,001	1,680	119,320	-	-
sued for	-	-	431,235	4,312	441,214	-	-
sued for	-	-	370,067	3,701	273,849	-	-
al	-	-	-	-	51,416	-	-
rsion tible	-	-	-	-	860,971	-	-
n ture	-	-	-	-	2,114,954	-	-
eturned ment	-	-	(1,000,000)	(10,000)	(1,050,000)	-	-
of	-	-	42,593	426	(426)	-	-
n of ture	-	-	38,462	385	24,615	-	-
	-	-	-	-	3,353,557	-	-
ears 31, 2007	-	-	-	-	-	-	(7,076,619)
er 31,	-	$ -	$34,100,538	$341,006	$16,512,094	$ -	$(8,610,151)

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

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

ed

		2007		2006
	$	(7,076,619)	$	(978,630)
econcile net income to net cash				
rating activities:				
		46,336		11,238
		1,014,087		123,173
sued for services		445,526		446,315
or services		475,925		-
sset		-		16,618
		3,353,557		
ting assets and liabilities:				
unts receivable		(982,179)		(72,317)
r receivables		(27,349)		
ntory		(133,930)		(59,112)
ase in income tax receivable		24,780		(25,948)
ase in prepaid asset		144,901		(9,489)
erred tax asset		278,000		-
ase in other asset		(16,544)		(324,050)
lties payable		53,565		-
unts payable and accrued expenses		469,631		17,183
ed by Operating Activities		(1,930,313)		(855,019)
ROM INVESTING ACTIVITIES				
ed assets		(37,739)		(217,927)
ngible assets		(200,000)		(1,354,905)
Investing Activities		(237,739)		(1,572,832)
ROM FINANCING ACTIVITIES				
rm line of credit		129,177		18,353
ts on capital leases		(1,552)		61,706

ock subscription		277,550		257,251
mmon stock issuance		121,001		2,311,605
al		25,000		-
suance of debenture		2,500,000		-
ided by Financing Activities		3,051,176		2,648,915
(DECREASE) IN CASH		883,124		(221,064)
NNING OF PERIOD		271,038		492,102
OF PERIOD	$	1,154,162	$	271,038
L CASH FLOW INFORMATION:				
	$	-	$	25
	$	800	$	6,008
ANCING ACTIVITIES:				
sued for services	$	445,526	$	446,315

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

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

NOTE 1 -

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 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. The operations for the year ended December 31, 2007 and 2006 are those of Reflect Scientific, Inc.

Cryomastor, (renamed Cryometrix) was acquired in its entirety through a merger agreement on June 27, 2006 where Reflect Scientific issued 3,000,000 shares of common stock as well as $700,000 in cash to Cryomastor shareholders. In addition John Dain was paid $300,000 for the assignment of a key product patent to Reflect Scientific. The acquired assets will allow Reflect Scientific to manufacture and market cryogenic storage systems without significant investment in infrastructure.

All Temp Engineering was acquired in its entirety through a merger agreement on January 19, 2007 where Reflect Scientific issued 1,000,000 shares of common stock to All Temp Engineering shareholders. 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.

Image Labs International was acquired in its entirety through a merger agreement on March 6, 2007 where Reflect Scientific issued 525,000 shares of common stock as well as $200,000 in cash to Image Labs International shareholders.

NOTE 2 -

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Accounting Method

The Company s financial statements are prepared using the accrual method of accounting. The Company has elected a December 31 year-end.

b.

Revenue Recognition

The Company recognizes revenues as required by Staff Accounting Bulletin No. 104 Revenue Recognition . Revenue is only recognized on product sales once the product has been shipped to the customers., and all other obligations and criteria of SAB 104 have been met. These criteria are: Persuasive evidence of an agreement exists,.Delivery has occurred,.Price is fixed or determinable. Collectibility is reasonable assured.

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

NOTE 2 -

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

d. Cash and Cash Equivalents

The company considers all deposit accounts and investment accounts with a maturity of one year or less to be cash equivalents. As of December 31, 2007 and 2006 the company had no cash equivalents.

e. Accounts Receivable

The Company writes off trade receivables when deemed uncollectible. The Company estimates allowance for doubtful accounts based on the aged receivable balances and historical losses. The Company charges off uncollectible accounts when management determines no there is no possibility of collecting the related receivable.The Company considers accounts receivable to be past due or delinquent based on contractual terms, which is generally net 30 days.

The Company charged $82,344 and $0 to bad debt expense for the years ended December 31, 2007 and 2006, respectively. The allowance for doubtful accounts balance at December 31, 2007 was $80,161.

f. Fixed Assets

Fixed assets are stated at cost. Expenditure for minor repairs, maintenance, and replacement parts which do not increase the useful lives of the assets are charged to expense as incurred. All major additions and improvements are capitalized. Depreciation is computed using the straight-line method. The lives over which the fixed assets are depreciated range from 5 to 7 years.

g. Inventory

Inventories are stated at the lower of cost or market value based upon the First-In First-Out (FIFO) inventory method. The Company s inventory consists of parts for scientific vial kits, refrigerant gases and other scientific items.

h. Advertising Expense

The Company follows the policy of charging the costs of advertising to expense as incurred. The Company recognized $42,654 and $8,928 of advertising expense during the years ended December 31, 2007, and 2006, respectively.

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

i. Newly Issued Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, SFAS No. 159 specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. We do not anticipate a material impact upon adoption of SFAS No. 159.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. SFAS No. 141(R) changes the accounting for and reporting of business combination transactions in the following way: Recognition with certain exceptions, of 100% of the fair values of assets acquired, liabilities assumed, and non controlling interests of acquired businesses; measurement of all acquirer shares issued in consideration for a business combination at fair value on the acquisition date; recognition of contingent consideration arrangements at their acquisition date fair values, with subsequent changes in fair value generally reflected in earnings; recognition of pre-acquisition gain and loss contingencies at their acquisition date fair value; capitalization of in-process research and development (IPR&D) assets acquired at acquisition date fair value; recognition of acquisition-related transaction costs as expense when incurred; recognition of acquisition-related restructuring cost accruals in acquisition accounting only if the criteria in Statement No. 146 are met as of the acquisition date; and recognition of changes in the acquirer s income tax valuation allowance resulting from the business combination separately from the business combination as adjustments to income tax expense. SFAS No. 141(R) is effective for the first annual reporting period beginning on or after December 15, 2008 with earlier adoption prohibited. The adoption of SFAS No. 141(R) will affect valuation of business acquisitions made in 2009 and forward.

In December 2007, the FASB issued SFAS No. 160 "Noncontrolling Interest in Consolidated Financial Statements an Amendment of ARB 51" (SFAS 160). SFAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. It also requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest, and requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SAFS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We do not anticipate a material impact upon adoption.

In March 2008, the FSAB issued FASS No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We do not anticipate a material impact upon adoption.

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

NOTE 2 -

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j.Basic Earnings Per Share

The computation of earnings per share of common stock are based on the weighted average number of shares outstanding during the period of the consolidated financial statements as follows:

		For the Years Ended December 31, 2007		2006
Net loss (numerator)	$	(7,076,619)	$	(978,630)
Shares (denominator)		34,328,678		28,432,024
Net loss per share amount	$	(0.21)	$	(0.03)

As of December 31, 2007 the Company had 9,151,895 shares of outstanding common stock equivalents, however the company experienced a net loss during the year. The net loss would make the common stock equivalents anti-dilutive and as such the diluted earnings per share will not be calculated.

k.

Shipping and Handling Fees and Costs

The Company records all shipping and handling cost in cost of goods sold.

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

NOTE 2 -

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The provision (benefit) for income taxes for the year ended December 31, 2007 and 2006 consist of the following:

	2007	2006
Federal:		
Current	$ -	$ (291,336)
Deferred	235,493	
State:		
Current	950	100
Deferred	41,557	(51,512)
	$ 278,000	$ (342,748)

Net deferred tax assets consist of the following components as of December 31, 2007 and 2006:

		2007		2006
Deferred tax assets:				
NOL Carryover	$	808,420	$	315,993
Deferred tax assets from 2006		315,993		
Deferred tax liabilities:				
Depreciation		-		-
Valuation allowance		(1,086,413)		
Net deferred tax asset (liability)	$	38,000	$	315,993

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and state income tax rates of 34% to pretax income from continuing operations for the year ended December 31, 2006 and 2006 due to the following.

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

NOTE 2 -

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j.

Income Taxes (Continued)

	2007	2006
Expected Tax Expense	$ (2,312,979)	$ (451,284)
Meals & Entertainment	523	1,398
Stock for Services	1,504,188	134,045
Depreciation	(152)	(152)
Income Tax	-	-
	(808,420)	(315,993)

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carryforwards for Federal income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, net operating loss carryforwards may be limited as to use in future years. At December 31, 2006, the Company had net operating loss carryforwards of approximately $929,400 that may be offset against future taxable income from the year 2006 through 2026. During 2007 the company reevaluated its deferred tax assets and concluded that the asset should be limited to the amount of the asset that is available for NOL carryback. The valuation allowance was increased and leaves the company with a deferred tax asset of $38,000 as of December 31, 2007.

Prior to the reverse acquisition of Reflect by Cole, Inc. the Company was a subchapter S corporation. All income and expenses were passed through to the Company s shareholder, therefore no tax liabilities existed at December 31, 2003.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. As a result of the implementation of Interpretation 48, the Company recognized no increase in the liability for unrecognized tax benefits.

Included in the balance at December 31, 2007, are no tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

m. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, which include Cryometrix (previously Cryomastor), All Temp Engineering and Image Labs International. All subsidiaries are wholly owned. All material intercompany accounts and transactions are eliminated in consolidation.

n Research and development expense

The Company accounts for research and development costs in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 2 ("SFAS 2"), "Accounting for Research and Development Costs". Under SFAS 2, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and developments costs are expensed when the contracted work has been performed or as milestone results have been achieved. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. The Company had $198,396 and $13,261 in research and product development for the years ended December 31, 2007 and 2006, respectively.

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

NOTE 3 -

FIXED ASSETS

Fixed assets are stated at cost. Expenditure for minor repairs, maintenance, and replacement parts which do not increase the useful lives of the assets are charged to expense as incurred. All major additions and improvements are capitalized. Depreciation is computed using the straight-line method. The lives over which the fixed assets are depreciated range from 5 to 7 years. Fixed assets and related depreciation for the period are as follows:

		December 31,
		2007
Machinery and equipment	$	169,826
Furniture and fixtures		50,608
Computer and office equipment		32,103
Vehicles		34,325
Leasehold improvements		33,799
Accumulated depreciation		(60,777)
Total Fixed Assets	$	259,884

Depreciation expense for the years ended December 31, 2007, and 2006, was $46,336 and $11,238, respectively.

NOTE 4 -

INVENTORIES

Inventory consisted of the following at December 31, 2007:

Finished goods	$	727,970
Total Inventory	$	727,970

NOTE 5-

COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company leases its office and warehouse space under non-cancelable lease agreements accounted for as operating leases. The Company also leases several automobiles under similar non-cancelable lease agreements, which are also accounted for as operating leases.

Minimum rental payments under the non-cancelable operating leases are as follows:

Years ending December 31,		Amount
2008	$	244,465
2009		205,272
2010		45,702
2011		-
2012		-
	$	495,439

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REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

NOTE 5-

COMMITMENTS AND CONTINGENCIES (continued)

Operating Lease Obligations (continued)

Rent expense was $243,871 and $62,906 for the years ended December 31, 2007, and 2006, respectively.

Automobile lease expense was $11,097 and $10,673 for the years ended December 31, 2007, and 2006, respectively.

NOTE 6-

CAPITAL LEASES

During the year ended 2006, the Company entered into two capital lease arrangements for the purchase of equipment. Payments are due in 60 and 36 monthly installments of $920 and $1,101. The leases have a stated interest rate of 8.3%

Aggregate maturities on the capital leases as of December 31, 2007, are due in future years as follows:

2008	$ 19,936
2009	21,655
2010	10,400
2011	8,172
2012	-
	60,163

Less current portion		20,016
	$	40,147

Depreciation expense on equipment under capital leases was $12,655 and $ - for the years ended December 31, 2007 and 2006, respectively.

NOTE 7 -

PREFERRED STOCK

In November 2004 the Company amended its Articles of Incorporation so as to authorize 5,000,000 shares of preferred stock. 750,000 of these shares have been designated as Series A Convertible Preferred Stock . During the year ended December 31, 2006 theses shares were offered in a private placement. As of December 31, 2007 no shares of the preferred stock are issued and outstanding.

Dividends

The holders of the Series A Preferred Stock are entitled to dividends at the rate of 8 percent per year of the liquidation preference of $1.00 per share, payable annually, if and when declared by the board of directors. Dividends are not cumulative and the board of directors are under no obligation to declare dividends.

Convertibility

Upon the approval of the Board of Directors, Series A Preferred Stock may be convertible into the Company s common stock by dividing $1.00 plus any unpaid dividends by 50% of the five day average closing bid price of the common shares.

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

NOTE 7 -

PREFERRED STOCK (continued)

Convertibility (continued)

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

In November, 2005 690,000 shares of Preferred Stock were converted into 1,150,002 shares of Common Stock at $0.60 per share.

During 2006, the remaining 10,000 shares of Preferred Stock were converted into 16,667 shares of Common stock.

NOTE 8 -

COMMON STOCK TRANSACTIONS

During the year ended December 31, 2007, the Company issued 336,336 shares of commom stock for a stock subscription; 431,235 shares of common stock for services valued at $445,526; 168,001 shares issued for cash of $145,661; 1,000,000 shares issued pursuant to the merger with All Temp valued at $1,060,000; 525,000 shares issued pursuant to the purchase of Image Labs International valued at $509,250; and 500,000 shares to a key employee in return for a 3 year employment contract, valued at $490,000; 42,593 shares issued for the cashless exercise of warrants; and 38,462 shares were issued for the conversion $25,000 of debt.

NOTE 9 -

CONCENTRATIONS OF RISK

Cash in Excess of Federally Insured Amount

The Company currently maintains a cash balance at a single financial institution in excess of the federally insured maximum of $100,000.

Revenues and Accounts Receivable

For the year ended December 31, 2007 the Company had two significant customers that account for $1,749,794 or 22% of sales. These same two customers also account for $240,032 or 17% of the total accounts receivable balance at December 31, 2007,

For the year ended December 31, 2006 the Company had three significant customers that account for $2,045,506 or 80% of sales. These same three customers also account for $295,120 or 76% of the total accounts receivable balance at December 31, 2006..

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

NOTE 10 - ACQUISITIONS

Effective April 19, 2006, the Company entered into a merger agreement with Cryomastor Inc. As part of this agreement, the Company received assets valued at the following:

Patents	$	3,081,777
Customer lists		480,000
Goodwill		888,223
	$	4,450,000

The patents and customer lists are amortized over a range of 9-20 years. Amortization expense for the year ended December 31, 2006 was $100,472.

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 paid 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.

As part of the execution and delivery of the Merger Agreement, the Company offered a minimum of 1,000,000 shares of common stock at $1 per share to accredited investors. To date the Company has sold 1,073,500 shares.

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

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

NOTE 10 - ACQUISITIONS (continued)

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.

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	$	262.875
Trademarks		65,719
Customer lists		592,127
Customer assets		139,279
	$	1,060,000

The assets are amortized over a range of 9-10 years. As consideration for these assets, the Company issued 1,000,000 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.

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 December 31, 2006	All Temp As of December 31, 2006	Combined Historical Reflect & All Temp	Pro Forma Adjustments	Pro Forma Combined Reflect & All Temp December 31, 2006	
ASSETS						
Current Assets:						
Cash	$ 271,038	$ -	$ 271,038	$ -	$ 271,038	(1)
Notes 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	
Prepaid assets	13,852	8,189	22,041	-	22,041	
Total Current Assets	1,039,277	364,846	1,404,123		1,404,123	
Fixed Assets, (net)	211,021	4,595	215,616	-	215,616	
Other Assets:						
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	
TOTAL ASSETS	$ 6,342,473	$ 450,454	$ 6,792,927	$ 2,619,372	$ 9,412,299	

	Reflect As of December 31, 2006	All Temp As of December 31, 2006	Combined Historical Reflect & All Temp	Pro Forma Adjustments	Pro Forma Combined Reflect & All Temp December 31, 2006	
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
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)
				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 As of December 31, 2006	All Temp as of December 31, 2006	Combined Historical Reflect & All Temp	Pro Forma Adjustment	Pro Forma Combined Reflect & All Temp December 31, 2006
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
General & Administrative	1,303,598	506,293	1,809,891	-	1,809,891
Income (loss) from operations	(1,128,442)	(434,953)	(1,563,395)	-	(1,563,395)
Other income (expense)	(192,911)	(101,281)	(294,192)	-	(294,192)
Interest expense	25	34,961	34,986	-	34,986
Total other income (expense)	(192,936)	(136,242)	(329,178)	-	(329,178)
Income tax expense (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 shares Outstanding	28,432,024				

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		125,000
	$	639,250

The assets are amortized over a range of 9-10 years. 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 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.

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 December 31, 2006		Image Labs As of December 31, 2006		Combined Historical Reflect & Image Labs		Pro Forma Adjustments		Pro Forma Combined Reflect & Image Labs December 31, 2006	
ASSETS										
Current Assets:										
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	
Prepaid 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 Assets, (net)		211,021		30,798		241,819		-		241,819	
Other 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 (net)		4,736,827		-		4,736,827		-		4,736,827	(1)
Total Other Assets		5,092,175		2,251		5,094,426		-		5,094,426	
TOTAL ASSETS	$	6,342,473	$	1,373,098	$	7,715,571	$	(164,981)	$	7,550,590	

	Reflect As of December 31, 2006		Image Labs As of December 31, 2006		Combined Historical Reflect & Image Labs		Pro Forma Adjustments		Pro Forma Combined Reflect & Image Labs December 31, 2006
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)									
Current Liabilities:									
Short term loan	$	18,353	$	-	$	18,353	$	-	$	18,353
Cash overdraft		-		56,589		56,589		-		56,589
Accounts payable		225,721		199,817		425,538		-		425,538
Accrued liabilities		25,949		22,485		48,434		-		48,434
Income taxes payable		400		-		400		-		400
Total Current Liabilities		270,423		278,891		549,314				549,314
Non-current liabilities:									
Notes payable		61,706		-		61,706		-		61,706
Contract billing in excess		-		419,976		419,976				419,976
Total non-current Liabilities		61,706		419,976		481,682		-		481,682
Total Liabilities	$	332,129	$	698,867	$	1,030,996	$	-	$	1,030,996

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 As of December 31, 2006	All Temp as of December 31, 2006	Combined Historical Reflect & All Temp	Pro Forma Adjustment	Pro Forma Combined Reflect & All Temp December 31, 2006
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
General & Administrative	1,303,598	415,342	1,718,940	-	1,718,940
Income (loss) from operations	(1,128,442)	412,366	(716,076)	-	(716,076)
Other income (expense)	(192,911)	(20,979)	(213,890)	-	(213,890)
Interest expense	(25)	(12,037)	(12,062)	-	(12,062)
Total other income (expense)	(192,936)	(33,016)	(225,952)	-	(225,952)
Income tax expense (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	(37.90)		(0.02)
Weighted average shares Outstanding	28,432,024	10,000	28,442,024	-	28,442,024

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

NOTE 11 CONVERTIBLE DEBENTURES AND WARRANTS

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

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

The agreement also provides for the issuance of 1,923,077 A warrants and 1,923,077 B warrants. The warrants are exercisable at a price of $0.80 per share for the A warrant and $1.00 per share for the B warrant and expire June 29, 2012. The Company valued the warrants using the Black-Scholes option pricing model. For the purpose of the valuation of the warrants, the Company calculated a volatility of 66.48% on its common stock and used the U. S. Treasury bill rate of 4.94% for its risk free rate. Then the Company allocated a portion of the proceeds to the warrants, based on the relative fair value basis, in the amount of $1,639,029 which is recognized as a contra liability account and will be amortized as interest expense over the 2 year term of the agreement. The intrinsic value of beneficial conversion of the debentures was valued at $5,677,491, which exceeds the effective value of the debentures of $860,971. Therefore, the discount assigned to the beneficial conversion feature is limited to $860,971 and is recognized as a contra liability account and will be amortized as interest expense over the 2 year term of the agreement.

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

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

A summary of the status of the Company s outstanding stock warrants as of December 31, 2007 and changes during the period then ended is presented below:

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

NOTE 11 CONVERTIBLE DEBENTURES AND WARRANTS (continued)

	2007		
	Shares		Weighted Average Exercise Price
Outstanding, beginning of year	-	$	-
Granted	4,230,770		.90
Expired/Cancelled	-		-
Exercised	78,875		.80
Outstanding end of year	4,151,895	$	.90
Exercisable	4,151,895	$	.90

		Outstanding		Exercisable
Range of Exercise Prices		Number outstanding at December 31, 2007	Weighted Average Remaining Contractual Life	Number Exercisable at December 31,2007
$	0.80	2,036,510	4.50	2,036,510
	1.00	2,115,385	4.50	2,115,385
		4,151,895		4,151,895

NOTE 12 COMMON STOCK OPTIONS

On December 31, 2007, the Company s board of directors approved an equity plan. The equity plan known as the 2007 Equity Incentive Plan (the Plan) reserves up to 6,000,000 shares of the Company s authorized common stock for issuance to officers, directors, employees and consultants under the terms of the Plan. The Plan permits the board of directors to issue stock options and restricted stock.

The fair value of each option granted under the Plan is estimated on the date of grant, using the Black-Scholes option pricing model, based on the following weighted average assumptions:

	12/31/2007
Expected life (years)	5.0
Expected stock price volatility	66.27 %
Expected dividend yield	0.0 %
Risk-free interest rate	3.38 %

The risk-free interest rate is based upon the U.S. Treasury yield curve at the time of grant for the respective expected life of the option. The expected life (estimated period of time outstanding) of options was estimated. The expected volatility of the Company s options was calculated using historical data. Expected dividend yield was not considered in the option pricing formula since the Company does not pay dividends and has no current plans to do so in the future. If actual periods of time outstanding and rate of forfeitures differs from the expected rates, the Company may be required to make additional adjustments to compensation expense in future periods.

The Company issued options to key directors on December 31, 2007. A summary of the status of the Company s outstanding stock options as of December 31, 2007 and changes during the period then ended is presented below:

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

NOTE 12 COMMON STOCK OPTIONS (continued)

	2007		
	Shares		Weighted Average Exercise Price
Outstanding, beginning of year	-	$	-
Granted	5,000,000		1.32
Expired/Cancelled	-		-
Exercised	-		-
Outstanding end of year	5,000,000	$	1.32
Exercisable	5,000,000	$	1.32

		Outstanding		Exercisable
Range of Exercise Prices		Number outstanding at December 31, 2007	Weighted Average Remaining Contractual Life	Number Exercisable at December 31,2007
$	1.32	4,800,000	5.00	4,800,000
	1.20	200,000	5.00	200,000
		5,000,000		5,000,000

The total fair value of options vested was $3,353,557 for the year ended December 31, 2007. As of December 31, 2007, there was no unrecognized compensation cost related to non-vested stock options granted under the Plan.

NOTE 13 INTANGIBLE ASSETS

Intangible assets are stated at cost. Amortization computed using the straight-line method. The lives over which the intangible assets are amortized range from 10 to 20 years. Intangible assets and related amortization for the period are as follows:

	Cost	Accumulated Amortization	Net Book Value
Trademarks	$ 135,719	$ 11,858	$ 123,861
Trade Secrets	437,875	38,680	399,195
Patents	3,516,177	319,771	3,196,406
Customer lists	1,326,977	145,626	1,181,351
Goodwill	948,223	0	948,223
Totals	$ 6,364,971	$ 515,935	$ 5,849,036

Amortization expense for the years ended December 31, 2007, and 2006, was $370,337 and $123,173, respectively.

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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Note 14 Change in Accounting Estimate

During 2008 management assessed its estimates of the useful lives of the customer lists it acquired in 2006. Based on this assessment management has revised the useful lives of these assets from 20 to 10 years. The effects of this change in accounting estimate have been reflected in the company s 2007 financial statements and are as follows:

Decrease in

Operating income

$33,694

Earnings per share

$ 0.00

NOTE 14 SUBSEQUENT EVENTS.

Subsequent to December 31, 2007, the Company issued 94,615 shares of its common stock. The shares were issued as a partial conversion of our debenture. $61,500 of the debenture was converted at $0.65 per share.

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