

Edgar Filing: REFLECT SCIENTIFIC INC - Form 10QSB

REFLECT SCIENTIFIC INC
Form 10QSB
August 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 June 30, 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:

June 30, 2005

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24,380,000

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

June 30, 2005 and December 31, 2004

REFLECT SCIENTIFIC, INC.
Consolidated Balance Sheets

ASSETS

	June 30, 2005 (Unaudited)	December 31, 2004
CURRENT ASSETS		
Cash	\$ 691,192	\$ 80,739
Accounts receivable, net	347,291	281,173
Inventory, net	300,956	260,012
Prepaid expenses	800	800
	-----	-----
Total Current Assets	1,340,239	622,724
	-----	-----
FIXED ASSETS (NET)	22,599	24,249
	-----	-----
OTHER ASSETS		
Deposits	5,350	5,350
Capitalized loan costs, net	5,075	5,600
	-----	-----
Total Other Assets	10,425	10,950
	-----	-----
TOTAL ASSETS	\$ 1,373,263 =====	\$ 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

	June 30, 2005 (Unaudited)	December 31, 2004
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CURRENT LIABILITIES

Accounts payable	\$ 157,694	\$ 131,610
Accrued expenses	15,357	23,955
Income taxes payable	30,705	30,705
	-----	-----
Total Current Liabilities	203,756	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	511,767	494,306
	-----	-----

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY

Preferred stock, \$0.01 par value, authorized 5,000,000 shares, 700,000 shares issued and outstanding	7,000	-
Common stock, \$0.01 par value, authorized 50,000,000 shares; 24,380,000 shares issued and outstanding	243,800	240,000
Additional paid-in capital (deficit)	514,937	(183,319)
Retained earnings	95,759	106,936
	-----	-----
Total Shareholders' Equity	861,496	163,617
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,373,263	\$ 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		For the Six Months Ended	
	2005	2004	2005	2004
REVENUES	\$ 547,349	\$ 581,656	\$ 1,054,741	\$1,081,707
COST OF GOODS SOLD	282,735	332,912	593,842	644,035
	-----	-----	-----	-----
GROSS PROFIT	264,614	248,744	460,899	437,672
	-----	-----	-----	-----
OPERATING EXPENSES				
Salaries and wages	91,239	86,848	161,347	176,182
Payroll taxes	6,115	6,639	13,613	15,431
Rent expense	19,448	18,999	38,307	38,058
General and administrative expense	145,160	67,638	250,430	138,168

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Total Operating Expenses	261,962	180,124	463,697	367,839
OPERATING INCOME	2,652	68,620	(2,798)	69,833
OTHER INCOME (EXPENSE)				
Sundry income	-	5,000	-	5,000
Miscellaneous income (expense)	-	-	-	(301)
Interest expense	(4,264)	(2,851)	(8,378)	(5,707)
Total Other Income (Expense)	(4,264)	2,149	(8,378)	(1,008)
NET INCOME BEFORE INCOME TAX	(1,612)	70,769	(11,176)	68,825
INCOME TAX EXPENSE	-	13,200	-	13,200
NET INCOME	\$ (1,612)	\$ 57,569	\$ (11,176)	\$ 55,625
Preferred distribution, dividends	(444,633)	-	(591,946)	-
NET LOSS PER SHARE APPLICABLE TO COMMON SHAREHOLDERS	\$ (446,245)	\$ 57,569	\$ (603,122)	\$ 55,625
EARNINGS PER SHARE	\$ (0.02)	\$ 0.00	\$ (0.03)	\$ 0.00
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	24,229,670	24,000,000	24,115,470	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		Preferred Stock		Additional	Retained
	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings
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	-	-	-	-	27,522	-

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Net income for the year ended December 31, 2004	-	-	-	-	-	42,627
Balance, December 31, 2004	24,000,000	240,000	-	-	(183,319)	106,936
Preferred stock issued for cash (unaudited)	-	- 436,000	4,360	431,640	-	-
Preferred stock issued for cash (unaudited)	-	- 264,000	2,640	261,360	-	-
Common stock issued for services (unaudited)	380,000	3,800	-	-	5,256	-
Net income for the six months ended June 30, 2005 (unaudited)	-	-	-	-	-	(11,176)
Balances, June 30, 2005 (unaudited)	24,380,000	\$243,800	700,000	\$7,000	\$ 514,937	\$ 95,760

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

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

	For the Six Months Ended June 30,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (11,176)	\$ 55,625
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,650	350
Amortization of capitalized loan costs	525	1,085
Common stock issued for services	9,056	-
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(66,118)	(136,947)
(Increase) decrease in inventory	(40,944)	17,305
(Increase) decrease in accounts payable and accrued expenses	17,485	(15,959)
Increase in income taxes payable	-	13,200
Net Cash Used by Operating Activities	(89,522)	(65,341)

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CASH FLOWS FROM INVESTING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES

Change in long term line of credit	(25)	(25)
Contributed capital	-	22,522
Proceeds from stock issuance	700,000	-
	-----	-----
Net Cash (Used) Provided by Financing Activities	699,975	22,497
	-----	-----
NET INCREASE (DECREASE) IN CASH	610,453	(42,844)
CASH AT BEGINNING OF PERIOD	80,739	99,924
	-----	-----
CASH AT END OF PERIOD	\$ 691,192	\$ 57,080
	=====	=====

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Cash Paid For:

Interest	\$ 8,378	\$ 4,729
Income taxes	\$ -	\$ -

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

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REFLECT SCIENTIFIC, INC.
Notes to the Consolidated Financial Statements
June 30, 2005 and December 31, 2004

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed financial statements have been prepared by the Company pursuant to accounting principles generally accepted in the United States of America. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in accordance with such rules and regulations. The information furnished in the interim condensed financial statements include normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although management believes the disclosures and information presented are adequate to make the information not misleading, it is suggested that these interim condensed financial statements be read in conjunction with the Company's most recent audited financial statements and notes thereto included in its December 31, 2004 financial statements. Operating results for the six months ended June 30, 2005 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

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are detailed in an 8-K filing dated December 31, 2003. Under the terms of the agreement, the President of Reflect Scientific, Inc. became the President of the Company and was elected to the Board of Directors, the acquisition was accounted for as a recapitalization of Reflect Scientific, Inc. because the members of Reflect Scientific, Inc. controlled the Company after the acquisition. Reflect Scientific, Inc. was treated as the acquiring entity for accounting purposes and Cole, Inc. was the surviving entity for legal purposes. There was no adjustment to the carrying values of the assets or liabilities of Reflect Scientific, Inc. and no goodwill was recorded.

NOTE 3 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.

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 quarterly period, the Company sold 264,000 shares of Series A Convertible Preferred Stock in exchange for proceeds of \$264,000, bringing sales of the Series A Convertible Preferred Stock for the six month period ended June 30, 2004, to 700,000 shares for aggregate gross 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 affect of zero in that account and is therefore not presented on the statement of shareholders' equity as a separate item. This

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REFLECT SCIENTIFIC, INC.
Notes to the Consolidated Financial Statements
June 30, 2005 and December 31, 2004

NOTE 3 EQUITY TRANSACTIONS (continued)

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. This conversion date has been determined to be July 19, 2005.

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

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Results of Operations.

Our revenues decreased during the quarter ended June 30, 2005, to \$547,349, from \$581,656 for the quarter ended June 30, 2004, primarily as a result of softening sales in the second quarter due to general market conditions across several product lines.

Our cost of goods decreased in the quarter ended June 30, 2005, as compared to June 30, 2004, to \$282,735 from \$332,912.

General and administrative expenses increased to \$145,160 during the quarter ended June 30, 2005, from \$67,638 during the quarter ended June 30, 2004. This increase was due to the addition of one full-time employee, increased payroll and increased operational expenses, like legal and accounting fees.

Our revenues decreased during the six months ended June 30, 2005, to \$1,054,741, from \$1,081,707 for the six months ended June 30, 2004, again primarily as a result of softening sales in the 2nd quarter due to general market conditions across several product lines.

Our cost of goods decreased in the six months ending June 30, 2005, as compared to June 30, 2004, to \$593,842 from \$644,035.

General and administrative expenses increased to \$250,430 during the six months ended June 30, 2005, from \$138,168 during the six months ended June 30, 2004. This increase was due to the addition of one full-time employee, increased payroll and increased operational expenses, including legal and accounting fees like those reported in the first quarter ended March 31, 2005.

Liquidity and Capital Resources.

Our cash resources at June 30, 2005, were \$691,192, with accounts receivable of \$347,291. We have relied on revenues and lines of credit for our cash resources; and have received gross proceeds of \$700,000 during the first six months of 2005 from the sale of Series A Convertible Preferred Stock at \$1.00 per share. At June 30, 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:

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

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

Item 3. Controls and Procedures.

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None; not applicable.

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

2004 Convertible Preferred Stock.

As of the quarter ended June 30, 2005, we sold 700,000 shares of our 2004 Series A Convertible Preferred Stock at an offering price of \$1.00 per share to 26 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

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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.

We also issued 380,000 shares of common stock for services during the quarter ended June 30, 2005, valued at \$.0238 per share or \$9,056.00.

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.

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: 8/10/05

/s/Kim Boyce

Kim Boyce, President

Date: 8/10/05

/s/Tom Tait

Tom Tait, Vice President

Date: 8/10/05

/s/Kevin Cooksy

Kevin Cooksy, Secretary/Treasurer