REFLECT SCIENTIFIC INC
Form 10-Q
November 12, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

or

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT of 1934

For the transition period from __________ to __________

Commission File Number 000-31377

REFLECT SCIENTIFIC, INC.

(Exact name of registrant as specified in its charter)

Utah

87-0642556

(State or other jurisdiction of

(IRS Employer Identification No.)

incorporation or organization)

1270 South 1380 West Orem, Utah 84058

(Address of principal executive offices) (Zip Code)

(801) 226-4100

(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 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.

Yes [X] No [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer ¨

Accelerated filer ¨

Non-accelerated filer ¨

Smaller reporting company x

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). The Registrant is not yet part of the Interactive Data reporting system.

Yes [ ] No [X]

Applicable Only to Issuers Involved in Bankruptcy Proceedings During the Preceding Five Years:

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Not applicable.

Applicable Only to Corporate Issuers:

Indicate the number of shares outstanding of each of the Registrant s classes of common equity, as of the latest practicable date.

Class

Outstanding as of November 10, 2010

33,831,890 shares of $0.01 par value common stock on November 10, 2010

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

Reflect Scientific, Inc.

FINANCIAL STATEMENTS

(UNAUDITED)

September 30, 2010

The financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. However, in the opinion of management, all adjustments (which include only normal recurring accruals) necessary to present fairly the financial position and results of operations for the periods presented have been made. These financial statements should be read in conjunction with the accompanying notes, and with the historical financial information of the Company.

REFLECT SCIENTIFIC, INC.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

REFLECT SCIENTIFIC, INC.

Condensed Consolidated Balance Sheets

ASSETS

September 30,

2010

December 31,

2009

(Unaudited)

(Audited)

C U R R E N T
ASSETS

Cash	**$** 141,545	$ 165,633
Accounts receivable, net	408,555	522,921
Other receivables	-	235
Inventories	397,072	

591,672

Cost and estimated earnings in excess of contract billings

-

43,635

Prepaid assets

11,113

38,335

Total Current Assets

958,285

1,362,431

FIXED ASSETS, NET

61,800

419,822

OTHER ASSETS

Intangible assets, net

3,053,084

3,708,602

Goodwill

652,149

652,149

Deposits

3,100

10,455

Total Other Assets

3,708,333

4,371,206

TOTAL ASSETS	**$**	4,728,418	$	6,153,459

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

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REFLECT SCIENTIFIC, INC.

Condensed Consolidated Balance Sheets (Continued)

LIABILITIES AND SHAREHOLDERS EQUITY

	September 30, 2010	December 31, 2009
	(Unaudited)	(Audited)
CURRENT LIABILITIES		

Accounts payable	**$** 309,691	$ 507,794
Short-term lines of credit	129,590	141,474
Convertible debenture	2,925,000	2,925,000
Royalty payable	-	22,542

Capital leases short-term portion	
	10,562
	9,791
Interest payable	
	658,125
	263,250
Accrued expenses	
	17,269
	93,721
Loan from related party	
	24,000
	18,000
Income taxes payable	
	400

2,800

Total Current Liabilities

4,074,637

3,984,372

LONG-TERM LIABILITIES

Capital leases long-term portion	1,677	9,715
Total Long-Term Liabilities	1,677	9,715
Total Liabilities	4,076,314	

3,994,087

SHAREHOLDERS
EQUITY

Preferred stock, $0.01 par value, authorized

5,000,000 shares; No shares issued and Outstanding

-

-

Common stock, $0.01 par value, authorized

50,000,000 shares; 34,141,890 and 35,221,650

issued and outstanding, respectively

341,419

352,217

Additional paid in capital

17,534,313

17,463,580

Accumulated deficit

(17,223,628)

(15,656,425)

Total Shareholders Equity

652,104

2,159,372

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY

$
4,728,418
6,153,459

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

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REFLECT SCIENTIFIC, INC.

Condensed Consolidated Statements of Operations

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
REVENUES	$ 735,344	$ 1,075,098		

$

1,832,630

$

2,860,851

COST OF GOODS SOLD

443,941

682,728

975,378

1,557,225

GROSS PROFIT	
	291,403
	392,370
	857,252
	1,303,626

OPERATING EXPENSES	
Salaries and wages	
	99,410
	272,010
	325,527
	998,404
Rent expense	
	13,228
	51,445
	38,924

144,323

Research and development expense

-

5,712

7,144

15,578

General and administrative expense

166,912

264,551

503,469

840,197

Total Operating Expenses

279,550

593,718

875,064

1,998,502

OPERATING INCOME (LOSS)

11,853

(201,348)

(17,812)

(694,876)

OTHER INCOME (EXPENSE)

Interest income

2

21

7

	3,562
Interest expense	
	(133,843)
	(106,471)
	(401,548)
	(845,197)
Loss on default of convertible debentures	
	-
	-
	-
	(690,000)

Total Other Expenses	
	(133,841)
	(106,450)
	(401,541)
	(1,531,635)
NET LOSS BEFORE TAXES	
	(121,988)

(307,798)

(419,353)

(2,226,511)

Income tax benefit (expense)

-

-

-

-

NET LOSS FROM CONTINUING OPERATIONS	
	(121,988)
	(307,798)
	(419,353)
	(2,226,511)

LOSS FROM DISCONTINUED OPERATIONS

Loss from operations of Image Labs/Miralogix, net of tax	-	(624,784)	(199,909)	(1,078,385)
Loss on disposal of Image Labs/Miralogix, net of tax	-			

-

(947,941)

-

NET LOSS FROM DISCONTINUED OPERATIONS

-

(624,784)

(1,147,850)

(1,078,385)

NET LOSS

$

(121,988)

$

(932,582)

$

(1,567,203)

$

(3,304,896)

BASIC AND DILUTED INCOME (LOSS) PER SHARE

$

(0.01)

$

(0.03)

$

(0.05)

$

(0.10)

WEIGHTED
AVERAGE
NUMBER OF
SHARES
OUTSTANDING

34,141,890

34,892,802

34,552,110

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

REFLECT SCIENTIFIC, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Nine Months Ended September 30,	
	2010	2009
Net loss	$ (1,567,203)	$ (3,304,896)
Loss on Disposal of Discontinued Operations		

947,941

-

Loss from Discontinued Operations

199,909

1,078,385

Loss from Continuing Operations

(419,353)

(2,226,511)

Adjustments to reconcile net loss to net cash

from operating activities:

Depreciation	31,936	34,443
Amortization	219,390	264,648
Amortization of debenture discount	-	584,250
Common stock issued for services/interest	59,935	17,000
Expense for default on convertible debenture	-	

690,000

Changes in operating assets and liabilities:

(Increase)/decrease in accounts receivable

(134,031)

251,298

(Increase)/decrease in inventory

(18,676)

108,952

(Increase)/decrease in other receivables

-

1,720

(Increase)/decrease in prepaid asset

27,222

101,990

(Increase)/decrease in cost and estimated earnings in excess

of contract billings on uncompleted contracts

-

(76,480)

Increase/(decrease) in contract billings in excess of cost and

estimated earnings on uncompleted contracts

-

4,723

Increase/(decrease) in accounts payable

and accrued expenses

448,867

(4,666)

Net Cash from Continuing Operations

215,290

(248,633)

Net Cash from Discontinued Operations

(126,432)

(65,506)

Net Cash from Operating Activities

88,858

(314,139)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds (payments) from sale of discontinued operations	(99,100)
	-
Proceeds (payments) from sale of fixed assets	3,300
	-
Net Cash from Continuing Investing Activities	(95,800)
	-
Net Cash from Discontinued Investing Activities	(3,995)

-

Net Cash from Investing Activities

(99,795)

-

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on capital leases

(7,267)

(40,147)

Change in lines of credit

(11,884)

18,201

Proceeds from Related Party Loan

6,000

-

Net Cash from Continuing Financing Activities

(13,151)

(21,946)

Net Cash from Discontinued Financing Activities

-

-

Net Cash from Financing Activities

(13,151)

		(21,946)
NET INCREASE (DECREASE) IN CASH	(24,088)	(336,085)
CASH AT BEGINNING OF PERIOD	165,633	447,037
CASH AT END OF PERIOD	$ 141,545	$ 110,952

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

REFLECT SCIENTIFIC, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

For the

Nine Months Ended

September 30,

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash Paid For:

Interest

$

-

$

105,000

Income taxes

$

-

$

-

NON-CASH FINANCING ACTIVITIES:

Common stock issued for services

$

59,935

$

17,000

Conversion of debt to equity

$

-

$

64,107

Common stock issued for accrued interest

$

-

$

87,000

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

REFLECT SCIENTIFIC, INC.

Notes to the Condensed Consolidated Financial Statements

September 30, 2010

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 rules and regulations of the Securities and Exchange Commission. The information furnished in the interim condensed consolidated financial statements includes 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, 2009 financial statements. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

NOTE 2 -

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.

NOTE 3 GOING CONCERN

The Company is currently in default on its issued and outstanding debentures (See note 4). While the Company is working diligently to secure funding to enable it to retire the debenture obligations, there can be no assurance that such funding will be available. The Company has also accumulated significant operating losses. These factors raise substantial doubt about the Company s ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Management has taken a number of actions to reduce expenses including reductions in personnel, consolidation of facilities, and the downsizing of the unprofitable service and maintenance operations conducted by All Temp Engineering. Management has reached settlement agreements on the majority of the debentures that are in default, which settlement is contingent upon their ability to make a cash payment of $300,000. The Company will also issue 1,200,000 shares of restricted common stock. Management is seeking additional funding through the capital markets to facilitate this settlement, as well as to provide operating capital for its operations. Management has also made the decision to discontinue certain operations (See Note 5 Business Disposition).

NOTE 4 DEFAULT ON CONVERTIBLE DEBENTURES

On June 29, 2009 the Company s convertible debenture came due. The Company was unable to repay the amount due of $2,300,000 at that time and the note went into default status. Under the terms of the debenture, a penalty of 30% of the outstanding principle was accrued upon default. On the date of default the Company recognized this additional amount due of $690,000. Also under the terms of the debenture, upon default, the Company was required to accrue and pay interest at the default rate of 18%.

In September 2009, Chestnut Ridge Partners, who held $87,000 in debentures, agreed to convert the amount due, including accrued interest, to the Company s restricted common stock, as provided in the Debenture Agreement.

In August 2010, management reached agreement with all but one of the debenture holders on a plan to settle the debentures held by them that are in default. The settlement agreement is contingent upon the Company making a cash payment to them in the amount of $300,000 and the issuance of 1,200,000 shares of restricted common stock. Those debenture holders will accept the cash payment and stock issuance as full satisfaction of the debentures and warrants purchased on June 29, 2007. The Company is diligently working to raise the funding with which to fulfill the cash payment obligation under this agreement. The holder of the remaining debentures is involved in bankruptcy proceedings in England and the resolution of those debentures and accrued interest is undetermined.

NOTE 5 BUSINESS DISPOSITION

On March 2, 2010, the Company sold the assets and certain liabilities of Image Labs and Miralogix to an employee. The time line from the point at which the Company made the decision to sell to the accepting of the offer and closing of the transaction was less than two weeks. The sale was structured such that the Company received no cash from the transaction, while the acquirer took possession of all the assets and assumed all of the liabilities of Image Labs and Miralogix except for those related to accrued payroll and related personnel expenses. Management s decision to divest this subsidiary was based on its strategic plan to refocus its product lines and sales efforts to its proprietary green technologies. A history of operating losses at Image Labs and Miralogix, the potential necessity of additional capital expenditures, and the soft market for its products due to economic conditions, were additional considerations in making that determination. The Company recorded a loss of $947,941 all of which is reported in the nine-month period covered by this report. In conjunction with the disposal of this business entity, $99,100 in cash was transferred to the new owners.

NOTE 6 EQUITY TRANSACTIONS

On April 8, 2010 the Company issued 411,040 shares of its restricted common stock for the payment of legal fees valued at $53,435 or $0.13 per share and 50,000 shares of restricted common stock to an employee valued at $6,500 or $0.13 per share.

In April 2010 the Company received 1,040,800 shares of the common stock issued in the Cryometrix/All Temp Engineering acquisition transaction. The transfer agent was instructed to cancel the returned shares of stock.

In May 2010, 500,000 shares of the common stock issued at the time Image Labs and Miralogix were acquired by the Company were returned. The Company instructed the transfer agent to cancel those shares of stock.

During the three and nine month periods ended September 30, 2010, the Company did not sell any shares of its common stock.

On July 15, 2010, the board of directors cancelled all stock options grants made in 2008 and 2007. The action resulted in the cancellation of options to purchase 5,066,660 shares of the Company s common stock at prices ranging from $0.85 to $1.32. After the cancellation there remain outstanding options to purchase 5,176,660 shares of common stock, all of which are fully vested.

NOTE 7   RELATED PARTY TRANSACTIONS

Loan from Shareholder

As of September 30, 2010, a shareholder of the Company had advanced $24,000 in funding in the form of a non-interest bearing loan to the Company; of this amount, $6,000 was advanced during the nine months ended September 30, 2010. It is the intent of the Company to repay this loan upon the closing of a major capital raise.

NOTE 8   FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company s financial instruments consist of cash and cash equivalents, accounts receivable, payables and notes payable. The carrying amount of cash and cash equivalents and payables approximates fair value because of the short-term nature of these items. The carrying amount of the notes payable approximates fair value as the individual borrowings bear interest at rates that approximate market interest rates for similar debt instruments.

NOTE 9   NEW ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued ASU No. 2009-13, Revenue Recognition Multiple Deliverable Revenue Arrangements (ASU 2009-13). ASU 2009-13 updates the existing multiple-element revenue arrangements guidance currently included in FASB ASC 605-25. The revised guidance provides for two significant changes to the existing multiple-element revenue arrangements guidance. The first change relates to the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. This change will result in the requirement to separate more deliverables within an arrangement, ultimately leading to less revenue deferral. The second change modifies the manner in which the transaction consideration is allocated across the separately identified deliverables. Together, these changes will result in earlier recognition of revenue and related costs for multiple-element arrangements than under previous guidance. This guidance expands the disclosures required for multiple-element revenue arrangements and is effective for interim and annual reporting periods beginning after June 15, 2010. The Company is currently evaluating the potential future impact, if any, of this guidance on its financial statements.

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06 Fair Value Measurements and Disclosures Improving Disclosures about Fair Value Measurements (ASU 2010-06). ASU 2010-06 requires new disclosures for significant transfers in and out of Level 1 and 2 of the fair value hierarchy and the level if disaggregation of assets or liabilities and the valuation techniques and inputs used to measure fair value. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2009, with the exception of the new Level 3 activity disclosures, which are effective for interim and annual reporting periods beginning after December 15, 2010. The Company adopted the applicable disclosure requirements beginning with the first quarter of fiscal 2010, with no material impact.

The Company has reviewed all other recently issued, but not yet adopted, accounting standards in order to determine their effects, if any, on its consolidated results of operation, financial position or cash flows. Based on that review, the Company believes that none of these pronouncements will have a significant effect on its current or future earnings or operations.

NOTE 10 CONTINGENCIES

In June 2010 a complaint was filed against the Company for failure to pay $20,946 of a $65,000 contract. The amount relates to HVAC equipment resold on a contract job for which the Company has not been paid.

NOTE 11 SUBSEQUENT EVENTS

On October 13, 2010, the Company received 310,000 shares of restricted common stock that were issued for professional services related to the acquisition of Cryometrix and Miralogix. The transfer agent was instructed to cancel the shares.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Special Note Regarding Forward-Looking Statements

This periodic report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the Plan of Operations provided below, including information regarding the Company s financial condition, results of operations, business strategies, operating efficiencies or synergies, competitive positions, growth opportunities, and the plans and objectives of management. The statements made as part of the Plan of Operations that are not historical facts are hereby identified as "forward-looking statements."

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the unaudited Financial Statements and accompanying notes. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions. The Company believes there have been no significant changes during the nine month period ended September 30, 2010, to the items disclosed as significant accounting policies in management's Notes to the Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Plan of Operation and Business Growth

Over the next twelve months our focus will be on the commercialization of products acquired and developed over the last several years. Included in this focus will be the continued development and commercialization of our ultra low temperature refrigerator line, with the refrigerated trailer, known as a reefer being given highest priority. Additionally, we will continue to develop and expand our focus on solutions and services to retrofit server and computer rooms to help reduce the cost of cooling such rooms, as well as provide a more reliable and efficient method to cool such rooms. We will also continue to focus on the expansion of our detector line and contract manufacturing operations.

Management s focus over the last several years was on the acquisition and development of our product lines. While management now believes the desired core product lines are in place and will focus its efforts over the next twelve months on the commercialization of those product lines, marketing the products and expanding its customer base, it will continue to look for potential acquisitions.

Our revenues during the reporting periods have decreased during 2010 compared to 2009 revenues. We believe this decrease is due in most part to the current economic trends. Our technology products require large capital outlays from our customers and the downturn in the economy has caused hesitancy on the part of our potential customers to commit funds to capital investments. We do not expect this trend to continue. Our products are new to the marketplace and we expect the demand to grow as our products become more familiar. We believe the product lines are becoming commercially accepted and that sales will increase.

We do not anticipate we will emphasize acquisitions as we have in the past and instead will focus on managing and commercializing our current product lines. This will require a focus from management on the sales of these products. We anticipate the future business growth over the next twelve months to come from our current product lines.

Results of Operations

Three Months Ended September 30, 2010 and 2009

	For the three months ended September 30,		
	2010	2009	Change
Revenues	$ 735,344	$ 1,075,098	$ (339,754)
Cost of goods sold	443,941	682,728	(238,787)
Gross profit			

291,403

392,370

(100,967)

Operating expenses

279,550

593,718

(314,168)

Other income (expense)

(133,841)

(106,450)

(27,391)

Net loss from continuing operations

(121,988)

(307,798)

185,810

Loss from discontinued operations

-

(624,784)

624,784

Net loss

$

(121,988)

$

(932,582)

$

810,594

Revenues decreased during the quarter ended September 30, 2010, to $735,344 from $1,075,098 for the quarter ended September 30, 2009, a decrease of $339,754. Sales of the Reflect Scientific product lines were $735,344 for the three months ended September 30, 2010, an increase of $174,283 over the $561,062 in sales for the three month period ended September 30, 2009. No revenues were generated in 2010 from Cryometrix/All Temp Engineering, as we are continuing to refine and commercialize the freezer technologies. Revenues from Cryometrix/All Temp were $514,036 for the three month period ended September 30, 2009. We anticipate consolidated revenues for the remaining reporting period of 2010 will approximate those reported for this three month period.

As a result of reduced sales, cost of goods decreased in the quarter ending September 30, 2010, as compared to September 30, 2009 to $443,941 from $682,728, a decrease of $238,787. Gross profit percentage increased to 40% for the three months ended September 30, 2010, compared to 36% for the three months ended September 30, 2009. While the gross profit margin will vary by quarter depending on the mix of products sold, we are actively working to obtain more favorable pricing from our vendors in order to increase the margins realized on product sales.

Operating expenses were reduced significantly in the current period. This reduction is the result of cost reduction efforts implemented by management, primarily related to the operating efficiencies gained from consolidating the California operations and the disposition of the Montana operations. Operating expenses for the three months ended September 30, 2010 were $279,550, a reduction of $314,168 from the $593,718 in operating expenses recorded for the three month period ended September 30, 2009. Operating expenses for the remaining reporting period in 2010 are expected to remain at approximately the levels shown for the period of this report.

The loss from continuing operations for the three month period ended September 30, 2010 was $121,988, a $185,810 reduction from the $307,798 loss for the three month period ended September 30, 2009. Management continues to look for opportunities to reduce ongoing operating expenses.

The loss from discontinued operations for the 2009 period was $624,784. The continuing losses incurred by the Image Labs and Miralogix subsidiary were a major consideration in our decision to divest that product line and focus our efforts on our green technology products.

The net loss for the three months ended September 30, 2010 was $121,988, or $0.01 per share. This compares to a loss of $932,582, or $0.03 per share, for the three months ended September 30, 2009.

Nine Months Ended September 30, 2010 and 2009

	For the nine months ended September 30,		
	2010	2009	Change
Revenues	$ 1,832,630	$ 2,860,851	$ (1,028,221)
Cost of goods sold	975,378	1,557,225	(581,847)
Gross profit			

857,252

1,303,626

(446,374)

Operating expenses

875,064

1,998,502

(1,123,438)

Other income (expense)

(401,541)

(1,531,635)

1,130,094

Net loss from continuing operations

(419,353)

(2,226,511)

1,807,158

Loss from discontinued operations

(199,909)

(1,078,385)

878,476

Loss on disposal of discontinued operations

(947,941)

-

(947,941)

Net loss

$

(1,567,203)

$

(3,304,896)

$	1,737,693

Revenues during the nine months ended September 30, 2010 were $1,832,630, a decrease of $1,028,221 from $2,860,851 for the nine months ended September 30, 2009. Revenue from the the Reflect Scientific product lines were $1,832,630 for the nine months ended September 30, 2010, an increase of $145,130 from the $1,687,501 for the same period in 2009. No revenues were generated in 2010 from Cryometrix/All Temp Engineering, as we continue to refine and commercialize the freezer technologies. During the nine month period ended September 30, 2009, revenue of $1,173,350 was generated from Cryometrix/All Temp Engineering, which revenue decrease accounts for the change in year over year comparatives.

Cost of goods sold decreased in the nine months ending September 30, 2010, as compared to the same period ended September 30, 2009 to $975,378 from $1,557,225, a decrease of $581,847. Gross profit percentage increased to 47% for the nine months ended September 30, 2010, compared to 45% for the nine months ended September 30, 2009. The gross profit margin will vary by quarter depending on the mix of products sold, but we are actively working to increase the margins realized on product sales.

Operating expenses have been reduced significantly in 2010. This reduction results from cost efficiencies implemented by management, coupled with the operating expense reductions gained from consolidating the California operations and the disposition of the Montana operations. Operating expenses for the nine months ended September 30, 2010 were $875,064, a reduction of $1,123,438 from the $1,998,502 in operating expenses recorded for the nine month period ended September 30, 2009.

The loss from continuing operations for the nine month period ended September 30, 2010 was $419,353, a $1,807,158 reduction from the $2,226,511 loss for the nine month period ended September 30, 2009. The default penalty on the debentures of $690,000 realized in 2009 is included in the 2009 loss.

The loss from discontinued operations for the nine months ended September 30, 2010 was $199,909, all of which was incurred during the first two months of the period. In addition, the loss due to disposition was $947,941. The loss from discontinued operations incurred during the nine month period ended September 30, 2009 was $1,078,385, as they represent expenses for the entire nine month period. The continuing losses incurred by the Image Labs and Miralogix subsidiary were a major consideration in our decision to divest that product line and focus our efforts on our green technology products.

The net loss for the nine months ended September 30, 2010 was $1,567,203, or $0.05 per share. This compares to a loss of $3,304,896, or $0.10 per share, for the nine months ended September 30, 2009.

Seasonality and Cyclicality

We do not believe our business is cyclical.

Liquidity and Capital Resources

Our cash resources at September 30, 2010, were $141,545, with accounts receivable of $408,555 and inventory of $397,072. To date we have relied on revenues and sales of equity and debt securities for our cash resources. Our working capital deficit on September 30, 2010, was $3,116,352, due primarily to the $2,925,000 in outstanding debentures and $658,125 in accrued interest on those debentures. Working capital on December 31, 2009 was a deficit of $2,621,941.

Management is working to obtain financing to enable it to retire the outstanding debentures and provide the capital needed to commercialize the low temperature freezer and refrigeration technology. There can be no assurance that funds will be available, or that terms of available funds will be acceptable to the Company. The inability of Company to obtain funding at acceptable terms could negatively impact its ability to execute its business plan.

For the nine month period ended September 30, 2010, our net cash from operating activities was $88,858 which was an increase from the nine month period ended September 30, 2009 where the Company used cash of $314,139.

Off-Balance Sheet Arrangements

We lease office and warehouse space under a non-cancelable operating lease in Utah. Future minimum lease payments under the operating lease at September 30, 2010 are $222,358 for that facility. In addition, we have automobile leases with future minimum lease payments of $26,784.

Forward-looking Statements

The Private Securities Litigation Reform Act of 1995 (the Act) provides a safe harbor for forward-looking statements made by or on behalf of our Company. Our Company and our representatives may from time to time make written or oral statements that are forward-looking, including statements contained in this Annual 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 are illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Not required

Item 4. Controls and Procedures

(a)

Management s Report on Internal Control Over Financial Reporting.

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 Chief Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon this evaluation, our Chief Executive Officer and Principal Financial Officer concluded that information required to be disclosed is recorded, processed, summarized and reported within the specified periods, and is accumulated and communicated to management, including our Chief Executive Officer and Principal Financial Officer, to allow for timely decisions regarding required disclosure of material information required to be included in our periodic Securities and Exchange Commission reports. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and our Chief Executive Officer and Principal Financial Officer have concluded that our disclosure controls and procedures are effective to a reasonable assurance level of achieving such objectives. However, it should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. In addition, we reviewed our internal controls over financial reporting, and there have been no changes in our internal controls or in other factors in the last fiscal quarter that have materially affected our internal controls over financial reporting.

(b)

Changes in Internal Control Over Financial Reporting.

There were no changes in our internal control over financial reporting during the period covered by this Quarterly Report.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

On October 16, 2009, the Company filed a complaint in the Third District Court in the State of Utah in which it seeks the return of the stock issued for the acquisition of Cryomastor. The action alleges misrepresentation and, in addition to the return of the stock, seeks monetary damages. In May 2010 the defendant responded with the filing of a countersuit.

In June 2010 a complaint was filed against the Company for failure to pay $20,946 of a $65,000 contract. The amount relates to HVAC equipment resold on a contract job for which the Company has not been paid.

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

Recent Sales of Unregistered Securities

We have not sold any restricted securities during the three months ended September 30, 2010.

Use of Proceeds of Registered Securities

None; not applicable.

Purchases of Equity Securities by Us and Affiliated Purchasers

During the three months ended September 30, 2010, we have not purchased any equity securities nor have any officers or directors of the Company.

ITEM 3. Defaults Upon Senior Securities

As of September 30, 2010 the Company is in default on its Senior Secured Convertible Debenture. The Company was unable to repay the debenture as demanded by the debenture holders. The total amount under default was $2,300,000 plus a default principle of 30% or $690,000. The total amount currently in default is $2,925,000 after $65,000 of the debentures and penalty were converted in September 2009. Under the terms of the debenture the interest rate increases from 12% to 18% upon default. The company is not current on its interest payments.

In August 2010, management reached agreement with all but one of the debenture holders on a plan to settle the debentures held by them that are in default. The settlement agreement is contingent upon the Company making a cash payment to them in the amount of $300,000 and the issuance of 1,200,000 shares of restricted common stock in full satisfaction of the indebtedness. The Company is currently working on securing the funding to enable it to fulfill the payment obligation under this agreement.

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the quarter ended September 30, 2010.

ITEM 5. Other Information.

None

ITEM 6. Exhibits

(a) Exhibits.

Exhibit No.	Title of Document	Location if other than attached hereto
3.1	Articles of Incorporation	10-SB Registration Statement*
3.2	Articles of Amendment to Articles of Incorporation	10-SB Registration Statement*
3.3	By-Laws	10-SB Registration Statement*
3.4	Articles of Amendment to Articles of Incorporation	8-K Current Report dated December 31, 2003*
3.5	Articles of Amendment to Articles of Incorporation	8-K Current Report dated December 31, 2003*

3.6

Articles of Amendment

September 30, 2004 10-QSB Quarterly Report*

3.7

By-Laws Amendment

September 30, 2004 10-QSB Quarterly Report*

4.1

Debenture

8-K Current Report dated June 29, 2007*

4.2

Form of Purchasers Warrant

8-K Current Report dated June 29, 2007*

4.3

Registration Rights Agreement

8-K Current Report dated June 29, 2007*

4.4

Form of Placement Agreement

8-K Current Report dated June 29, 2007*

10.1

Securities Purchase Agreement

8-K Current Report dated June 29, 2007*

10.2

Placement Agent Agreement

8-K Current Report dated June 29, 2007*

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Code of Ethics

December 31, 2003 10-KSB Annual Report*

21

Subsidiaries of the Company

December 31, 2004 10-KSB Annual Report*

31.1

302 Certification of Kim Boyce

31.2

302 Certification of Keith Merrell

32

906 Certification

Exhibits

Additional Exhibits Incorporated by Reference

*

Reflect California Reorganization

8-K Current Report dated December 31, 2003

*

JMST Acquisition

8-K Current Report dated April 4, 2006

*

Cryomastor Reorganization

8-K Current Report dated September 27, 2006

*

Image Labs Merger Agreement Signing

8-K Current Report dated November 15, 2006

*

All Temp Merger Agreement Signing

8-K Current Report dated November 17, 2006

*

All Temp Merger Agreement Closing

8-KA Current Report dated November 17, 2006

	*
	Image Labs Merger Agreement Closing
	8-KA Current Report dated November 15, 2006

* Previously filed and incorporated by reference.

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.

(Registrant)

Date:

November 10, 2010

By: /s/ Kim Boyce

Kim Boyce, CEO, President

and Director

Date:

November 10, 2010

By: /s/ Tom Tait

Tom Tait, Vice President and

Director

Date:

November 10, 2010

By: /s/ Keith Merrell

Keith Merrell, CFO, Principal

Financial Officer