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REFLECT SCIENTIFIC INC
Form 10QSB
May 11, 2005

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, 2005

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
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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:

April 30, 2005

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24,000,000

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, 2004 and December 31, 2003

REFLECT SCIENTIFIC, INC.
Consolidated Balance Sheets

ASSETS

	March 31, 2005 (Unaudited)	December 31, 2004
CURRENT ASSETS		
Cash	\$ 496,674	\$ 80,739
Accounts receivable, net	281,353	281,173
Inventory, net	269,119	260,012
Prepaid expenses	800	800
	-----	-----
Total Current Assets	1,047,946	622,724
	-----	-----
FIXED ASSETS (NET)	23,423	24,249
	-----	-----
OTHER ASSETS		
Deposits	5,350	5,350
Capitalized loan costs, net	5,250	5,600
	-----	-----
Total Other Assets	10,600	10,950
	-----	-----
TOTAL ASSETS	\$ 1,081,969	\$ 657,923
	=====	=====

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, 2005	December 31, 2004
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(Unaudited)

CURRENT LIABILITIES

Accounts payable	\$ 149,745	\$ 131,610
Accrued expenses	3,456	23,955
Income taxes payable	30,705	30,705
	-----	-----
Total Current Liabilities	183,906	186,270
	-----	-----

NON-CURRENT LIABILITIES

Long term line of credit	269,011	269,036
Deferred income taxes	39,000	39,000
	-----	-----
Total Non-Current Liabilities	308,011	308,036
	-----	-----
Total Liabilities	491,917	494,306
	-----	-----

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY

Preferred stock, \$0.01 par value, authorized 5,000,000 shares, 436,000 shares issued and outstanding	4,360	-
Common stock, \$0.01 par value, authorized 50,000,000 shares; 24,000,000 shares issued and outstanding	240,000	240,000
Additional paid-in capital (deficit)	248,321	(183,319)
Retained earnings	97,372	106,936
	-----	-----
Total Shareholders' Equity	590,052	163,617
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,081,969	\$ 657,923
	=====	=====

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,	
	2005	2004
REVENUES	\$ 507,392	\$ 500,051
COST OF GOODS SOLD	311,107	311,123
	-----	-----
GROSS PROFIT	196,285	188,928
	-----	-----
OPERATING EXPENSES		
Salaries and wages	70,108	89,334
Payroll taxes	7,498	8,792
Rent expense	18,859	19,059
General and administrative expense	109,384	70,530

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Total Operating Expenses	201,735	187,715
OPERATING INCOME (LOSS)	(5,450)	1,213
OTHER INCOME (EXPENSE)		
Miscellaneous expenses	-	(301)
Interest expense	(4,114)	(2,856)
Total Other Expenses	(4,114)	(3,157)
NET LOSS	\$ (9,564)	\$ (1,944)
Preferred distribution, dividends	(147,313)	-
NET LOSS PER SHARE APPLICABLE TO COMMON SHAREHOLDERS	\$ (156,877)	\$ (1,944)
EARNINGS PER SHARE	\$ (0.01)	\$ (0.00)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	24,000,000	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 Shareholders' Equity

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid-in Capital	Retained Earnings
Net income for the year ended December 31, 2002	-	-	-	-	-	141,018
Balance, December 31, 2002	22,914,949	10,000	-	-	-	161,637
Dividend	-	-	-	-	-	(156,000)
Contributed Capital	-	-	-	-	26,950	-
Recapitalization (Note 2)	1,085,051	230,000	-	-	(237,791)	-
Net income for the year ended December 31, 2003	-	-	-	-	-	58,672
Balance, December 31, 2003	24,000,000	240,000	-	-	(210,841)	64,309
Contributed capital (unaudited)	-	-	-	-	27,522	-
Net income for the year ended December						

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31, 2004	-	-	-	-	-	42,627
Balance,						
December 31, 2004	24,000,000	\$240,000	-	\$ -	\$ (183,319)	\$ 106,936
Preferred stock issued for cash	-	-	436,000	4,360	431,640	-
Net income for the three months ended March 31, 2005 (unaudited)	-	-	-	-	-	(9,564)
Balances, March 31, 2005 (unaudited)	24,000,000	\$240,000	436,000	\$4,360	\$ 248,321	\$ 97,372
	=====	=====	=====	=====	=====	=====

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,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (9,564)	\$ (1,944)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	826	492
Amortization of capitalized loan costs	350	175
Changes in operating assets and liabilities:		
Increase in accounts receivable	(181)	(50,554)
Increase decrease in inventory	(9,107)	(28,928)
Decrease in accounts payable and accrued expenses	(2,364)	(23,862)
	-----	-----
Net Cash Used by Operating Activities	(20,040)	(104,621)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	-	-
	-----	-----
Net Cash Used by Investing Activities	-	-
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on short term lines of credit	-	-
Change in long term line of credit	(25)	(25)
Contributed capital	-	22,522
Proceeds from stock issuance	436,000	-
	-----	-----

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	Net Cash Provided (Used) by Financing Activities	435,975	22,497
		-----	-----
NET INCREASE (DECREASE) IN CASH		415,935	(82,124)
CASH AT BEGINNING OF PERIOD		80,739	99,924
		-----	-----
CASH AT END OF PERIOD		\$ 496,674	\$ 17,800
		=====	=====

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Cash Paid For:

Interest	\$ 4,119	\$ 1,879
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, 2005 and December 31, 2004

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, 2004 financial statements. Operating results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

NOTE 2 - ACQUISITION OF REFLECT SCIENTIFIC

On December 30, 2003, pursuant to an agreement and plan of reorganization, the Company completed a reverse merger with the shareholder of Reflect Scientific, Inc. in which it acquired 100% of Reflect Scientific, Inc., a California Company in exchange for 22,914,949 common shares of the Company. The terms of the acquisition are detailed in an 8-K filing dated December 31, 2003. Under the terms of the agreement, the President of Reflect Scientific, Inc. became the President of the Company and was elected to the Board of Directors, the acquisition was accounted for as a recapitalization of Reflect Scientific, Inc. because the members of Reflect Scientific, Inc. controlled the Company after the acquisition. Reflect Scientific, Inc.

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was treated as the acquiring entity for accounting purposes and Cole, Inc. was the surviving entity for legal purposes. There was no adjustment to the carrying values of the assets or liabilities of Reflect Scientific, Inc. and no goodwill was recorded.

NOTE 3 EQUITY TRANSACTIONS

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.

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

NOTE 3 EQUITY TRANSACTIONS (continued)

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.

During the year the Company sold 436,000 shares of Series A Convertible Preferred Stock in exchange for proceeds of \$436,000. 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 \$436,000. 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 affect 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. The Company projects that the preferred shareholders should be able to convert by June 30, 2005.

NOTE 4 - SUBSEQUENT EVENT

In May of 2005 the Board of Directors authorized the issuance of 380,000 shares of the Company's common stock to certain officers, directors and staff of the Company for services rendered.

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

Results of Operations.

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Our revenues increased during the quarter ended March 31, 2005, to \$507,392, from \$500,051 for the quarter ended March 31, 2004, primarily as a result of a general improvement in sales across several product lines and improving market conditions.

Our cost of goods decreased slightly in the period ending March 31, 2005, as compared to March 31, 2004, to \$311,107 from \$311,123.

General and administrative expenses increased to \$109,384 during the quarter ended March 31, 2005, from \$70,530 during the quarter ended March 31, 2004. This increase was due to the addition of one full-time employee, increased payroll and increased operational expenses, like legal and accounting fees.

Liquidity and Capital Resources.

Our cash resources at March 31, 2005, were \$496,674, with accounts receivable of \$281,353. We have relied on revenues and lines of credit for our cash resources. At March 31, 2005, we had utilized \$269,011 of our \$400,000 line of credit. 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 its 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 effective in timely alerting them to material information required to be included in our periodic Securities and Exchange Commission reports. 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.

2004 Convertible Preferred Stock.

During the quarter ended March 31, 2005, we sold 436,000 shares of our 2004 Series A Convertible Preferred Stock at an offering price of \$1.00 per share to 22 persons who were "accredited investors" as that term is defined in Regulation D of the Securities and Exchange Commission.

We issued all of these securities to persons who were either "accredited investors," or "sophisticated investors" who, by reason of education, business acumen, experience or other factors, were fully capable of evaluating the risks and merits of an investment in our company; and each had prior access to all material information about us. We believe that the offer and sale of these securities were exempt from the registration requirements of the Securities Act, pursuant to Sections 4(2) and 4(6) thereof, and Rule 506 of Regulation D of the Securities and Exchange Commission and from various similar state exemptions. See Note 3 of our consolidated financial statements that accompany this Quarterly Report, in Part I, Item 1, above.

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.

None; not applicable.

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Item 6. Exhibits.

Exhibits.

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

SIGNATURES

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

REFLECT SCIENTIFIC, INC.

Date: 5/11/05

/s/Kim Boyce

Kim Boyce, President

Date: 5/11/05

/s/Tom Tait

Tom Tait, Vice President

Date: 5/11/05

/s/Kevin Cooksy

Kevin Cooksy, Secretary/Treasurer