

REFLECT SCIENTIFIC INC
Form 10-Q
August 13, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 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 ☒ 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 ☒

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

Yes ☐ No ☒

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 ☒

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 August 13, 2010

34,141,890 shares of \$0.01 par value common stock on August 13, 2010

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

Reflect Scientific, Inc.

FINANCIAL STATEMENTS

(UNAUDITED)

June 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

June 30, 2010

REFLECT SCIENTIFIC, INC.

Condensed Consolidated Balance Sheets

ASSETS

June 30,

2010

December 31,

2009

(Unaudited)

(Audited)

C U R R E N T
ASSETS

Cash

\$

144,493

\$

165,633

A c c o u n t s
receivable, net

251,308

522,921

Other receivables

-

235

Inventories

375,513

591,672

Cost and estimated
earnings in excess
of contract billings

-

43,635

Prepaid assets

11,113

38,335

Total Current
Assets

782,427

1,362,431

FIXED ASSETS,
NET

63,340

419,822

OTHER ASSETS

Intangible assets,
net

3,122,605

3,708,602

Goodwill

652,149

652,149

Deposits

3,100

10,455

Total Other
Assets

3,777,854

4,371,206

TOTAL ASSETS

\$

4,623,621

\$

6,153,459

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

REFLECT SCIENTIFIC, INC.

Condensed Consolidated Balance Sheets (Continued)

LIABILITIES AND SHAREHOLDERS' EQUITY

June 30,

2010

December 31,

2009

(Unaudited)

(Audited)

C U R R E N T
LIABILITIES

Accounts payable

\$

194,964

\$

507,794

Short-term lines of
credit

133,322

141,474

C o n v e r t i b l e
debenture

2,925,000

2,925,000

Royalty payable

-

22,542

Capital leases
short-term portion

9,869

9,791

Interest payable

526,500

263,250

Accrued expenses

35,473

93,721

Loan from related
party

24,000

18,000

Income taxes
payable

400

2,800

Total Current
Liabilities

3,849,528

3,984,372

L O N G - T E R M
LIABILITIES

Capital leases
long-term portion

-

9,715

T o t a l
L o n g - T e r m
Liabilities

-

9,715

Total Liabilities

3,849,528

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

(17,101,639)

(15,656,425)

T o t a l
Shareholders' Equity

774,093

2,159,372

TOTAL
LIABILITIES AND
SHAREHOLDERS

EQUITY

\$

4,623,621

\$

6,153,459

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

REFLECT SCIENTIFIC, INC.

Condensed Consolidated Statements of Operations

(Unaudited)

For the Three
Months Ended

June 30,

For the Six Months
Ended

June 30,

2010

2009

2010

2009

REVENUES

\$

529,102

\$

1,051,956

\$

1,097,286

\$

1,785,753

COST OF GOODS
SOLD

233,857

439,264

531,437

874,497

GROSS PROFIT

295,245

612,692

565,849

911,256

OPERATING
EXPENSES

Salaries and
wages

102,100

297,295

226,117

726,394

Rent expense

12,569

47,369

25,696

92,878

Research and
development
expense

1,817

3,459

7,144

9,866

General and
administrative
expense

176,892

296,922

336,557

575,646

Total
Operating
Expenses

293,378

645,045

595,514

1,404,784

OPERATING
INCOME (LOSS)

1,867

(32,353)

(29,665)

(493,528)

OTHER INCOME
(EXPENSE)

Interest income

-

3,289

5

3,541

Interest expense
other

(2,257)

(79,761)

(4,455)

(154,476)

Loss on default of
c o n v e r t i b l e
debentures

-

(690,000)

-

(690,000)

I n t e r e s t o n
debentures

(131,625)

(292,125)

(263,250)

(584,250)

Total Other
Expenses

(133,882)

(1,058,597)

(267,700)

(1,425,185)

N E T L O S S
BEFORE TAXES

(132,015)

(1,090,950)

(297,365)

(1,918,713)

Income tax benefit
(expense)

-

-

-

-

NET LOSS FROM
CONTINUING
OPERATIONS

(132,015)

(1,090,950)

(297,365)

(1,918,713)

LOSS FROM
DISCONTINUED
OPERATIONS

Loss from
operations of
Image

Labs/Miralogix,
net of tax

-

(353,653)

(199,909)

(453,601)

Loss on disposal of
Image
Labs/Miralogix,
net of tax

-

-

(947,941)

-

NET LOSS FROM
DISCONTINUED
OPERATIONS

-

(353,653)

(1,147,850)

(453,601)

NET LOSS

\$

(132,015)

\$

(1,444,603)

\$

(1,445,215)

\$

(2,372,314)

BASIC AND
DILUTED
INCOME(LOSS)
PER SHARE

\$

(0.01)

\$

(0.03)

\$

(0.04)

\$

(0.07)

WEIGHTED
AVERAGE
NUMBER OF
SHARES
OUTSTANDING

34,316,458

34,578,208

34,760,620

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

REFLECT SCIENTIFIC, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

For the Six Months Ended

June 30,

2010

2009

Net loss

\$

(1,445,215)

\$

(2,372,314)

Loss on Disposal of
Discontinued
Operations

947,941

-

Loss from
Discontinued
Operations

199,909

453,601

Loss from
Continuing Operations

(297,365)

(1,918,713)

Adjustments to
reconcile net loss to
net cash

provided by operating
activities:

Depreciation

30,396

23,052

Amortization

149,869

183,854

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

23,216

124,042

(Increase)/decrease
in inventory

2,883

(61,710)

(Increase)/decrease
in other receivables

-

1,721

(Increase)/decrease
in prepaid asset

27,222

61,157

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

of contract
billings on
uncompleted contracts

-

30,787

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

estimated earnings
on uncompleted
contracts

-

187,424

Increase/(decrease)
in accounts payable

and accrued
expenses

220,720

(146,817)

Net Cash from
Continuing Operations

216,876

(223,953)

Net Cash from
Discontinued
Operations

(126,432)

55,494

Net Cash from
Operating Activities

90,444

(168,459)

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)

-

C A S H F L O W S
FROM FINANCING
ACTIVITIES

Principal payments
on capital leases

(9,637)

(11,324)

Change in lines of
credit

(8,152)

(3,356)

Proceeds from
Related Party Loan

6,000

-

Net Cash from
Continuing Financing
Activities

(11,789)

(14,680)

Net Cash from
Discontinued
Financing Activities

-

-

Net Cash from
Financing Activities

(11,789)

(14,680)

NET INCREASE
(DECREASE) IN
CASH

(21,140)

(183,139)

CASH AT
BEGINNING OF
PERIOD

165,633

447,037

CASH AT END OF
PERIOD

\$

144,493

\$

263,898

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

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

\$

-

\$

37,000

Common stock
issued for accrued
interest

\$

-

\$

44,395

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

REFLECT SCIENTIFIC, INC.

Notes to the Consolidated Condensed Financial Statements

June 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 six months ended June 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 pay \$400,000 in cash, with the remaining balance being converted into shares of the Company's 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 February 2010, management reached agreement with Enable on a plan to settle the debentures held by Enable that are in default. The settlement agreement is contingent upon the Company making a cash payment to Enable in the amount of \$400,000, which amount will be used to reduce the outstanding principle and penalty currently in default. Upon receipt of the \$400,000 payment, the balance of the principle and penalty will be converted into shares of the Company's common stock at the rate of \$0.40 per share. The Company is currently working to raise the funding which will enable it to fulfill the payment obligation under this agreement. Should the Company successfully raise the necessary funding and make the \$400,000 payment specified under the settlement agreement, the conversion of the debenture and penalty balance of \$1,875,000 owed to Enable would result in the issuance of 4,687,500 shares of restricted common stock. 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 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 was returned. The Company instructed the transfer agent to cancel those shares of stock.

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

NOTE 7 RELATED PARTY TRANSACTIONS

Loan from Shareholder

As of June 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, \$6,000 was advanced during the six months ended June 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, 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 of 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 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.

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 six month period ended June 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 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. Preliminary discussions are currently ongoing with a potential acquisition target.

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 June 30, 2010 and 2009

For the three
months ended
June 30,

2010
2009
Change
Revenues
\$
529,102
\$
1,051,956
\$
(459,854)
Cost of goods sold
233,857
439,264
(205,407)
Gross profit
295,245
612,692

(317,447)

O p e r a t i n g
expenses

293,378

645,045

(351,667)

Other income
(expense)

(133,882)

(1,058,597)

924,715

Net loss from
c o n t i n u i n g
operations

(132,015)

(1,090,950)

958,935

Loss from
discontinued
operations

-

(353,653)

353,653

Net loss

\$

(132,015)

\$

(1,444,603)

\$

1,312,588

Revenues decreased during the quarter ended June 30, 2010, to \$529,102 from \$1,051,956 for the quarter ended June 30, 2009, a decrease of \$459,854. No revenues were generated in 2010 from Cryometrix/All Temp Engineering, as we are continuing to refine and commercialize the freezer technologies. We anticipate revenues for each of the remaining reporting periods of 2010 will approximate those reported for this three month period. In the three month period ended June 30, 2009, Cryometrix/All Temp Engineering generated revenue of \$471,461.

As a result of reduced sales, cost of goods decreased in the quarter ending June 30, 2010, as compared to June 30, 2009 to \$233,857 from \$439,264, a decrease of \$205,407. Gross profit percentage decreased to

56% for the three months ended June 30, 2010, compared to 58% for the three months ended June 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 June 30, 2010, including non-cash expenses of \$59,935, were \$293,378, a reduction of \$351,667 from the \$645,045 in operating expenses recorded for the three month period ended June 30, 2009. Operating expenses for each of the remaining reporting periods 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 June 30, 2010 was \$132,015, a \$958,935 reduction from the \$1,090,950 loss for the three month period ended June 30, 2009. The default penalty of \$690,000 charged in 2009 accounts for a significant part of the variance.

The loss from discontinued operations for the 2009 period was \$353,653. 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 June 30, 2010 was \$132,015, or \$0.01 per share. This compares to a loss of \$1,444,603, or \$0.03 per share, for the three months ended June 30, 2009.

Six Months Ended June 30, 2010 and 2009

For the six months
ended June 30,

2010

2009

Change

Revenues

\$

1,097,286

\$

1,785,753

\$

(688,467)

Cost of goods sold

531,437

874,497

(343,060)

Gross profit

565,849

911,256

(345,407)

Operating expenses

595,514

1,404,784

(809,270)

Other (income)
expense

(267,700)

(1,425,185)

1,157,485

Net loss from
continuing
operations

(297,365)

(1,918,713)

1,621,348

Loss from
discontinued
operations

	(199,909)
	(453,601)
	253,692
Loss on disposal of d i s c o n t i n u e d operations	
	(947,941)
	-
	(947,941)
Net loss	
\$	
	(1,445,215)
\$	
	(2,372,314)
\$	
	927,099

Revenues decreased during the six months ended June 30, 2010, to \$1,097,286 from \$1,785,753 for the six months ended June 30, 2009, a decrease of \$688,467. No revenues were generated in 2010 from Cryometrix/All Temp Engineering, as we continue to refine and commercialize the freezer technologies. During the six month period ended June 30, 2009, revenue of \$659,314 was generated from Cryometrix/All Temp Engineering, which revenue accounts

for the decrease in year over year comparatives..

Cost of goods sold decreased in the six months ending June 30, 2010, as compared to the same period ended June 30, 2009 to \$531,437 from \$874,497, a decrease of \$343,060. Gross profit percentage

increased to 52% for the six months ended June 30, 2010, compared to 51% for the six months ended June 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 were reduced significantly in the current period. This reduction results from cost reduction efforts 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 six months ended June 30, 2010, including non-cash expenses of \$59,935, were \$595,514, a reduction of \$809,270 from the \$1,404,784 in operating expenses recorded for the six month period ended June 30, 2009.

The loss from continuing operations for the six month period ended June 30, 2010 was \$297,365, a \$1,621,348 reduction from the \$1,918,713 loss for the six month period ended June 30, 2009. The default penalty of \$690,000 charged in 2009 is included in the 2009 loss.

The loss from discontinued operations for the six months ended June 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 six month period ended June 30, 2009 was greater, being \$453,601, as they represent expenses for the entire six 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 six months ended June 30, 2010 was \$1,445,215, or \$0.04 per share. This compares to a loss of \$2,372,314, or \$0.07 per share, for the six months ended June 30, 2009.

Seasonality and Cyclical

We do not believe our business is cyclical.

Liquidity and Capital Resources

Our cash resources at June 30, 2010, were \$144,193, with accounts receivable of \$251,308 and inventory of \$375,513. To date we have relied on revenues and sales of equity and debt securities for our cash resources. Our working capital deficit on June 30, 2010, was \$(3,067,101), due primarily to the \$2,925,000 in outstanding debentures and \$526,500 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 six month period ended June 30, 2010, our net cash from operating activities was \$90,444 which was an increase from the six month period ended June 30, 2009 where the Company used cash of \$168,459.

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 June 30, 2010 are \$235,144 for that facility. In addition, we

have an automobile lease with future minimum lease payments of \$29,622.

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 Chief 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 Chief 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 Chief 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 Chief 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 June 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 June 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 June 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 February 2010, management reached agreement with Enable on a plan to settle the debentures held by Enable that are in default. The settlement agreement is contingent upon the Company making a cash payment to Enable in the amount of \$400,000, which amount will be used to reduce the outstanding principle and penalty currently in default.

Upon receipt of the \$400,000 payment, the balance of the principle and penalty will be converted into shares of the Company's common stock at the rate of \$0.40 per share. 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 June 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*

14

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:

August 13, 2010

By: /s/ Kim Boyce

Kim Boyce, CEO, President and Director

Date:

August 13, 2010

By: /s/ Tom Tait

Tom Tait, Vice President and Director

Date:

August 13, 2010

By: /s/ Keith Merrell

Keith Merrell, CFO
