REFLECT SCIENTIFIC INC
Form 10-Q
November 14, 2012

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, 2012

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)

1266 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).

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 14, 2012

45,813,634 shares of $0.01 par value common stock on November 14, 2012

TABLE OF CONTENTS

PART II OTHER INFORMATION

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

Reflect Scientific, Inc.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

September 30, 2012

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 Balance Sheets

(Unaudited)

ASSETS

	September 30, 2012	December 31, 2011
CURRENT ASSETS		
Cash	$ 228,758	$ 346,697
Accounts receivable, net	144,499	143,278
Inventories	378,895	393,004
Prepaid assets	3,100	3,100
Total Current Assets	755,252	886,079
FIXED ASSETS, NET	12,044	19,242
OTHER ASSETS		
Intangible assets, net	2,355,395	2,563,951
Goodwill	652,149	652,149
Deposits	3,100	3,100
Total Other Assets	3,010,644	3,219,200
TOTAL ASSETS	$ 3,777,940	$ 4,124,521

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

REFLECT SCIENTIFIC, INC.

Condensed Consolidated Balance Sheets (Continued)

(Unaudited)

LIABILITIES AND SHAREHOLDERS EQUITY (DEFICIT)

	September 30, 2012	December 31, 2011
CURRENT LIABILITIES		
Accounts payable	$ 77,247	$ 89,641
Short-term lines of credit	116,807	109,721
Convertible debenture	650,000	2,925,000
Interest payable	397,125	1,316,250
Customer deposits	-	4,829
Accrued expenses	-	12,363
Loan from related party	-	24,000
Income taxes payable	100	400
Total Current Liabilities	1,241,279	4,482,204
Total Liabilities	1,241,279	4,482,204
SHAREHOLDERS EQUITY (DEFICIT)		
Preferred stock, $0.01 par value, authorized 5,000,000 shares; No shares issued and outstanding	-	-
Common stock, $0.01 par value, authorized 100,000,000 shares; 45,813,634 and 44,791,890 issued and outstanding, respectively	458,137	447,919
Additional paid in capital	17,880,724	17,810,045
Accumulated deficit	(15,802,200)	(18,615,647)
Total Shareholders Equity (Deficit)	2,536,661	(357,683)

TOTAL LIABILITIES AND SHAREHOLDERS

EQUITY (DEFICIT)	$	3,777,940	4,124,521

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

REFLECT SCIENTIFIC, INC.

Condensed Consolidated Statements of Operations

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
REVENUES	$ 305,713	$ 481,325	$ 988,427	$ 1,562,737
COST OF GOODS SOLD	145,822	224,307	481,811	780,119
GROSS PROFIT	159,891	257,018	506,616	782,618
OPERATING EXPENSES				
Salaries and wages	95,280	100,973	304,168	445,685
Rent expense	9,102	10,641	28,620	38,356
Research and development expense	19,466	14,281	29,297	21,537
General and administrative expense	154,820	183,712	468,986	645,125
Total Operating Expenses	278,668	309,607	831,071	1,150,703
OPERATING LOSS	(118,777)	(52,589)	(324,455)	(368,085)
OTHER INCOME (EXPENSE)				
Interest income	-	-	-	1
Interest expense other	(1,852)	(1,946)	(3,223)	(5,989)
Interest on debentures	(22,500)	(131,625)	(287,750)	(394,875)
Gain on extinguishment of debt	3,428,875	-	3,428,875	-
Total Other Income (Expenses)	3,404,523	(133,571)	3,137,902	(400,863)
NET INCOME (LOSS) BEFORE TAXES	3,285,746	(186,160)	2,813,447	(768,948)
Income tax benefit (expense)	-	-	-	-

NET INCOME (LOSS)	$ 3,285,746	$ (186,160)	$ 2,813,447	$ (768,948)
INCOME (LOSS) PER SHARE - BASIC	$ 0.07	$ (0.01)	$ 0.06	$ (0.02)
INCOME (LOSS) PER SHARE - DILUTED	$ 0.07	$ (0.01)	$ 0.06	$ (0.02)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC	45,702,575	44,711,890	45,098,787	40,862,732
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED	45,702,575	44,711,890	45,098,787	40,862,732

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

REFLECT SCIENTIFIC, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Nine Months Ended September 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 2,813,447	$ (768,948)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation	7,198	25,105
Amortization	208,556	223,344
Stock-based compensation	-	153,426
Gain on extinguishment of debt	(3,428,875)	-
Common stock issued for services	5,897	94,577
Changes in operating assets and liabilities:		
(Increase)/decrease in accounts receivable	(1,221)	81,047
(Increase)/decrease in inventory	14,109	(69,102)
(Increase)/decrease in prepaid assets	-	(3,100)
Increase/(decrease) in accounts payable and accrued expenses	260,693	366,430
Increase/(decrease) in customer deposits	(4,829)	-
Net Cash (used by) provided from Operations	(125,025)	102,779
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Cash from Investing Activities	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital leases	-	(7,930)
Increase in lines of credit	19,100	-
Payments made against lines of credit	(12,014)	(11,862)
Issuance of common stock for cash	75,000	-
Principal payments on debenture debt	(75,000)	-
Net Cash provided from (used by) Financing Activities	7,086	(19,792)
NET INCREASE (DECREASE) IN CASH	(117,939)	82,987
CASH AT BEGINNING OF PERIOD	346,697	242,136
CASH AT END OF PERIOD	$ 228,758	$ 325,123

SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash Paid For:				
Interest	$	3,223	$	4,042
Income taxes	$	-	$	-

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

REFLECT SCIENTIFIC, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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, 2011 financial statements. Operating results for the three and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

NOTE 2 -

ORGANIZATION AND DESCRIPTION OF BUSINESS

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.

NOTE 3 GOING CONCERN

The Company is currently in default on the remainder of its issued and outstanding debentures (See note 4). The Company has taken and will continue to take actions to reduce operating expenses and increase margins. The measures taken have reduced the cash used for operations, but will not be sufficient to generate the cash required to retire the remaining debentures. While the Company is working diligently to secure funding to enable it to retire the remaining 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.

NOTE 4 DEFAULT ON CONVERTIBLE DEBENTURES

At December 31, 2011, the outstanding indebtedness for the debentures and penalty resulting from forfeiture was $2,925,000. Assuming all remaining debentures were converted, 1,000,000 shares of restricted common stock would be issued. As a result of the default the debentures bear an 18% interest rate.

In June 2012, management reached agreement with the holders of $1,750,000 in debentures on a plan to settle the debentures held by them that are in default. The settlement agreement provided that, upon the Company making a cash payment in the amount of $75,000, all indebtedness would be extinguished, which included the principal amount of $1,750,000, default penalties of $525,000 and accrued interest of $1,228,875. It was also agreed that warrants exercisable for 43,749,999 shares of restricted common stock be extinguished in the settlement agreement. The Company made the $75,000 payment in compliance with the settlement agreement on July 10, 2012. The Company recognized a net gain of $3,428,875 on the settlement agreement, which gain is reported in the financial statements for the three and nine months ended September 30, 2012. The gain on the settlement represents $0.07 per share for the nine months ended September 30, 2012, basic and diluted.

The holder of the remaining debentures, which include principal of $500,000, default penalty of $150,000 and accrued interest of $397,125 is involved in bankruptcy proceedings in the Cayman Islands and the resolution of those debentures and related liabilities is undetermined.

Warrants were issued with the debentures as a part of the original debenture transaction. There were 1,923,077 Series A debentures issued with an exercise price of $0.80 per share and 1,023,077 Series B debentures issued with an exercise price of $1,00 per share. The debentures had an exercise term of five years from the June 29, 2007 date of issue. None of the debentures were exercised and all issued and outstanding Series A and Series B warrants expired on June 29, 2012.

NOTE 5 EQUITY TRANSACTIONS

The Company accepted subscriptions totaling $75,000 under a Private Placement Memorandum (PPM) to raise the funds to meet the agreed upon settlement described in Note 4. A total of 937,500 shares of restricted common stock were issued to satisfy the subscription agreements. All of the shares were subscribed to and issued at $0.08 per share.

The Company issued 84,244 shares of restricted common stock for professional services valued at $5,897, or $0.07 per share.

NOTE 6 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 7 RECENT ACCOUNTING PRONOUNCEMENTS

In July 2012 the Financial Accounting Standards Board issued a new accounting standard that simplifies the impairment test for indefinite-lived intangible assets, other than goodwill. The new guidance gives the option to first assess qualitative factors to determine if it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative valuation test. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after September 15, 2012. The Company will adopt this accounting standard in the fourth quarter of 2012. It does not anticipate that this adoption will have a significant impact on its financial position, results of operations or cash flow.

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 and 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.

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, 2012, 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, 2011.

Plan of Operation and Business Growth

Our Company develops and sells specialty equipment and the related consumable products into life science laboratories, the pharmaceutical industry and the transportation industry. The following provides an overview of the marketing plans for our commercialized products and the status of products under development.

Life Science Consumables:

Early in the fourth quarter of 2012, our first ever Life Science Consumables Catalog will be completed and distributed to over 800 distributors around the world. In addition to consumables, we are highlighting our Life Science Ultra Low

Temperature Freezers and UV Detectors in this catalog, enabling us to utilize this group of distributors to expand the sales of these capital equipment products.

Life Science and Medical Instruments:

We are nearing completion on two projects on instruments that we anticipate could have significant impact on our instrument sales. The instruments are state of the art, competitively priced at $800 to $1,500 each, and could add sales of up to 600 additional instruments during the next 18 months.

Liquid Nitrogen Platform Technology:

CB40 Refrigerated Truck Cooling System

Progress continues to be made on our CB40 refrigerated truck cooling system. This green technology cooling system provides an environmentally responsible cooling system alternative to trucking companies

---

and conforms to new trucking regulations. Additional benefits to the trucking industry include enabling them to carry more cargo weight while significantly reducing operating costs. The CB40 will be beta tested during the first quarter of 2013, with an expected product launch date later in that year. The units will sell for approximately $20,000 each. There are currently in excess of 350,000 refrigerated trucks in the United States with an additional 35,000 new units produced each year.

T-150 Ultra Low Temperature Freezers

We are currently finalizing a floor plan design for a large pharmaceutical company that has indicated it will be purchasing freezers for their facility. The anticipated order is expected to be received during the first quarter of 2013. The freezer units sell for approximately $50,000 each.

Results of Operations

Three Months Ended September 30, 2012 and 2011

	For the three months ended September 30,		
	2012	2011	Change
Revenues	$ 305,713	$ 481,325	$ (175,612)
Cost of goods sold	145,822	224,307	(78,485)
Gross profit	159,891	257,018	(97,127)
Operating expenses	278,668	309,607	(30,939)
Other income (expense)	3,404,523	(133,571)	3,538,094
Net income (loss)	$ 3,285,746	$ (186,160)	$ 3,471,906

Revenues decreased during the three months ended September 30, 2012, to $305,713 from $481,325 for the three months ended September 30, 2011, a decrease of $175,612. All of the revenues were generated from our specialized laboratory supplies and detector sales. We are continuing to refine and commercialize the ultra low temperature freezer technologies and our new detectors. If the Company is successful in its efforts to bring on new distributors and distribution channels through our catalog, it expects to see sales volumes increase by the end of the year.

With decreased sales during the reporting period, cost of goods decreased in the quarter ending September 30, 2012, as compared to September 30, 2011 to $145,822 from $224,307, a decrease of $78,485. The gross profit percentage for the three month periods ended September 30, 2012 and 2011 was 52.3% and 53.4%, respectively. While the gross profit percentage will fluctuate, depending on the mix of product sales, we feel our continuing strategy to actively work to obtain more favorable pricing from our current vendors in order to increase the margins realized on our product lines is delivering positive results.

Our continued focus on operating expenses resulted in a reduction of operating expenses in the current period. This reduction is the result of cost reduction efforts implemented by management and an ongoing goal to gain additional operating efficiencies. Operating expenses for the three months ended September 30, 2012 were $278,668, a decrease of $30,939 from the $309,607 in operating expenses recorded for the three month period ended September 30, 2011. The decrease is primarily attributable to reductions in outside services, building rent, salaries and client relations. Operating expenses for the remaining reporting period in 2012 are expected to remain close to the expense levels shown for the three month period of this report.

The gain of $3,428,875 realized on the extinguishment of debt provided a net income for the three month period ended September 2012 of $3,285,746, a $3,471,906 increase from the net loss of $186,160 loss for the three month period ended September 30, 2011. While this one-time event generated a net income for the period, management continues to look for opportunities to improve gross margins and reduce ongoing operating expenses in order to achieve profitability.

The net income for the three months ended September 30, 2012 was $0.07 per share. The net loss for the three months ended September 30, 2011 was also $0.01 per share.

Nine Months Ended September 30, 2012 and 2011

	For the nine months ended September 30,		
	2012	2011	Change
Revenues	$ 988,427	$ 1,562,737	$ (574,310)
Cost of goods sold	481,811	780,119	(298,308)
Gross profit	506,616	782,618	(276,002)
Operating expenses	831,071	1,150,703	(319,632)
Other income (expense)	3,137,902	(400,863)	3,538,765
Net income (loss)	$ 2,813,447	$ (768,948)	$ 3,582,395

Revenues decreased during the nine months ended September 30, 2012, to $988,427 from $1,562,737 for the nine months ended September 30, 2011, a decrease of $574,310. The decrease in revenue is in large part due to the loss of a major distributor in 2012. All of the revenues during both 2012 and 2011 were generated from our specialized laboratory supplies and detector sales, as we are continuing to refine and commercialize the ultra low temperature freezer technologies. It is not expected that the revenue shortfall for the first nine months will be reversed or be made up during the final three months of 2012; therefore sales for the year 2012 will end lower than the 2011 sales.

With decreased sales during the reporting period, cost of goods decreased in the nine months ended September 30, 2012, as compared to September 30, 2011 to $481,811 from $780,119, a decrease of $298,308. The gross profit percentage increased to 51.3% for the nine months ended September 30, 2012, compared to 50.1% for the nine months ended September 30, 2011. While the gross profit percentage is dependent on the mix of product sales, we continue to actively work to obtain more favorable pricing from our vendors in order to increase the margins realized on our product lines.

Our focus on reducing operating expenses continues to deliver positive results, as a significant reduction of operating expenses is evidenced in the periods being compared. This reduction is the result of cost reduction efforts implemented by management and our ongoing objective is to gain additional operating efficiencies. Operating expenses for the nine months ended September 30, 2012 were $831,071, a decrease of $319,632 from the $1,150,703 in operating expenses recorded for the nine month period ended September 30, 2011. The decrease results primarily reductions in stock-based compensation, investor relations, building rent and consulting fees. Operating expenses for the remaining reporting period in 2012 are expected to remain close to the expense levels shown for the three month period reported above.

The gain realized on the extinguishment of debt provided net income of $2,813,447 for the nine month period ended September 30, 2012, a $3,582,395 improvement from the $768,948 loss for the nine month period ended September 30, 2011. Management will continue to look for opportunities to improve gross margins and reduce ongoing operating expenses in order to sustain profitability.

The net income per share for the nine months ended September 30, 2012 was $0.06, basic and diluted. The net loss per share for the nine months ended September 30, 2011 was $0.02 per share, basic and diluted.

Seasonality and Cyclicality

We do not believe our business is cyclical.

Liquidity and Capital Resources

Our cash resources at September 30, 2012, were $228,758, with accounts receivable of $144,499 and inventory of $378,895, both net of provisions. 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, 2012, was $486,027, due primarily to the $650,000 in outstanding debentures and $397,125 in accrued interest on those debentures. Working capital on December 31, 2011 was a deficit of $3,596,125. During this reporting period management was able to obtain the $75,000 of financing required to retire $3,503,875 of the liabilities relating to the outstanding debentures. Additional funding will be required 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 the 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, 2012, net cash used for operating activities was $125,025 which compares to $102,779 of net cash provided from operations nine month period ended September 30, 2011.

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, 2012 are $80,600 for that facility. In addition, we have automobile leases with future minimum lease payments of $5,895.

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

15

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

The Company maintains (a) disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, (the Exchange Act)), and (b) internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

The Company s management, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company s disclosure controls and procedures are effective.

There have not been any changes in the Company s internal control over financial reporting during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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 December 2011 the case was submitted to arbitration and a settlement agreement was reached. As a part of the settlement two patents were assigned to the Company, the royalty agreement was terminated and agreement was reached on the return of stock issued as a part of the acquisition of Cryomastor. As of the date of this filing, the defendant has assigned the patents but has not submitted the stock agreed upon and is thus in breach of the terms of the settlement agreement. Notice of such breach has been sent.

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

Recent Sales of Unregistered Securities

We accepted subscriptions totaling $75,000 under a Private Placement Memorandum (PPM) to raise the funds to meet the agreed upon settlement described in Note 4 to the financial statements. A total of 937,500 shares of restricted common stock were issued to satisfy the subscription agreements.

The Company issued 84,244 shares of restricted common stock for professional services valued at $5,897, or $0.07 per share.

Use of Proceeds of Registered Securities

None; not applicable.

Purchases of Equity Securities by Us and Affiliated Purchasers

During the nine months ended September 30, 2012, we have not purchased any equity securities nor have any officers or directors of the Company.

ITEM 3. Defaults Upon Senior Securities

In June 2012, management reached agreement with the holders of $1,750,000 in debentures on a plan to settle the debentures held by them that are in default. The settlement agreement provided that, upon the Company making a cash payment in the amount of $75,000, all indebtedness would be extinguished, which included the principal amount of $1,750,000, default penalties of $525,000 and accrued interest of $1,228,875. It was also agreed that warrants exercisable for 43,749,999 shares of restricted common stock be extinguished in the settlement agreement. We made the $75,000 payment in compliance with the settlement agreement on July 10, 2012. We recognized a net gain of $3,428,875 on the settlement agreement, which gain is reported in the financial statements for the three and nine months ended September 30, 2012.

The holder of the remaining debentures, which include principal of $500,000, default penalty of $150,000 and accrued interest of $397,125 is involved in bankruptcy proceedings in the Cayman Islands and the resolution of those debentures and related liabilities is undetermined.

ITEM 4. Mine Safety Disclosure

Not applicable.

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:

November 14, 2012

By: /s/ Kim Boyce

Kim Boyce, CEO, President and Director

Date:

November 14, 2012

By: /s/ Tom Tait

Tom Tait, Vice President and Director

Date:

November 14, 2012

By: /s/ Keith Merrell

Keith Merrell, CFO, Principal Financial

Officer