

Edgar Filing: REFLECT SCIENTIFIC INC - Form 10QSB

REFLECT SCIENTIFIC INC  
Form 10QSB  
November 12, 2004

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 September 30, 2004

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.  
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(Name of Small Business Issuer in its Charter)

UTAH  
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(State or Other Jurisdiction of  
incorporation or organization)

87-0642556  
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(I.R.S. Employer I.D. No.)

970 Terra Bella Avenue  
Mountain View, California, 94043  
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(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:

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September 30, 2004

Common Stock - 24,000,000  
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## 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

September 30, 2004 and December 31, 2003

REFLECT SCIENTIFIC, INC.  
Consolidated Balance Sheets

#### ASSETS

	September 30, 2004 (Unaudited)	December 31, 2003
CURRENT ASSETS		
Cash	\$ 34,668	\$ 99,924
Accounts receivable, net	319,129	232,464
Inventory, net	241,525	210,447
Prepaid expenses	800	800
	-----	-----
Total Current Assets	596,122	543,635
	-----	-----
FIXED ASSETS (NET)	20,247	21,923
	-----	-----
OTHER ASSETS		
Deposits	5,350	5,350
Capitalized loan costs, net	5,775	6,125
	-----	-----
Total Other Assets	11,125	11,475
	-----	-----
TOTAL ASSETS	\$ 627,494	\$ 577,033
	=====	=====

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

REFLECT SCIENTIFIC, INC.

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Consolidated Balance Sheets (Continued)

## LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 2004 (Unaudited)	December 31, 2003
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 161,228	\$ 199,375
Accrued expenses	27,201	15,179
	-----	-----
Total Current Liabilities	188,429	214,554
	-----	-----
<b>NON-CURRENT LIABILITIES</b>		
Long term line of credit	268,985	269,011
	-----	-----
Total Non-Current Liabilities	268,985	269,011
	-----	-----
Total Liabilities	457,414	483,565
	-----	-----
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, \$0.01 par value, authorized 5,000,000 shares; no issued or outstanding shares	-	-
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)	(188,319)	(210,841)
Retained earnings	118,399	64,309
	-----	-----
Total Shareholders' Equity	170,080	93,468
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 627,494	\$ 577,033
	=====	=====

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 Nine Months Ended	
	September 30,		September 30,	
	2004	2003	2004	2003
REVENUES	\$ 522,600	\$ 457,067	\$ 1,604,307	\$ 1,425,762
COST OF GOODS SOLD	319,435	254,829	963,470	854,396
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GROSS PROFIT	203,165	202,238	640,837	571,366
	-----	-----	-----	-----
OPERATING EXPENSES				
Salaries and wages	87,091	70,137	263,273	230,007
Payroll taxes	7,127	5,920	22,558	19,644
Rent expense	19,306	18,870	57,364	56,596
General and administrative expense	88,124	35,374	226,292	93,526
	-----	-----	-----	-----
Total Operating Expenses	201,648	130,301	569,487	399,773
	-----	-----	-----	-----
OPERATING INCOME	1,517	71,937	71,350	171,593
	-----	-----	-----	-----
OTHER INCOME (EXPENSE)				
Sundry income	-	-	5,000	-
Miscellaneous income (expense)	-	-	(301)	-
Interest expense	(3,051)	(1,780)	(8,759)	(11,262)
	-----	-----	-----	-----
Total Other Income (Expense)	(3,051)	(1,780)	(4,060)	(11,262)
	-----	-----	-----	-----
NET INCOME BEFORE INCOME TAX	(1,534)	70,157	67,290	160,331
	-----	-----	-----	-----
INCOME TAX EXPENSE	-	-	13,200	-
	-----	-----	-----	-----
NET INCOME	\$ (1,534)	\$ 70,157	\$ 54,090	\$ 160,331
	=====	=====	=====	=====
EARNINGS PER SHARE	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.01
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	24,000,000	22,914,949	24,000,000	22,914,949
	=====	=====	=====	=====

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
Balance, December 31, 2001	22,914,949	\$ 10,000	-	\$ -	\$ -	\$ 83,619
Dividend	-	-	-	-	-	(63,000)
Net income for the year ended December 31, 2002	-	-	-	-	-	141,018
	-----	-----	-----	-----	-----	-----
Balance, December 31, 2002	22,914,949	10,000	-	-	-	161,637

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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)	-	-	-	-	22,522	-
Net income for the nine months ended September 30, 2004 (unaudited)	-	-	-	-	-	54,090
Balances, September 30, 2004 (unaudited)	24,000,000	\$240,000	-	\$ -	\$(188,319)	\$ 118,399

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  
Nine Months Ended  
September 30,  
2004 2003

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 54,090	\$ 160,331
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,676	1,776
Amortization of capitalized loan costs	350	630
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(86,666)	(93,967)
Decrease in prepaid expenses	-	6,124
(Increase) decrease in inventory	(31,079)	5,988
Increase (decrease) in accounts payable and accrued expenses	(26,124)	37,643

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Net Cash Used by Operating Activities	(87,753)	118,525
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	-	(450)
	-----	-----
Net Cash Used by Investing Activities	-	(450)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on short term lines of credit	-	(103,049)
Change in long term line of credit	(25)	101,470
Contributed capital	22,522	-
Distributions to sole shareholder	-	(101,000)
	-----	-----
Net Cash Provided (Used) by Financing Activities	22,497	(102,579)
	-----	-----
NET INCREASE (DECREASE) IN CASH	(65,256)	15,496
 CASH AT BEGINNING OF PERIOD	 99,924	 115,644
	-----	-----
CASH AT END OF PERIOD	\$ 34,668	\$ 131,140
	=====	=====

### NON-CASH INVESTING AND FINANCING ACTIVITIES:

#### Cash Paid For:

Interest	\$ 3,051	\$ 11,380
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  
September 30, 2004 and December 31, 2003

#### 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, 2003 financial statements. Operating results for the nine months ended September 30, 2004 are not necessarily

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indicative of the results that may be expected for the year ending December 31, 2004.

### 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. 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.

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

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#### Results of Operations.

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Our revenues increased during the quarter ended September 30, 2004, to \$522,600 from \$457,067 for the quarter ended September 30, 2003, primarily as a result of a general improvement in sales across several new product lines and improving market conditions.

Our cost of goods increased in the period ending September 30, 2004, as compared to September 30, 2003, to \$319,435 from \$254,829. The difference was partly as a result of an increase in sales, increased raw material costs and increased labor costs.

General and administrative expenses increased to \$88,124 during the quarter ended September 30, 2004, from \$35,374 during the quarter ended September 30, 2003. 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.

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Our cash resources at September 30, 2004, were \$34,668, with accounts receivable of \$319,129. We have relied on revenues and lines of credit for our cash resources. At September 30, 2004, we had utilized \$268,985 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.

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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

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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.

### Item 3. Controls and Procedures.

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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.

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None; not applicable.

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

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None; not applicable.

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Item 3. Defaults Upon Senior Securities.  
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None; not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.  
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None; not applicable.

Item 5. Other Information.  
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November 9, 2004, we filed Articles of Amendment to our Articles of Incorporation that designated 750,000 shares of our preferred stock as "2004 Series A Convertible Preferred Stock". For a detailed description of the rights, privileges and preferences of the 2004 Series A Convertible Preferred Stock, see a copy of the Articles of Amendment that is attached hereto and incorporated herein by reference as Exhibit 3.1. See Item 6.

We also have attached hereto and incorporated herein as Exhibit 3.2 an Amendment to our Bylaws that was adopted July 28, 2003. See Item 6.

Item 6. Exhibits and Reports on Form 8-K.  
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(a) Exhibits.

- 3.1 Articles of Amendment
- 3.2 Amendment to Bylaws
- 31.1 302 Certification of Kim Boyce
- 31.2 302 Certification of Pamela Boyce
- 32 906 Certification.

(b) Reports on Form 8-K.

None.

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: 11/11/2004

/s/Kim Boyce  
-----

Kim Boyce, President

Date: 11/11/2004

/s/Pamela Boyce  
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Pamela Boyce, Secretary

