

REFLECT SCIENTIFIC INC  
Form 10-K  
March 31, 2011

**U. S. Securities and Exchange Commission**

Washington, D. C. 20549

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE**

**ACT OF 1934**

For the fiscal year ended December 31, 2010

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE**

**ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

*Commission File No. - 000-313770*

**REFLECT SCIENTIFIC, INC.**

(Name of Registrant in its Charter)

Utah

87-0642556

(State or Other Jurisdiction of

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(I.R.S. Employer Identification No.)

incorporation or organization)

1270 South 1380 West

Orem, Utah 84058

(Address of Principal Executive Offices)

Issuer's Telephone Number: (801) 226-4100

Securities registered under Section 12(b) of the Act: None

Name of Each Exchange on Which Registered: None

Securities registered under Section 12(g) of the Act:

\$0.01 par value common stock

Title of Class

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [ ] No [X]

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Yes [ ] No [ ]

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [X] No [ ]

(2) Yes  No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 [ ]

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large Accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes [ ] No [X]

State Issuer's revenues for its most recent fiscal year: December 31, 2010 - \$2,401,685.

**Aggregate Market Value of Non-Voting Common Stock Held by Non-Affiliates**

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$1,691,594

There are approximately 16,267,640 shares of common voting stock of the Registrant held by non-affiliates, and based upon the average bid and asked prices of our common stock on June 30, 2010 of \$0.05, as reported by the OTC Bulletin Board of the National Association of Securities Dealers, Inc., the aggregate market value of our common stock held by non-affiliates was approximately \$813,382.

**Applicable Only to Registrants Involved in Bankruptcy Proceedings During the Past Five Years**

None; not applicable.

**Outstanding Shares**

As of March 15, 2011, the Registrant had 33,831,890 shares of common stock outstanding.

**Documents Incorporated by Reference**

A description of Documents Incorporated by Reference is contained in Part IV, Item 15, of this Annual Report.

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## Forward-Looking Statements

When used in this Annual Report on Form 10-K, the words or phrases would be, will allow, intends to, will likely result, are expected to, will continue, is anticipated, estimate, project or similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements specifically include, but are not limited to, our expectations regarding strategic business initiatives, our intentions to defend our intellectual property rights, continue our research and development, seek regulatory approvals and plans regarding sales and marketing.

We caution readers not to place undue reliance on the forward-looking statements, which speak only as of the date of this Annual Report, are based on certain assumptions and expectations which may or may not be valid or actually occur and which involve various risks and uncertainties, including but not limited to competitive products and pricing, difficulties in product development, commercialization and technology, changes in the regulation of life science products, or other necessary approvals to sell future products and other risk described elsewhere herein. If and when sales of our new product lines commence, sales may not reach the levels anticipated. As a result, our actual results for future periods could differ materially from those anticipated or projected. All forward-looking statements reflect our present expectation of future events and are subject to a number of important factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

Unless otherwise required by applicable law, we do not undertake, and specifically disclaim any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

## PART I

### Item 1. Description of Business

#### Business Development

#### History

Reflect Scientific, Inc., a Utah corporation (the Company, we, our, us and words of similar import), was organized under the laws of the State of Utah on November 3, 1999, under the name Cole, Inc. On December 31, 2003, we acquired Reflect Scientific, Inc., a California corporation. We changed our name to Reflect Scientific, Inc. and

succeeded to the business operations of our wholly-owned subsidiary, that involved the manufacture and distribution of unique laboratory consumables and disposables such as filtration and purification products, customized sample handling vials, electronic wiring assemblies, high temperature silicone, graphite and vespel/graphite sealing components for use by original equipment manufacturers ( OEM ) in the chemical analysis industries, primarily in the field of gas/liquid chromatography. See our 8-K Current Report dated December 31, 2003, which was filed with the Securities and Exchange Commission on January 15, 2004, and is incorporated herein by reference. See Part IV, Item 15.

On November 29, 2005, we announced the execution of a Letter of Intent to acquire Cryomastor Corporation, a California corporation ( Cryomastor [sometimes called Cryometrix, its amended name).

Effective as of April 4, 2006, we entered into a Purchase Agreement (the JMST Agreement ) with JM SciTech, LLC, a limited liability company organized under the laws of the State of Colorado, and doing business as JMST Systems ( JMST ); David Carver, an individual ( Carver ); and Julie Martin, an individual ( Martin ) (JMST, Carver and Martin are sometimes hereinafter referred to collectively as Sellers ). Pursuant to the JMST Agreement, we purchased and JMST sold all right, title and interest in and to the JMST Technology (the JMST Technology ), as described in the JMST Agreement; and Carver conveyed and assigned any rights he had in and to certain patents (the Carver Patents ) and related intellectual assets as described in the JMST Agreement (collectively, including the Carver Patents, referred to herein as the Carver Technology ). JMST had created a line of chemical detection instruments that are used in the pharmaceutical, biotechnology and homeland security markets. The patented technology allows researchers to accurately analyze chemical formulations for their

composition and identity. See our 8-K Current Report dated April 4, 2006, which was filed with the Securities and Exchange Commission on April 7, and is incorporated herein by reference. See Part IV, Item 15.

On June 27, 2006, we completed the acquisition of Cryomastor pursuant to an Agreement and Plan of Merger (the Cryomastor Merger Agreement ), which became our wholly-owned subsidiary; changed its name to Cryometrix, Inc. ; and succeeded to its business operations, which involved the manufacture and sale of ultra low temperature freezer systems powered by liquid nitrogen for use in bio-repositories associated with the biotech and pharmaceutical industries, as well as government facilities, universities and many other diverse applications that require a large number of reliable and energy efficient freezers. See our 8-K Current Report dated June 27, 2006, which was filed with the Securities and Exchange Commission on June 30, 2006, and is incorporated herein by reference. See Part IV, Item 15.

On November 15, 2006, we entered into an Agreement and Plan of Merger (the Image Labs Merger Agreement ) between Image Acquisition Corp., a Georgia corporation and our wholly-owned subsidiary ( Merger Subsidiary ); Smithgall & Associates, Inc., dba Image Labs International, a Georgia corporation ( Image Labs ); and Brian Smithgall ( Smithgall ), the sole shareholder of Image Labs (the Image Labs Shareholder ). Established in 1993 and located in Bozeman, Montana, Image Labs is a manufacturer and developer of factory automation equipment. The primary product lines focus in the areas of automated inspection, measurement and material handling. See our 8-K Current Report dated November 15, 2006, which was filed with the Securities and Exchange Commission on November 21, 2006, and is incorporated herein by reference. See Part IV, Item 15. In February 2010, management made the decision to divest this business.

On November 17, 2006, we entered into an Agreement and Plan of Merger (the The All Temp Merger Agreement ) between our wholly-owned subsidiary, Cryometrix, Inc. ( Merger Subsidiary ); All Temp Engineering Inc., a California corporation ( All Temp ); J F Dain & E L Dain CO T Tee Dain Family Revocable Trust U/A Dated 12/17/2001 (the Dain Trust ) and Nicholas J. Henneman ( Henneman ), the sole All Temp Shareholders (collectively, the All Temp Shareholders ); and John F. Dain, individually ( Dain ). All Temp was located in San Jose, California and had been providing engineered solutions and services to the cryogenics industry for over 24 years. All Temp served numerous companies in business sectors such as biotech, pharmaceutical, medical devices, research, universities, semiconductor, aerospace, military, and industrial food processing. See our 8-K Current Report dated November 17, 2006, which was filed with the Securities and Exchange Commission on November 22, 2006, and is incorporated herein by reference. See Part IV, Item 15.

On June 29, 2007, we completed the sale of \$2,500,000 of debentures. See our 8-K Current Report dated July 2, 2008, and is incorporated herein by reference. See Part IV, Item 15.

On October 31, 2009, the Company completed the contract obligations of All Temp and moved its Cryometrix subsidiary to Montana. The consolidation of the manufacturing operations was made to bring greater efficiencies while at the same time provide cost savings.

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 twelve month period covered by this report. In conjunction with the disposal of this business entity, \$99,100 in cash was transferred to the new owners. With the sale of operations in Montana, the Cryometrix subsidiary was moved to and consolidated with the Reflect Scientific operations in Utah.

## **Business**

### **Overview**

Reflect Scientific is engaged in the manufacture and distribution of innovative products targeted at the life science market. Our customers include hospitals and diagnostic laboratories, pharmaceutical and biotech companies, universities, government and private sector research facilities, and chemical and industrial companies.

Our goal is to provide our customers with the best solution for their needs. This philosophy extends into our business strategies. Through a series of strategic acquisitions, we now offer a greatly expanded line of products that take advantage of market needs. Our growing product portfolio includes ultra low temperature freezers and chemical detectors, in addition to supplying OEM products to the life science industry.

Our Visacon brand chemical detectors provide our OEM customers a cost effective detection product that allows them to extend their markets. Detectors use patented optical detection technologies that can be tailored for pharmaceutical, biotechnology or other life science applications.

Our Cryometrix brand ultra low temperature freezers innovative design enables our customers to save substantially on energy costs related to cryogenic storage. Ultra low temperature freezers are used world-wide for the storage of vaccines, DNA, RNA, proteins and many other biological and chemical samples. There is a growing need for energy efficient, reliable ultra low temperature storage units. We will continue to expand into this growing market with the Cryometrix freezer. The application of this technology for use in refrigerated trailers (commonly called reefers ) used to transport goods which need to be maintained in a cold environment significantly broadens the market for this technology. The utilization of this technology in reefers eliminates the current method of cooling, which uses engines run on hydrocarbon fuels. The Cryometrix technology is pollutant free and is more cost effective and efficient than the technologies currently being used.

### **Products**

Reflect Scientific designs, develops and sells scientific equipment for the Life Science and Manufacturing industries. Since our wholly owned subsidiary, Reflect Scientific's, organization in 1991, our focus is and has been on providing value added products, analytic testing equipment and stand alone products for the life science and industrial market place. Reflect Scientific's products range from non-mechanical Cryometrix freezers, products and parts for life science industry to tools and analytical services for industrial manufacturing.

All of Reflect Scientific's products and services are developed with one key factor in mind: Providing a superior cost/benefit to the customer than do other products in the same market space. With years of experience in the life science and industrial manufacturing markets, Reflect Scientific has been able to develop not only unique patentable products, but products that we believe offer immediate advantages and cost savings over any other competing and existing products on the market.

We have developed a business model with a focus on intellectual expertise in design and development of products and solutions for life science and industrial manufacturing industries. We outsource the majority of our manufacturing, allowing us to maintain the flexibility to develop products across multiple lines and industries. Our strength is in providing products which we believe offer immediate, verifiable, cost saving solutions.

We have found many companies that can manufacture products to our specification, allowing us to focus on our core competencies of development and design and maintain a flexible corporate structure capable of taking advantage of new opportunities without the large capital investment required to acquire tooling and manufacturing equipment. This focus on the intellectual expertise as opposed to manufacturing of products also allows us to develop products along multiple industry lines and to tailor our products to specific needs in a variety of industrial settings. Our products are sold in the biotechnology, pharmaceutical and medical industries, as well as the manufacturing industries, such as automotive.

Cryometrix Freezers

Our Cryometrix ultra low temperature freezers are, we believe, a technological breakthrough that provides energy savings and other critically important benefits to cryo-storage customers in the Life Science related industries. Ultra low temperature freezers are used in multiple industries for the storage of everything from blood to cancer vaccines. These freezers are used by organizations and companies such as the Red Cross, hospitals and biotechnology research facilities.

The only ultra low temperature freezers currently available are produced by a limited number of companies and rely on a mechanical process for cooling. Because of inadequacies in the mechanical process, we believe there is wastage of inventory each year because of the problems of proper cooling inherent in the mechanical freezers.

Our freezers are a complete divergence from the current technology used in ultra low temperature freezers. Through the advantages of our technology, we believe our freezers solve the current inadequacies and provide immediate cost savings for our clients. Current cryogenic storage equipment falls short of customer expectations in a variety of key performance criteria.

§

High energy usage a growing problem with rising energy costs

§

Inflexible temperature range existing units cannot be easily modified for colder requirements (colder temperatures are an industry trend)

§

Sample inventory is at risk in the event of a power failure

§

Poor temperature uniformity samples in different areas of the freezer can experience wide variations in temperatures which is undesirable from a regulatory standpoint.

Our Cryometrix ultra low temperature freezer uses a new patented design which is powered by liquid nitrogen. Through the use of a liquid nitrogen powered freezer system we are able to address the market need for:

§

Low energy requirements

§

Flexible temperature control wide range of usable temperatures



§

Power failures have little effect - uses passive liquid nitrogen technology rather than electrically powered compressors.

§

Uniform temperatures throughout freezer more usable storage volume

§

Much larger storage volume per area of floor space occupied reduced facilities cost

§

Reliable and essentially maintenance free, further lowering cost of ownership

We believe existing mechanical freezers are outdated and our freezers will be the desired technology to which the industry will move, providing us the opportunity to gain a significant market share in this large market.

The adaptation of the freezer technology to refrigeration systems used on trailers ( reefers ) for transporting perishable items opens a significant new market. Trailers can easily be retrofit with the Cryogenix unit, which provides pollutant free and more efficient operations at a cost savings compared to the diesel powered units currently used. The reefer market is a \$1 billion market. The non-polluting Cryogenix unit provides significant benefits over any other unit currently marketed.

### Detectors

Our chemical detector products serve the analytical instrumentation sector of the Life Sciences market. These optically based chemical detection instruments provide a cost-effective, high-performance alternative for original equipment manufacturers (OEM). One major use for these detectors is the analysis of whole blood for metabolic diseases.

Companies that manufacture beneficial chemicals or biotechnology products are often required to develop a methodology to detect their presence in the environment or in living tissue. Recent market trends have been toward the creation of a dedicated system that is specific for a particular chemical. As the market expands for dedicated instrumentation, certain critical issues arise.



§

Lack of high quality, high performance OEM instrumentation - large instrument manufacturers sell the service/instrument combination only under their own brand name

§

High price points - instrument company structure does not allow value pricing

Our products provide the building blocks to create such a system. Patented technology provides an array of benefits to the OEM customer.

§

High performance instrumentation - meets or exceeds industry standards for chemical detection

§

Technological breakthroughs provide cost-effective detection instrument solutions

§

Versatile configurations allow tailoring to specific customer need without the necessity for expensive custom engineering

§

Certified by various regulatory agencies for sale worldwide

With the expanding focus on the need for detectors we designed a base system that can be tooled for multiple uses, offering flexibility to our customers. We intend to further penetrate the dedicated OEM instrument market through new product development and continued cost reductions in manufacturing to meet price points.

Reflect Scientific is also poised to provide consumables to the same group of customers that purchase detectors. This one stop shopping is very attractive to customers and is unique in the OEM supply industry, further making Reflect Scientific the choice for OEMs.

#### Inspection and Testing Equipment

Our inspection and testing equipment product lines were disposed of effective March 2, 2010.

#### Competition

The environment for our products and services is intensely competitive. Although the complexity of the products we produce limits the number of companies we compete with, the companies with competing technology are generally larger and often subsidiaries or divisions of very large multinational companies. Our competitor's size and association with large multinational companies gives them advantages over us in the ability to access potential customers. Many potential customers already purchase products either directly from our competitors or from another subsidiary of these large multinational companies, creating natural inroads to sales that we do not possess.

Given our relative size versus our competitors, we often are required to seek niche markets for our products or focus on selling components to be used in our competitors larger detection units. We believe, however, that our technology and experience in the ultra low freezers and detectors allows us to be competitive in those markets. However, since our products are new to the marketplace, the products long term commercial acceptance is still unknown. Most of our products compete against multiple competitors, with our refrigeration products competing primarily against Thermo Fisher Scientific and Sanyo Corporation.

#### Growth Plan

We continue to evaluate acquisitions of businesses and technologies to enhance our revenues in the Life Science and green technology markets. In addition to organic growth with our existing product lines we will continue to research and investigate acquisitions which match our core commitment in order to grow our Company and enhance shareholder value.

We intend to seek to expand the applications for our products and equipment into additional markets as we develop brand recognition. We hope to be able to leverage off of our existing products and name recognition as we continue forward using our existing offerings and product strength to position us as a key supplier of automation equipment, inspection equipment and cryogenic storage solutions. This strategic plan will also allow for further diversification of our customer base.

Manufacturing, Supplies, and Quality Control

Many of our products are manufactured by third party manufactures. We believe by outsourcing our manufacturing we are able to reduce the overall cost of our products. We do manufacture some products which are less labor and parts intensive in our facility in Orem, Utah.

Regulation and Environmental Compliance

Presently, none of our products are in highly regulated industries.

Sources and Availability of Raw Materials and Names of Principal Suppliers

Sources and availability of key materials and intermediates continue to remain stable. Where supply is considered a critical success factor for our business, we have certified vendors in place.

Dependence on One or a Few Major Customers

We are not dependent on any large customer.

Need for any Governmental Approval of Principal Products or Services

No products presently being manufactured or sold by us are subject to prior governmental approvals.

Effect of Existing or Probable Governmental Regulations on the Business

We are subject to the Sarbanes-Oxley Act of 2002. This Act creates a strong and independent accounting oversight board to oversee the conduct of auditors of public companies and strengthens auditor independence. It also requires steps to enhance the direct responsibility of senior members of management for financial reporting and for the quality of financial disclosures made by public companies; establishes clear statutory rules to limit, and to expose to public

view, possible conflicts of interest affecting securities analysts; creates guidelines for audit committee members appointment, compensation and oversight of the work of public companies auditors; prohibits certain insider trading during pension fund blackout periods; and establishes a federal crime of securities fraud, among other provisions.

Section 14(a) of the Exchange Act requires all companies with securities registered pursuant to Section 12(g) of the Exchange Act to comply with the rules and regulations of the Securities and Exchange Commission regarding proxy solicitations, as outlined in Regulation 14A. Matters submitted to stockholders of our Company at a special or annual meeting thereof or pursuant to a written consent will require our Company to provide our stockholders with the information outlined in Schedules 14A or 14C of Regulation 14; preliminary copies of this information must be submitted to the Securities and Exchange Commission at least 10 days prior to the date that definitive copies of this information are forwarded to our stockholders.

We are also required to file annual reports on Form 10-K and quarterly reports on Form 10-Q with the Securities Exchange Commission on a regular basis, and will be required to timely disclose certain material events (e.g., changes in corporate control; acquisitions or dispositions of a significant amount of assets other than in the ordinary course of business; changes in executive officers and directors; and bankruptcy) in a Current Report on Form 8-K.

**Patents, Trademarks, Licenses, Franchises, Concessions, Royalty Agreements or Labor Contracts, including Duration**

All patents and trademarks relating to acquisitions have been assigned to us. Where appropriate, we seek patent protection for inventions and developments made by our personnel and incorporated into our products or otherwise falling within our fields of interest.

We protect some of our technology as trade secrets and, where appropriate, we use trademarks or register trademarks used in connection with our products.

Patents have been issued covering the following products:

JMST chemical detectors 4 patents issued

Cryomastor ultra low temperature freezers 1 patent issued

### PATENT INFORMATION

<u>Patent number</u>
<u>Title</u>
<u>Issue</u>
<u>Filing</u>
<u>Expiration</u>
6,804,976
High reliability multi-tube thermal exchange structure
Oct 19, 2004
Dec 12, 2003
Dec 12, 2023
6,530,286
Method and apparatus for measuring fluid flow
Mar 11, 2003
May 9, 2000
May 9, 2020
5,969,812

Spectrophotometer  
apparatus with dual  
concentric

beams and fiber optic  
beam splitter

Oct 19, 1999

Oct 18, 1995

Oct, 18, 2015

5,699,156

Spectrophotometer  
apparatus with dual  
light sources and  
optical paths, fiber  
optic pick-up and  
sample cell therefore

Dec 16, 1997

Nov 23, 1994

Dec 16, 2014

5,694,215

Optical array and  
processing  
electronics and  
method therefore for  
use in spectroscopy

Dec 2, 1997

Mar 4, 1996

Mar 4, 2016

7,621,148

Ultra-low  
temperature  
bio-sample storage  
system

Nov. 24, 2009



Aug. 7, 2007

Nov. 24, 2027

Royalty agreements were executed with JMST and Cryometrix as a condition of the companies' acquisitions. Under the terms of the royalty agreements:

**JMST** David Carver will receive a royalty payment on gross revenues related to revenues derived from the Carver Patents or Carver Technology. Such payments are due on revenue in excess of \$500,000 derived from products under the Carver Patents or Carver Technology. The royalty payment is 2.5% on the revenue in excess of \$500,000 and is payable quarterly. Payments are to be made in the common stock of Reflect Scientific, not to exceed 500,000 shares in total. New products developed from the Carver Technology are subject to a royalty of 3% of gross revenues in excess of \$100,000, with an additional 2% if gross revenues exceed \$600,000. Royalties will also be paid in our common stock annually. Common stock will be valued at \$3.00 per share for these purposes. Royalty payments are only due for years where there are valid Carver Patents.

**Cryometrix** The prior shareholders of Cryometrix receive a 2.5% royalty on all sales, licensing or other distributions on revenue derived from products and technology received from Cryometrix. The royalty payment is not due or payable unless and until the revenue derived from such products and technology exceeds \$3,000,000. The payment is payable in shares of Reflect Scientific common stock not to exceed 2,000,000 shares in aggregate. Common stock will be valued at \$1.80 or market value at time of accrual whichever is greater, for these purposes. Payments are due quarterly.

### **Research and Development Costs During the Last Two Fiscal Years**

During the year ended December 31, 2010, we expended \$7,619 for research and development. During the year ended December 31, 2009, we expended \$22,353 for research and development. The majority of the research and development on our products was completed by the companies we purchased prior to our acquisition of those companies. We expect research and development cost to increase in the future with the development work required to commercialize our Cryometrix freezers.

## **Employees**

As of March 30, 2011, subsequent to the balance sheet date, we had 6 employees on a full-time basis and 4 part time employees. None of our employees are represented under a collective bargaining agreement. We believe our relations with our employees to be good.

## **Reports to Security Holders**

You may read and copy any materials that we file with the Securities and Exchange Commission at the Securities and Exchange Commission's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may also find all of the reports that we have filed electronically with the Securities and Exchange Commission at their Internet site [www.sec.gov](http://www.sec.gov).

## **Item 1A. Risk Factors**

Not applicable for Registrant.

## **Item 2. Description of Property**

Reflect Scientific conducts all of its business operations from one facility, located in Orem, UT. This is a combination warehouse, manufacturing and office facility with 6,000 square feet of space; we lease this facility at \$3,800 per month, with the lease term expiring on November 30, 2014.

## **Item 3. 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

**Item 4. Removed and Reserved**

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**PART II**

**Item 5. Market for Common Equity and Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities.**

**Market Information**

Since July 6, 2005, our common stock has been listed under the symbol RSCF on the OTCBB. Prior to July 6, 2005, our stock traded under the symbol COLH since its initial listing on May 24, 2001. The following table represents the high and low per share bid information for our common stock for each quarterly period in fiscal 2010, 2009 and 2008. Such high and low bid information reflects inter-dealer quotes, without retail mark-up, mark-down or commissions and may not represent actual transactions.

2010

2009

2008

High

Low

High

Low

High

Low

Quarter  
ended  
December  
31

\$ 0.09

\$

0.05

\$

0.24

\$

0.12

\$

	0.40
\$	
	0.20
Quarter ended September 30	
\$	0.09
\$	
	0.03
\$	
	0.24
\$	
	0.14
\$	
	0.77
\$	
	.044
Quarter ended June 30	
\$	0.13
\$	
	0.04
\$	
	0.25
\$	
	0.15

\$	
	0.95
\$	
	0.70
	Quarter ended March 31
\$	0.20
	\$
	0.11
\$	
	0.25
\$	
	0.10
\$	
	1.30
\$	
	0.70

As of March 30, 2011, there were 33,831,890 shares of our common stock outstanding. On March 30, 2011, the high and low bid price for our common stock was \$0.06 and \$0.06, respectively.

### Holders

The number of record holders of our common stock as of March 30, 2011, was approximately 129; this number does not include an indeterminate number of stockholders whose shares may be held by brokers in street name.

### Dividends

We have not declared any cash dividends with respect to our common stock, and do not intend to declare dividends in the foreseeable future. Our future dividend policy cannot be ascertained with any certainty. There are no material restrictions limiting, or that are likely to limit, our ability to pay dividends on our securities.

**Securities Authorized for Issuance under Equity Compensation Plans**

Plan Category

Number of Securities to be issued upon exercise of outstanding options, warrants and rights

Weighted-average exercise price of outstanding options, warrants and rights

Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a)

(a)

(b)

(c)

Equity compensation plans approved by security holders

5,120,000



\$0.13

6,880,000

Equity compensation plans  
not approved by security  
holders

4,151,895

\$0.90

None

Total

9,271,895

\$0.47

6,880,000

### **Recent Sales of Unregistered Securities**

On June 29, 2008, Reflect Scientific pursuant to the securities purchase agreement sold to five institutional investors



convertible debentures in the aggregate principal amount of \$2,500,000 and stock purchase warrants exercisable over a five year period for 3,846,154 shares of common stock (the Warrants ) in a private placement. All purchasers are accredited investors and a form D was filed covering this transaction.

We issued all of these securities to persons who were accredited investors or sophisticated investors as those terms are defined in Regulation D of the Securities and Exchange Commission; and each such investor had prior access to all material information about us. We believe that the offer and sale of these securities were exempt from the registration requirements of the Securities Act, pursuant to Sections 4(2) and 4(6) thereof, and Rule 506 of Regulation D of the Securities and Exchange Commission. Sales to accredited investors are preempted from state regulation.

During the year ended December 31, 2010, the net number of shares outstanding was reduced by 1,389,760. This reduction was the net result of 1,850,800 shares returned to the Company by agreement, which shares were cancelled, reduced by the issuance of 411,040 shares in payment of patent fees and 50,000 shares issued to an employee.

During the year ended December 31, 2009, we issued a net of 719,040 shares of common stock. Of this amount, 320,450 shares were issued in payment of interest on our debentures, 273,590 shares were issued in the conversion of debentures, 600,000 shares were issued for consulting services, and 25,000 shares were issued to a former employee, for a total of 1,219,040 shares issued. An original shareholder of All Temp Engineering returned 500,000 shares of stock issued to him in the All Temp acquisition transaction, which shares were cancelled, resulting in the net new issuance of 719,040 shares in 2009.

#### **Use of Proceeds of Registered Securities**

There were no proceeds received during the calendar year ended December 31, 2010, from the sale of registered securities.

#### **Purchases of Equity Securities by Us and Affiliated Purchasers**

There were no purchases of our equity securities by us or any of our affiliates during the year ended December 31, 2010.

#### **Item 6. Select Financial Data**

We are not required to provide information under this item.

**Item 7. Management's Discussion and Analysis or Plan of Operation**

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."

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our results of operations and financial condition. The discussion should be read in conjunction with the financial statements and notes included in this report as Part II, Item 8.

**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 Consolidated 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. Reflect Scientific believes there have been no significant changes during the year ended December 31, 2010.

Reflect Scientific's accounting policies are more fully described in Note 2 of the consolidated financial statements. As discussed in Note 2, 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 about the future events that affect the amounts reported in the consolidated financial statements and the 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. Reflect Scientific believes that the following addresses Reflect Scientific's most critical accounting policies.

We recognize revenue when the following criteria have been met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the price is fixed or determinable and (4) collectability is reasonably assured.

Product revenues are recognized when persuasive evidence of an arrangement exists, risk of loss and title has transferred to our customers, the fee is fixed or determinable and collection is probable. Rights of return for manufactured product are dependent upon the agreement.

Our allowance for doubtful accounts is maintained to provide for losses arising from customers' inability to make required payments. If there is deterioration of our customers' credit worthiness and/or there is an increase in the length of time that the receivables are past due greater than the historical assumptions used, additional allowances may be required.

We account for income taxes in accordance with Statement of Financial Accounting Standards Board Accounting Codification (ASC) 740, Income Taxes. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets will be reflected on the balance sheet when it is determined that it is more likely than not that the asset will be realized.

### Overview

The year ended December 31, 2010 has been a transitional year for the Company. Historically, significant portions of our revenue came from the manufacture and sale of capital equipment purchased by our customers. The economic climate the past few years caused many of these customers to defer, significantly reduce, or eliminate altogether their capital budget spending. The reduced level of capital spending had a significant impact on our sales for 2009 and led

to the management decision to divest Image Labs and Miralogix. Capital markets have also been tight, with the result that we were unable to secure funding with which to retire our debentures which matured June 30, 2009, and we are currently in default on that indebtedness. Due to the historical losses and the default status on our debentures, our accountants have expressed substantial doubt about our ability to continue as a going concern.

The Company has been proactive in making those business decisions which it believes will enable it to carry out its business plan. Significant cost reduction measures have been implemented, facilities consolidated and personnel reductions made. We have reached a settlement agreement with the majority holder of our debentures whereby, upon the payment of a portion of the principal, the remaining principal and penalty amount will be converted into common stock of the company and the warrants will be extinguished. Our ability to execute this agreement is dependent upon the obtaining of additional funding at terms that are acceptable. We cannot assure that it will be made available. If we are unable to secure financing, our ability to proceed with and implement our intended business plan will be negatively impacted.

#### Financial Position

The table below presents a summary of our consolidated balance sheets at December 31, 2010 and 2009:

**SUMMARY OF**  
**BALANCE**  
**SHEET**  
**INFORMATION**

Year ended	
Dec. 31, 2010	
Year ended	
Dec 31, 2009	
Increase	
(Decrease)	
Cash and cash equivalents	
	\$ 242,136
	\$ 165,633
	\$ 76,503
Total current assets	
	869,835
	1,362,431
	(492,596)
Total assets	

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	4,547,319
	6,153,459
	(1,606,140)
Total current liabilities	
	4,100,259
	3,984,372
	115,887
Accumulated deficit	
	(17,428,672)
	(15,656,425)
	(1,772,247)
Total stockholders equity	
	\$ 447,060
	\$ 2,159,372
	\$ (1,712,312)

We had \$242,136 in cash as of December 31, 2010, an increase of \$76,503 from December 31, 2009. We had a working capital deficit of \$3,230,424 at December 31, 2010, compared to working capital deficit of \$2,621,941 at December 31, 2009.

Contractual Obligations

The Company leases office/warehouse space in Utah. In addition, it has a lease on two vehicles. The following summarizes future minimum lease payments under the operating leases at December 31, 2010:

Year Ending	Minimum
-------------	---------



<u>December 31,</u>	<u>Lease Payments</u>
2011	\$ 51,205
2012	
53,593	
2013	
51,919	
2014	<u>48,848</u>
	<u>\$ 205,565</u>

Results of Operations

December 31, 2010 and 2009

The following table summarizes revenue, cost of goods sold, and operating expenses for the years ended December 31, 2010 and 2009:

Year Ended December 31, 2010	Year Ended December 31, 2009	Increase (Decrease)
Revenue		
\$2,401,685	\$3,384,551	\$(982,866)

Cost of Goods  
Sold

1,311,938

1,948,441

(636,503

Gross Profit

1,089,747

1,436,110

(346,363)

Salaries and  
wages

371,250

1,581,712

(1,210,462)

Rent expense

51,720

180,395

(128,675)

Research and  
development  
expense

7,619

22,353

(14,736)

General and  
administrative  
expense

748,254

1,242,460

(494,206)

Total  
operating  
expenses

1,178,843

3,026,920

(1,848,077)

Loss from  
continuing  
operations

(624,397)

(3,995,841)

3,371,444

Net loss

\$(1,772,247)

\$(4,881,878)

\$3,109,631

While the core business of specialty lab supplies and detector supplies decreased 8% to \$2,401,685 in 2010 from the \$3,384,551 in 2009, total revenue for the period ended December 31, 2010 decreased as compared to total revenue for the period ended December 31, 2009. A significant part of our 2009 sales came from the sale and installation of capital equipment manufactured and/or installed by Cryometrix and All Temp. Our core business sales of laboratory supplies remain strong and are projected to continue.

Our cost of goods decreased in the period ending December 31, 2010, as compared to December 31, 2009, due primarily to the reduced levels of sales. The percentage on gross margins increased to 45% in 2010, a 3% increase over the 42% margins realized in 2009. Our gross margin percent is heavily influenced by the sales mix, with the lab and detector supplies carrying higher gross margins than the manufactured capital equipment.

In the early part of 2009, significant investment was made in sales personnel to increase awareness of our products and generate additional sales. When it became apparent that the business climate would not support the hoped for sales increases, reductions were made, which will reduce salaries in future periods reported. Management made the decision to scale back the refrigeration service business, using contractors rather than maintaining employees, service vehicles, and the related expenses. Savings realized from this change, coupled with those resulting from the divestiture of Image Labs and Miralogix, are reflected in 2010 operating expense reductions.

General and administrative expenses decreased to \$748,254 during the year ended December 31, 2010, from \$1,242,460 during the year ended December 31, 2009. This reduction results from efficiency measures implemented by management during 2009 and the divestiture made in 2010. Expense levels going forward are expected to remain near the levels experienced in 2010.

The net loss narrowed to \$1,772,247 in 2010 from \$4,881,878 for the year ended December 31, 2009. Losses for each year contain one-time expenses as follows:

2010

2009

Penalty on debenture default

\$

690,000

Impairment of long-lived asset charges

708,265

Stock-based compensation charges

422,804

Loss

from discontinued operations

\$ 1,147,850

881,421

Total

\$ 1,147,850

\$ 1,821,069

The recording of these one-time charges made a significant impact on the operating results for the years ended December 31, 2010 and 2009.

#### Seasonality and Cyclical

We do not believe our business is cyclical.

#### Liquidity and Capital Resources

Our cash resources at December 31, 2010, were \$242,136, with accounts receivable of \$243,169 and inventory of \$376,751. We have relied on revenues and sales of equity and debt securities for cash resources. As a result of the decreases in accounts receivable and inventories, coupled with increases in cash, accounts payable and accrued liabilities, we had negative working capital of \$3,230,424 at December 31, 2010. This compares to negative working capital of \$2,621,941 at December 31, 2009. We are in default on our debentures and we need to obtain funding to retire that debt.

In 2010, net cash provided from operating activities was \$195,839 in cash as compared to net cash used of \$275,130 in 2009. We are hopeful that in 2011, with the raising of additional capital and the benefit of continued cost reductions, we will be able to further reduce our cash requirements.

We will continue to focus our efforts on our core business activities while pursuing capital resources and evaluating potential future acquisitions.

### **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 December 31, 2010 are \$185,260 for this facility. In addition, we have one automobile lease with future minimum lease payments of \$20,305.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable to Small Business Issuers

### **Item 8. Financial Statements**

The financial statements of the Company are set forth immediately following the signature page to this Form 10-K.

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

We had no disagreements on accounting and financial disclosures with our accounting firm during the reporting periods covered by this Annual Report.

### **Item 9A. Controls and Procedures**

As of the end of the period covered by this Annual Report, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief/Principal Financial Officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ( Exchange Act ). Based on this evaluation, our Chief Executive Officer and Chief/Principal Financial Officer concluded that information required to be disclosed is recorded, processed, summarized and reported within the specified periods and is accumulated and communicated to management, including our President and Chief/Principal Financial Officer, to

allow for timely decisions regarding required disclosure of material information required to be included in our periodic Securities and Exchange Commission reports. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and our Chief Executive Officer and Chief/Principal Financial Officer have concluded that our disclosure controls and procedures are effective to a reasonable assurance level of achieving such objectives. However, it should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

### **Management's Annual Report on Internal Control over Financial Reporting.**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes of accounting principles generally accepted in the United States.

Our management, with the participation of our Chief Executive Officer and Chief/Principal Financial Officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2010. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in Internal Control - Integrated Framework. Based on this evaluation, our management concluded that, as of December 31, 2010, our internal control over financial reporting was effective.

### **Inherent Limitations Over Internal Controls**

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations, including the possibility of human error and circumvention by collusion or overriding of controls. Accordingly, even an effective internal control system may not prevent or detect material misstatements on a timely basis. Also, projections of any evaluation of effectiveness to future periods are



subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

#### **Changes in internal control over financial reporting**

We have made no change in our internal control over financial reporting during the last fiscal year that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### **Attestation Report of the Registered Public Accounting Firm**

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this annual report on Form 10-K.

#### **Item 9B. Other Information.**

None; not applicable.

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**PART III**

**Item 10. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act**

**Identification of Directors and Executive Officers**

The following table sets forth the names of all of our current directors and executive officers. These persons will serve until the next annual meeting of the stockholders or until their successors are elected or appointed and qualified, or their prior resignation or termination.

<b>Name</b>	<b>Positions Held</b>	<b>Date of Election or Designation</b>	<b>Date of Termination or Resignation</b>
Kim Boyce	President &	12/03	*
	Director	12/03	*
Tom Tait			

Vice President &

01/05

\*

Director

01/05

\*

Kevin Cooksy

Secretary

01/05

\*

Treasurer

01/05

\*

Craig D. Morrison

Director

1/05

\*

Keith L. Merrell

Chief Financial Officer

10/09

\*

\* These persons presently serve in the capacities indicated.

## **Business Experience**

### **Kim Boyce - CEO, Director**

Mr. Boyce, 56, is the founder of Reflect Scientific and serves as President, Chief Executive Officer and Chairman of our Board of Directors. Mr. Boyce has over thirty years of experience in manufacturing, sales, distribution and management of scientific products related to companies in the chemical analysis, semiconductor fabrication and optics industries. His responsibilities have included serving as a Western Regional Sales Manager, OEM Special Accounts Manager, Plant Operations Manager and various other senior management positions within these industries.

### **Thomas Tait - Vice President, Director**

Mr. Tait, 54, serves as Vice President. Mr. Tait brings experience with accelerated product development, lean process management tools, strategic market analysis, and acquisition integration. Mr. Tait joined us from Danaher Company where he was a Business Manager over a \$120 million in sales product line. Prior assignments have included General Manager of HyperQuan Inc., Product Manager J&W Scientific and Project Manager Varian Inc. He also co-founded ChiraTech Inc, a high technology Company that was sold to Thermo Electron Corporation. Mr. Tait holds an MBA in Technology Management from the University of Phoenix and a BS in Chemistry from Clarkson University. He also holds patents in Optics and MEMS technologies.

### **Kevin Cooksy - Secretary / Treasurer**

Mr. Cooksy, 48, serves as the company's secretary and treasurer with general responsibility for financial, legal and administrative matters. Over the last twenty years, Mr. Cooksy has served in corporate legal, corporate development and finance capacities with public and private emerging technology organizations in the commercial, academic and government sectors. He is an Honors Research Program graduate in Analytical Chemistry from Northern Illinois University and received his MBA (Finance) from The Lake Forest College Graduate School of Management (magna cum laude) and a Juris Doctor degree from the McGeorge School of Law, University of the Pacific.

### **Craig Morrison, MD- Board Member**

Dr. Morrison, 67, serves on the Board of Directors. Dr. Morrison is a surgeon practicing in the State of Utah. He has provided his medical expertise and is one of the pioneering shareholders in the finance and development of Sanguine Corporation. Sanguine is a company focused on developing synthetic alternatives to blood. Dr. Morrison will



support the activities of the Board lending his knowledge of startup operations gained through his long experience and development of Sanguine.

#### **Keith Merrell - Chief Financial Officer**

Mr. Merrell, 65, serves as our Chief Financial Officer, Treasurer and General Manager. Mr. Merrell draws on over 30 years of accounting experience to manage all of our accounting functions and to interface with our independent public accountants. He spent two years in the field of public accounting, and served as Chief Financial Officer or Controller of five companies prior to joining us. His business career also includes extensive experience in management, sales and marketing, consulting, and merger and acquisition work. He graduated from Arizona State University with a B.S. degree in Accounting.

We believe that based upon education and experience all of our directors are qualified to serve.

#### **Significant Employees**

There are no employees who are not executive officers who are expected to make a significant contribution to our Company's business.

#### **Family Relationships**

There are no family relationships between our officers and directors.

#### **Involvement in Certain Legal Proceedings**

During the past five years, no director, person nominated to become a director, executive officer, promoter or control person of our Company:

(1) was a general partner or executive officer of any business against which any bankruptcy petition was filed, either at the time of the bankruptcy or two years prior to that time;

(2) was convicted in a criminal proceeding or named subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

(3) was subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or

(4) was found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

### **Compliance with Section 16(a) of the Exchange Act**

Section 16(a) of the Exchange Act requires that our executive officers and directors and persons who beneficially own more than 10% of our common stock, file initial reports of stock ownership and reports of changes in stock ownership with the Securities and Exchange Commission. Officers, directors, and greater than 10% owners are required by applicable regulations to furnish our Company with copies of all Section 16(a) forms that they file.

Based solely on a review of the copies of such forms furnished to us or written representations from certain persons, we believe that during our calendar year ended December 31, 2010, all filing requirements applicable to our officers, directors and 10% stockholders were met by such persons.

### **Code of Ethics**

We have adopted a Code of Ethics that applies to all of our directors and executive officers serving in any capacity for our Company, including our principal executive officer, principal financial officer, principal accounting officer

or controller or persons performing similar functions, which Code of Ethics was attached to our Form 10-K annual Report for the year ended December 31, 2003. See Part IV, Item 15.

### **Nominating Committee**

We have not established a Nominating and Corporate Governance Committee because we believe that the three members currently comprising our Board of Directors are able to effectively manage the issues normally considered by a Nominating and Corporate Governance Committee.

### **Audit Committee**

Due to the size and status of our Company we have no Audit Committee, and are not required to have an audit committee. We do not believe the lack of an Audit Committee will have any adverse effect on our financial statements, based upon our current operations. We will assess whether an audit committee may be necessary in the future.

### **Item 11. Executive Compensation**

The following table sets forth the aggregate compensation paid by us for services rendered during the periods indicated:

#### SUMMARY COMPENSATION TABLE

Name and  
Principal  
Position

(a)

Year



(b)

Salary

(\$)

(c)

Bonus

(\$)

(d)

Stock Awards

(\$)

(e)

Option  
Awards

(\$)

(f)

Non-Equity  
Incentive Plan  
Compensation

(\$)

(g)

Nonqualified  
Deferred  
Compensation

(\$)

(h)

All Other  
Compensation

(\$)

(i)

Total

Earnings

(\$)

(j)

Kim Boyce  
CEO &  
Director

12/31/10

12/31/09

12/31/08

\$105,000

\$105,000

\$105,000

0

0

0

0

0

0

0

\$391,404

0

0

0

0

0

0

0

0

0

0  
\$105,000  
\$496,404  
\$105,000

Tom Tait VP  
& Director

12/31/10  
12/31/09  
12/31/08  
\$70,000  
\$70,000  
\$70,000

0  
0  
0

0

0

0

0

\$16,600

0

0

0

0

0

0

0

0

0

0

\$70,000

\$86,600

\$70,000

Keith Merrell,  
CFO (1)

12/31/10

12/31/09

\$40,000

\$ 8,989

0  
0  
\$3,500  
0  
0  
\$1,660  
0  
0  
0  
0  
0  
0  
0  
\$43,500  
\$10,649

(1) 2009 earnings for Mr. Merrell reflect compensation paid from his October 1, 2009 employment date.

**Outstanding Equity Awards**

**Outstanding Equity Awards At Fiscal Year-End**

Option  
Awards

Stock  
Awards

Name

Number of securities  
underlying unexercised  
Options (#) Exercisable

Number of Securities  
Underlying Unexercised  
Options (#) Unexercisable

Equity Incentive Plan  
Awards: Number of  
Securities Underlying  
Unexercised Unearned  
Options (#)

Option Exercise Price (\$)

Option Expiration Date



Number of Shares or Units  
of Stock That Have Not  
Vested (#)

Market Value of Shares or  
Units of Stock That Have  
Not Vested (\$)

Equity Incentive Plan  
Awards: Number of  
Unearned Shares Units or  
Other Rights That Have Not  
Vested (#)

Equity Incentive Plan  
Awards Market or Payout  
Value of Unearned Shares,  
Units or Other Rights That  
Have Not Vested (#)

Kim Boyce

4,800,000

4,800,000

None

\$0.132

12/30/2019

None

None

None

None

Tom Tait

200,000

200,000

None

\$0.12

12/31/2019

None

None

None

None

Keith Merrell

20,000

20,000

None

\$0.12

12/30/2019

None

None

None

None

The fair market value of the options issued above is \$424,863. This value was calculated using the Black Scholes pricing model for Options and Warrants.

**Compensation of Directors**

Name

Fees Earned or  
Paid in Cash  
(\$)

Stock Awards  
(\$)

Option  
Awards (\$)

Non-Equity  
Incentive Plan  
Compensation  
(\$)

Nonqualified  
Deferred  
Compensation  
Earnings (\$)

All Other  
Compensation  
(\$)

Total (\$)

(a)

(b)

(c)

(d)

(e)

(f)

(g)

(h)

None

None

None

None

None

None

None

**Item 12. Security Ownership of Certain Beneficial Owners and Management**

**Security Ownership of Certain Beneficial Owners**

The following table sets forth, as of March 30, 2011, the names, addresses and number of shares of common stock beneficially owned by all persons known to the management of Reflect Scientific to be beneficial owners of more than 5% of the outstanding shares of common stock, and the names and number of shares beneficially owned by all directors of Reflect Scientific and all executive officers and directors of Reflect Scientific as a group (except as indicated, each beneficial owner listed exercises sole voting power and sole dispositive power over the shares beneficially owned).

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For purposes of this table, information as to the beneficial ownership of shares of common stock is determined in accordance with the rules of the Securities and Exchange Commission and includes general voting power and/or investment power with respect to securities. Except as otherwise indicated, all shares of our common stock are beneficially owned, and sole investment and voting power is held, by the person named. For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares of common stock, which such person has the right to acquire within 60 days after the date hereof. The inclusion herein of such shares listed beneficially owned does not constitute an admission of beneficial ownership.

All percentages are calculated based upon a total number of 33,831,890 shares of common stock outstanding as of March 30, 2011, plus, in the case of the individual or entity for which the calculation is made, that number of options or warrants owned by such individual or entity that are currently exercisable or exercisable within 60 days.

Amount and Nature of  
Percentage of Outstanding  
Title of Class  
Name and Address of Beneficial  
Owner  
Beneficial Owner  
Common stock

Principal Shareholders

Common Stock

Kim Boyce (1)

1270 South 1380 West

Orem, Utah 84058

21,718,250

56.22%

Common Stock

Dain Family Revocable Trust

4057 Cienega Road

Hollister, California 95023

2,030,000

6.00%

Common Stock

Nicholas J. Henneman

P.O. Box 1175

5885 Diablo Hills Road

Tres Pinos, California 95075-1175

400,000

1.18%

Officers and Directors

Common Stock

Kim Boyce

21,718,250

56.22%

Common Stock

Tom Tait (2)

561,000

1.65%

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Common Stock

Keith Merrell (3)

95,000

.28%

Common Stock

Craig D. Morrison, M.D.

210,000

.62%

All directors and executive officers  
of the Company as a group (Five  
individuals)

22,584,250

=====

58.13%

=====

- 
- (1) Includes 4,800,000 shares issuable upon exercise of stock options with an exercise price of \$0.132 per share.
- (2) Includes 200,000 shares issuable upon exercise of stock options with an exercise price of \$0.12 per share.
- (3) Includes 25,000 shares beneficially owned through an IRA and 20,000 shares issuable upon exercise of stock options with an exercise price of \$0.12 per share.

**Changes in Control**

There are no current or planned transactions that would or are expected to result in a change of control of our Company.





**Securities Authorized for Issuance under Equity Compensation Plans**

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a)
	(a)	(b)	(c)
Equity compensation plans approved by security holders	5,120,000	\$0.13	6,880,000
Equity compensation plans not approved by security holders	4,151,895	\$0.90	None
<b>Total</b>			

9,270,895

=====

\$0.48

6,880,000

=====

**Item 13. Certain Relationships and Related Transactions**

**Transactions with Related Persons**

There were no material transactions, or series of similar transactions, during our Company's last fiscal year, or any currently proposed transactions, or series of similar transactions, to which our Company or any of our subsidiaries was or is to be a party, in which the amount involved exceeded the lesser of \$120,000 or one percent of the average of our total assets at year-end for the last three completed fiscal years and in which any director, executive officer or any security holder who is known to us to own of record or beneficially more than five percent of any class of our common stock, or any member of the immediate family of any of the foregoing persons, had an interest.

**Parents of the Issuer**

None; however Kim Boyce, our President and a director, may be deemed to be our Parent by virtue of his substantial shareholdings in our Company.

**Transactions with Promoters and control persons**

There were no material transactions, or series of similar transactions, during our Company's last five fiscal years, or any currently proposed transactions, or series of similar transactions, to which we or any of our subsidiaries was or is to be a party, in which the amount involved exceeded \$120,000 and in which any promoter or founder of ours or any member of the immediate family of any of the foregoing persons, had an interest.

**Item 14. Principal Accounting Fees and Services**

The Following is a summary of the fees billed to us by our principal accountants during the fiscal years ended December 31, 2010 and 2009:

**Fee  
Category**

**2010**

**2009**

Audit Fees

\$

60,414

\$

72,862

Audit-related  
Fees

\$

0

\$

0

Tax Fees

\$

0

\$

0

All Other  
Fees

\$

0

\$

0

**Total Fees**

\$

60,414

\$

72,862



Audit Fees - Consists of fees for professional services rendered by our principal accountants for the audit of our annual financial statements and review of the financial statements included in our Forms 10-Q or services that are normally provided by our principal accountants in connection with statutory and regulatory filings or engagements.

Audit-related Fees - Consists of fees for assurance and related services by our principal accountants that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit fees.

Tax Fees - Consists of fees for professional services rendered by our principal accountants for tax compliance, tax advice and tax planning.

All Other Fees - Consists of fees for products and services provided by our principal accountants, other than the services reported under Audit fees, Audit-related fees, and Tax fees above.

**Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors**

We do not have an Audit Committee; therefore, there is no Audit Committee policy in this regard. However, we do require approval in advance of the performance of professional services to be provided to us by our principal accountant. Additionally, all services rendered by our principal accountant are performed pursuant to a written engagement letter between us and the principal accountant.

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**Item 15. Exhibits**

**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

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By-Laws Amendment

September 30, 2004 10-QSB Quarterly Report\*

4.1

Debenture

8-K Current Report dated June 29, 2008\*

4.2

Form of Purchasers Warrant

8-K Current Report dated June 29, 2008\*

4.3

Registration Rights Agreement

8-K Current Report dated June 29, 2008\*

4.4

Form of Placement Agreement

8-K Current Report dated June 29, 2008\*

5.1

Legal Opinion and Consent

This Filing

10.1

Securities Purchase Agreement

8-K Current Report dated June 29, 2008\*

10.2

Placement Agent Agreement

8-K Current Report dated June 29, 2008\*

10.3

JMST Purchase Agreement

8-k Current Report dated April 4, 2006\*

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10.4

Cryomastor Merger Agreement

8-K Current Report dated April 19, 2006\*

10.5

Image Labs Merger Agreement

8-K Current Report dated November 15, 2006\*

10.6

All Temp Merger Agreement

8-K Current Report dated November 17, 2006\*

14

Code of Ethics

December 31, 2003 10-K Annual Report\*

21

Subsidiaries of the Company

December 31, 2006 10-K Annual Report\*

31.1

302 Certification of Kim Boyce

This Filing

31.2

302 Certification of David Strate

This Filing

32

906 Certifications

This Filing

\* Previously filed with the Securities and Exchange Commission in the form indicated and incorporated by reference

**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 June 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

\*

Debenture Placement

8-K Current Reported dated

\* Previously filed and incorporated by reference.

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Securities Exchange Act, the Company caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

**REFLECT SCIENTIFIC, INC.**

*Date:*

*03/31/2011*

*By:*

*/s/Kim Boyce*

*Kim Boyce, Chief Executive Officer and  
Director*

*Date:*

*03/31/2011*

*By:*

*/s/Keith Merrell*

*Keith Merrell, Chief Financial Officer  
(Principal Accounting Officer)*

In accordance with the Securities Exchange Act, this Report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated:

**REFLECT SCIENTIFIC, INC.**

*Date:*

*03/31/2011*

*By:*

*/s/Kim Boyce*

*Kim Boyce, CEO and Director*

*Date:*

*03/31/2011*



*By:*

*/s/Tom Tait*

*Tom Tait, Vice President and Director*

*Date:*

*03/31/2011*

*By:*

*/s/Kevin Cooksy*

*Kevin Cooksy, Secretary/Treasurer and  
Director*



**REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2010**



## CONTENTS

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Consolidated Statements of Operations	33
Consolidated Statements of Shareholders' Equity	34
Consolidated Statements of Cash Flows	35 - 36
Notes to the Consolidated Financial Statements	93





REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders of

Reflect Scientific, Inc. and Subsidiaries

Orem, Utah

We have audited the accompanying consolidated balance sheets of Reflect Scientific, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholder's equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Reflect Scientific, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company has experienced recurring losses from operations and negative operating cash flows from operations. The Company is in default on its debentures. These factors raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*/s/ Mantyla McReynolds, LLC*

Mantyla McReynolds, LLC

Salt Lake City, Utah

March 31, 2011

**REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES**

Consolidated Balance Sheets

ASSETS

December  
31,

2010

December  
31,

2009

CURRENT  
ASSETS

Cash

\$

242,136

\$

165,633

Accounts  
receivable,  
net

243,169

522,921

O t h e r  
receivables

-

235

Inventory

376,751

591,672

C o s t a n d  
e s t i m a t e d  
e a r n i n g s i n  
e x c e s s o f  
c o n t r a c t  
b i l l i n g s

-

43,635

P r e p a i d  
a s s e t s

7,779

100

38,335

T o t a l  
C u r r e n t  
A s s e t s

869,835

1,362,431

F I X E D  
A S S E T S ,  
N E T

60,259

101

419,822

**O T H E R  
A S S E T S**

**Intangible  
assets, net**

2,961,976

3,708,602

Goodwill

652,149

652,149

Deposits

3,100

10,455

Total Other  
Assets

3,617,225

4,371,206

T O T A L  
A S S E T S

\$

4,547,319

\$

6,153,459

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





**REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES**

Consolidated Balance Sheets (Continued)

**LIABILITIES AND SHAREHOLDERS' EQUITY**

December 31,  
2010

December 31,  
2009

**C U R R E N T  
LIABILITIES**

Accounts payable

\$

204,124

\$

507,794

Short-term lines of  
credit

125,725

141,474

Convertible  
debenture, net of  
discount

2,925,000

2,925,000

Royalty payable

-

22,542

Capital leases  
short term portion

9,715

9,791

Interest payable

789,750

263,250

Accrued expenses

21,545

93,721

108

Loan from related party

24,000

18,000

Income taxes payable

400

2,800

Total Current Liabilities

4,100,259

3,984,372

NON-CURRENT  
LIABILITIES

Capital leases  
long-term portion

-

9,715

T o t a l  
N o n - C u r r e n t  
L i a b i l i t i e s

-

9,715

Total Liabilities

4,100,259

3,994,087

SHAREHOLDERS  
EQUITY

Preferred stock,  
\$0.01 per value,  
authorized  
5,000,000 shares;  
no shares issued and  
outstanding



-

-

Common stock,  
\$0.01 par value,  
authorized  
100,000,000  
shares; 33,831,890  
and 35,221,650  
shares issued and  
outstanding  
respectively

338,319

352,217

Additional paid in  
capital

17,537,413

17,463,580

Accumulated deficit

(17,428,672)

(15,656,425)

Total Shareholders  
Equity

447,060

2,159,372

TOTAL  
LIABILITIES AND

SHAREHOLDERS  
EQUITY

	\$
4,547,319	
	\$
6,153,459	

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

**REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES**

Consolidated Statements of Operations

For the Year  
Ended

December 31,

2010

2009

REVENUES

\$

2,401,685

\$

3,384,551

COST OF GOODS  
SOLD

1,311,938

1,948,441

GROSS PROFIT

1,089,747

1,436,110

OPERATING  
EXPENSES

Salaries and wages

371,250

1,581,712

Rent expense

51,720

180,395

Research and  
development  
expense

7,619

22,353

General and  
administrative  
expense

748,254

1,242,460

Total Operating  
Expenses

1,178,843

3,026,920

OPERATING  
INCOME (LOSS)

(89,096)

(1,590,810)

OTHER INCOME  
(EXPENSE)

Other income

7

2,716

Interest expense

(535,308)

(1,009,482)

Loss on default of  
convertible bonds

-

(690,000)

Impairment on  
intangible assets

-

(389,766)

Impairment on  
goodwill



-

(318,499)

Total Other  
Expenses

(535,301)

(2,405,031)

INCOME (LOSS)  
B E F O R E  
I N C O M E T A X  
E X P E N S E

(624,397)

(3,995,841)

I n c o m e t a x  
expense (benefit)

-

4,616

NET LOSS FROM  
CONTINUING  
OPERATIONS

(624,397)

(4,000,457)

LOSS FROM  
DISCONTINUED  
OPERATIONS:

Loss from  
discontinued  
operations

(199,909)

(881,421)

Loss on disposal of  
discontinued  
operations

(947,941)

-

Net loss from  
discontinued  
operations

(1,147,850)

(881,421)

NET LOSS

\$

(1,772,247)

\$

(4,881,878)

LOSS FROM  
CONTINUING  
OPERATIONS

\$

(0.02)

\$

(0.11)

LOSS FROM  
DISCONTINUED  
OPERATIONS

\$

(0.03)

\$

(0.03)

Income(Loss) per  
share Basic and  
Diluted

\$

(0.05)

\$

(0.14)

WEIGHTED  
AVERAGE  
NUMBER OF  
SHARES  
OUTSTANDING -  
Basic and Diluted

34,383,619

34,981,966

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

**REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES**

Consolidated Statements of Shareholder's Equity

Preferred Stock

Common Stock

Shares
Amount
Shares
Amount
Additional Paid-In Capital
Stock Subscription
Accumulated Deficit
Balance, December 31, 2008
-
\$ -
34,502,610
\$345,026
\$16,792,610
\$ -
\$(10,774,547)
Common stock issued for payment of interest

-

-

80,045

800

19,211

-

-

Common  
stock issued  
for payment  
of interest

-

-

135,462

1,355

127

23,029

-

-

Partial  
conversion of  
convertible  
debenture

-

-

56,923

569

36,431

-

-

Common  
stock issued  
for consulting  
services

-

128



-

100,000

1,000

16,000

-

-

Common  
stock issued  
for payment  
of interest

-

-

86,693

867

16,472

129

-  
-  
Partial  
conversion of  
convertible  
debenture

-  
-  
216,667

2,167

62,833

-  
-  
Common  
stock issued  
for payment  
of interest

18,250

183

2,190

-

-

Common  
stock issued  
for consulting  
services

-

-

300,000

3,000

36,000

-

-  
Common  
stock issued  
to former  
employee

-  
-  
25,000

250

3,000

-  
-  
Common  
stock issued  
for consulting  
services

-  
-  
200,000

132

2,000

28,000

-

-

Common  
stock returned  
pursuant to  
agreement

-

-

(500,000)

(5,000)

5,000

-

-

Options  
issued at fair

market value

-

-

-

-

422,804

-

-

Net loss for  
the year  
ended  
December 31,  
2009

-

-

-

-

-

-

(4,881,878)

Balance,  
December 31,  
2009

-

\$ -

35,221,650

\$352,217

\$17,463,580

\$ -

\$(15,656,425)

Common  
stock returned  
pursuant to  
agreement

-

-

(1,850,800)

(18,508)

18,508

-

-

Common  
stock issued  
for legal  
services

-

-

411,040

4,110

49,325

-

-

Common  
stock issued  
to employee

-

-

50,000

500

6,000

-

-

136



Net loss for  
the year  
ended  
December 31,  
2010

-

-

-

-

-

-

(1,772,247)

Balance,  
December 31,  
2010

-

\$ -

33,831,890

\$338,319

\$17,537,413

\$ -

\$(17,428,672)

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

**REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

For the Years Ended

December 31.

-

	2010	2009
Net loss		
\$		
	(1,772,247)	
\$		
	(4,881,878)	
Loss on Disposal of Discontinued Operations		
	947,941	

-  
Loss from  
Discontinued  
Operations

199,909

881,421

Loss from  
Continuing  
Operations

(624,397)

(4,000,457)

Adjustments to  
reconcile net loss to  
net cash

from operating  
activities:

Depreciation

33,477

51,119

Amortization

310,498

351,557

Amortization of  
Debenture Discount

-

584,250

Common stock  
issued for  
services/interest

59,935

153,357

Bad Debt

-

	30,980
Stock based compensation	-
	422,804
Impairment of long-lived assets	-
	708,265
Loss on sale of assets	-
	9,797
Penalty for default on debentures	-
	690,000
Changes in operating assets and liabilities:	

(Increase) / decrease  
in accounts receivable

31,355

321,604

(Increase) / decrease  
in other receivables

-

28,818

(Increase) / decrease  
in inventory

1,645

226,714

(Increase) / decrease  
in prepaid asset

30,556

159,700

(Increase) / decrease  
in deposits

-

19,489

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

-

30,787

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

-

(46,482)

Increase / (decrease)  
in accounts payable  
and accrued  
expenses

479,202

65,911



Net Cash from  
Continuing  
Operations

322,271

(191,787)

Net Cash from  
Discontinued  
Operations

(126,432)

(83,343)

Net Cash from  
Operating Activities

195,839

(275,130)

CASH FLOWS  
FROM INVESTING  
ACTIVITIES

Cash paid for fixed  
assets

-

(3,741)

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)

(3,741)

Net Cash from  
Discontinued  
Investing Activities

(3,995)

-

Net Cash from  
Investing Activities

(99,795)

(3,741)

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

Change in long term  
line of credit

(15,750)

108

Principle payments on  
capital leases

(9,791)

(20,641)

Proceeds from related  
party loan

6,000

18,000

Net Cash from  
Continuing Financing  
Activities

(19,541)

(2,533)

Net Cash from  
Financing Activities

(19,541)

(2,533)

NET INCREASE  
(DECREASE) IN  
CASH

76,503

(281,404)

CASH AT  
BEGINNING OF  
PERIOD

165,633

447,037

CASH AT END OF  
PERIOD

\$

242,136

\$

165,633

SUPPLEMENTAL  
CASH FLOW  
INFORMATION:

Cash Paid For:

Interest

\$

-

\$

122,390

Income taxes

800

800

NON-CASH  
FINANCING  
ACTIVITIES:

Common stock issued  
for services

59,935

89,250

Property exchanged  
for relief of liabilities

-

17,263

Stock issued for debt

-

102,000

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

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**REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

NOTE 1 -

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.

Reflect Scientific

Reflect Scientific designs, develops and sells scientific equipment for the Life Science and Manufacturing industries. Our business activities include the manufacture and distribution of unique laboratory consumables and disposables such as filtration and purification products, customized sample handling vials, electronic wiring assemblies, high temperature silicone, graphite and vespel/graphite sealing components for use by original equipment manufacturers ( OEM ) in the chemical analysis industries, primarily in the field of gas/liquid chromatography.

The Company s chemical detector products serve the analytical instrumentation sector of the Life Sciences market. These optically based chemical detection instruments provide a cost-effective, high-performance alternative for original equipment manufacturers (OEM). One major use for these detectors is the analysis of whole blood for metabolic diseases.

Cryometrix

The Company s Cryometrix ultra low temperature freezers are a technological breakthrough that provide energy savings and other critically important benefits to cryo-storage customers in the Life Science related industries. Ultra low temperature freezers are used in multiple industries for the storage of everything from blood to cancer vaccines. These freezers are used by companies and organizations such as the Red Cross, hospitals and biotechnology research facilities. The adaptation of the freezer technology to refrigeration systems used on trailers ( reefers ) for transporting perishable items opens a significant new market. Trailers can easily be retrofit with the Cryogenix unit, which provides pollutant free and more efficient operations at a cost savings compared to the diesel powered units currently used. The non-polluting Cryogenix unit provides significant benefits over any other unit currently marketed.

Inspection and Testing Equipment

Image Labs and Miralogix, the companies that manufactured, sold and installed inspection and testing equipment, were divested effective March 2, 2010.

NOTE 2 -

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Accounting Method

The Company's financial statements are prepared in accordance with U.S. generally accepted accounting principles. The Company has elected a December 31 year-end.

b. Revenue Recognition

Revenue is only recognized on product sales once the product has been shipped to the customers, persuasive evidence of an agreement exists, the price is fixed or determinable, and collectability is reasonably assured.

c. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

d. Cash and Cash Equivalents

The Company considers all deposit accounts and investment accounts with a maturity of 90 days or less to be cash equivalents.

e. Accounts Receivable

The Company writes off trade receivables when deemed uncollectible. The Company estimates allowance for doubtful accounts based on the aged receivable balances and historical losses. The Company charges off uncollectible accounts when management determines there is no possibility of collecting the related receivable. The Company considers accounts receivable to be past due or delinquent based on contractual terms, which is generally net 30 days.

The Company charged \$0 and \$30,980 to bad debt expense for the years ended December 31, 2010 and 2009, respectively. The allowance for doubtful accounts balance at December 31, 2010 and 2009 was \$18,714 and \$80,161, respectively.

f. Fixed Assets

Fixed assets are stated at cost. Expenditure for minor repairs, maintenance, and replacement parts which do not increase the useful lives of the assets are charged to expense as incurred. All major additions and improvements are capitalized. Depreciation is computed using the straight-line method. The lives over which the fixed assets are depreciated range from 5 to 7 years, except for computer equipment, which is depreciated over a 3 year life.

g. Inventory

Inventories are stated at the lower of cost or market value based upon the First-In First-Out (FIFO) inventory method. The Company's inventory consists of parts for scientific vial kits, refrigerant gases, components for the imaging and inspection systems which it builds, and other scientific items.

h. Advertising Expense

The Company follows the policy of charging the costs of advertising to expense as incurred. The Company recognized \$1,550 and \$5,377 of advertising expense during the years ended December 31, 2010, and 2009, respectively.

i. Newly Issued Accounting Pronouncements

ASC Topic 350 In December 2010, the FASB issued Accounting Standards Update No. 2010-28, Intangibles Goodwill and other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (ASU 2010-28). ASU 2010-28 simplifies Step 1 of the goodwill impairment test so that for those reporting units with zero or negative carrying amounts, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not based on an assessment of qualitative indicators that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. ASU 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company

does not expect adoption of this standard to have a material impact on its consolidated results of operations and financial condition.

ASC Topic 820 In January 2010, the FASB issued Accounting Standards Update 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements (ASU 2010-06). The Company adopted ASU 2010-06, except for the disclosure about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements which are deferred until fiscal years beginning after December 15, 2010. The Company believes that the disclosures will not have a material impact on its consolidated results of operations and financial condition when adopted.

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.

j. Basic Earnings per Share

The computation of earnings per share of common stock is based on the weighted average number of shares outstanding during the period of the consolidated financial statements as follows:

For the Years  
Ended

December 31,

2010

2009

Net loss  
(numerator)

\$  
(1,772,247)

\$  
(4,881,878)

Shares  
(denominator)

34,383,619

34,981,966

Net loss per  
share amount

\$  
(0.05)

\$  
(0.14)

As of December 31, 2010 the Company had 9,328,555 shares of outstanding common stock equivalents, but due to the net loss, they were not included in the calculation of the net loss per common share as their inclusion would be anti-dilutive.

k. Shipping and Handling Fees and Costs

The Company records all shipping and handling cost in cost of goods sold.

## 1. Income Taxes

Deferred taxes are provided on an asset and liability approach whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company's policy is to recognize potential interest and penalties accrued related to unrecognized tax benefits within income tax expense. For the years ended December 31, 2010 and 2009, it did not recognize any interest or penalties in its Statement of Operations, nor did it have any interest or penalties accrued in its Balance Sheet at December 31, 2010 and 2009 relating to unrecognized benefits.

m. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, which include Cryometrix (previously Cryomastor) and the operations of Image Labs International/Miralogix from from January 1, 2010 to the date of its sale on March 2, 2010. All subsidiaries are wholly owned. All material intercompany accounts and transactions are eliminated in consolidation.

n. Research and development expense

The Company accounts for research and development costs in accordance with the Financial Accounting Standards Board's Accounting Standard Codification Topic 730 "Research and Development". Under ASC730, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and developments costs are expensed when the contracted work has been performed or as milestone results have been achieved. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. The Company had \$7,619 and \$22,353 in research and product development for the years ended December 31, 2010 and 2009, respectively.

o. Stock Based Compensation

The Company applies the provisions of FASB ASC Topic 718 "Stock Based Compensation" which requires companies to measure all employee stock-based compensation awards using a fair value method and record such expense in their financial statements.

p. Intangible Assets

Intangible assets include trademarks, trade secrets, patents, customer lists and goodwill acquired through acquisition of subsidiaries. The patents have been registered with the United States Patent and Trademarks Office. The costs of obtaining patents are capitalized as incurred. Intangibles, except for goodwill, are amortized over their estimated useful lives.

q. Impairment



The Company reviews long-lived assets, at least annually, to determine if impairment has occurred and whether the economic benefit of the asset (fair value for assets to be used and fair value less disposal cost of assets to be disposed) is expected to be less than the carrying value. Triggering events, which signal further analysis, consist of a significant decrease in the asset's market value, a substantial change in the use of an asset, a significant physical change in the asset, a significant change in the legal or business climate that could affect the asset, an accumulation of costs significantly in excess of the amount originally expected to acquire or construct the asset, or a history of losses that imply continued losses associated with assets used to generate revenue. The impairment analysis conducted subsequent to December 31, 2009 recognized that certain long-lived assets were impaired due to changed business conditions and a change in business direction. As a result of that analysis, an impairment charge of \$0 and \$708,265 was recorded at December 31, 2010 and 2009 respectively.

### NOTE 3 GOING CONCERN

The Company is currently in default on the issued and outstanding debentures. 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.

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 \$300,000 in

cash and the issuance of 1,200,000 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. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

NOTE 4 -

FIXED ASSETS

Fixed assets and related depreciation for the period are as follows:

December 31,  
2010

December 31,  
2009

Machinery and  
equipment

\$  
162,460

\$  
510,945

Furniture and  
fixtures

2,697

33,506

Computer and  
o f f i c e  
equipment

2,390

67,234

Vehicles

-

3,300

L e a s e h o l d  
improvements

31,718

29,279

Accumulated  
depreciation

(139,006)

(224,442)

Total Fixed  
Assets

\$

60,259

\$

419,822

Depreciation expense for the years ended December 31, 2010, and 2009, was \$33,477 and \$40,805, respectively.

NOTE 5 -

INVENTORIES

Inventory consisted of the following at December 31, 2010 and 2009:

December  
31,  
2010

December  
31,  
2009

Work in  
Process

\$  
118,661

\$  
164,122

Finished  
goods

258,090

427,550

Total Inventory
\$
376,751
\$
591,672

NOTE 6-

COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company leases its office and warehouse space under a non-cancelable lease agreement accounted for as an operating lease. The Company also lease an automobile under similar non-cancelable lease agreement, which is also accounted for as operating lease.

Orem, Utah This facility is a manufacturing and office facility with 6,000 square feet of space. We lease this facility at \$3,800 per month, with the lease term expiring on November 30, 2014.



Minimum rental payments under the non-cancelable operating lease are as follows:

Years  
ending

December  
31,

Amount

2011

\$

51,205

2012

53,593

2013

51,919

2014

48,848



\$

205,565

Rent expense was \$51,720 and \$180,395 for the years ended December 31, 2010, and 2009, respectively.

Automobile lease expense was \$10,064 and \$10,264 for the years ended December 31, 2010, and 2009, respectively.

NOTE 7-

CAPITAL LEASES

During the year ended 2006, the Company entered into a capital lease arrangement for the purchase of equipment. Payments are due in 60 monthly installments of \$920. The lease has a stated interest rate of 8.3%. Aggregate maturities on the capital lease as of December 31, 2010, are due in future years as follows:

2011

\$

9,715

Depreciation expense on equipment under capital lease was \$6,464 and \$6,464 for the years ended December 31, 2010 and 2009, respectively. The capital lease is collateralized by a leak test system which has a current net book value of \$19,391.

NOTE 8 -

#### PREFERRED STOCK

In November 2004 the Company amended its Articles of Incorporation so as to authorize 5,000,000 shares of preferred stock. Of this total, 750,000 shares have been designated as Series A Convertible Preferred Stock. As of December 31, 2010 no shares of the preferred stock are issued and outstanding.

#### Dividends

The holders of the Series A Preferred Stock are entitled to dividends at the rate of 8 percent per year of the liquidation preference of \$1.00 per share, payable annually, if and when declared by the board of directors. Dividends are not cumulative and the board of directors is under no obligation to declare dividends.

#### Convertibility

Upon the approval of the Board of Directors, Series A Preferred Stock may be convertible into the Company's common stock by dividing \$1.00 plus any unpaid dividends by 50% of the five day average closing bid price of the common shares.

NOTE 9 -

#### COMMON STOCK TRANSACTIONS

During the year ended December 31, 2010, 1,540,800 shares of stock which had been originally issued in acquisition transactions were returned to the Company. In addition, 310,000 shares issued for services related to those acquisition

activities were also returned to the Company. Upon receipt, the total 1,850,800 shares were cancelled. During April 2010, the Company issued 411,040 shares, valued at \$0.13 per share,

to its patent attorney for services rendered, and issued 50,000 shares, valued at \$0.13 per share, to an employee. During the year ended December 31, 2009, the Company issued 320,450 shares of common stock for interest payments, 273,590 shares of common stock for the conversion of debt, and 600,000 shares of common stock for consulting services. and 25,000 shares were issued to a former employee. An original shareholder of All Temp Engineering returned 500,000 shares of stock issued to him in the All Temp acquisition transaction, which shares were cancelled.

NOTE 10 -

#### CONCENTRATIONS OF RISK

##### Cash in Excess of Federally Insured Amount

The Company did not, during the years ended December 31, 2010 and 2009, maintain a cash balance at a single financial institution in excess of the federally insured maximum of \$250,000.

NOTE 11 -

#### LINE OF CREDIT

The Company has a credit line with a commercial bank of \$100,000 secured by its inventory and accounts receivable bearing a variable interest rate, which was 5.50% as of the balance sheet date, and has no stated maturity date. As of December 31, 2010, there was a balance due on the line in the amount of \$85,717.

The Company has an additional credit line with a different commercial bank of \$50,000 secured by its inventory and accounts receivable bearing a fixed interest rate, which was 7.75% as of the balance sheet date, and has no stated maturity date. As of December 31, 2010, there was a balance due on the line in the amount of \$40,008.

#### NOTE 12 CONVERTIBLE DEBENTURES AND WARRANTS

On June 29, 2007, the Company entered into an agreement to sell \$2,500,000 in 12% senior convertible debentures with a maturity date of June 29, 2009, with interest due quarterly. At the closing, the Company prepaid the first quarterly interest payment and reserved the second quarterly interest payment of \$150,000. The agreement allows for the Company to pay the interest in cash or in duly authorized, validly issued, fully paid, and non-assessable shares of common stock at the interest conversion rate, or a combination thereof. The conversion is based on 85% of the volume

weighted average stock price for the preceding 10 days.

The debentures have a conversion price of \$0.65. If the Company, at any time while the debenture is outstanding, pays stock dividends, subdivides outstanding shares, sells or grants any option to purchase or dispose of common stock at an effective price lower than the conversion price, issue rights, options or warrants at a price lower than the conversion price, etc., the Company shall promptly deliver to each Holder a notice setting forth the conversion price after such adjustment and provide a brief statement of facts requiring such adjustment. In addition, if the volume weighted average price for each of any 20 consecutive trading days exceeds 250% of the conversion price, the Company may, within one trading day deliver a written notice to the holder and force the holder to convert a principal amount of the debenture equal to all or part of the holder's portion of the forced conversion amount.

The agreement also provides for the issuance of 1,923,077 A warrants and 1,923,077 B warrants. The warrants are exercisable at a price of \$0.80 per share for the A warrant and \$1.00 per share for the B warrant and expire June 29, 2012. The Company valued the warrants using the Black-Scholes option pricing model. For the purpose of the valuation of the warrants, the Company calculated a volatility of 66.48% on its common stock and used the U. S. Treasury bill rate of 4.94% for its risk free rate. Then the Company allocated a portion of the proceeds to the warrants, based on the relative fair value basis, in the amount of \$1,639,029 which was recognized as a contra liability account and was amortized as interest expense over the 2 year term of the agreement. The intrinsic value of beneficial conversion of the debentures was valued at \$5,677,491, which exceeds the effective value of the debentures by \$860,971.

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Therefore, the discount assigned to the beneficial conversion feature is limited to \$860,971 and was recognized as a contra liability account and was amortized as interest expense over the 2 year term of the agreement.

As payment for services provided, the Company also issued 192,308 Series A warrants and 192,308 Series B warrants which were valued at \$475,925 using the Black-Scholes option pricing model and expensed in 2007.

The debentures and warrants have anti-dilution protections, and the Company agreed to certain registration rights for the resale of the shares of common stock underlying the debentures and warrants.

A summary of the status of the Company's outstanding stock warrants as of December 31, 2010 and changes during the period then ended is presented below:

Shares
Weighted Average Exercise Price
Outstanding, January 1, 2009
-
\$
-
Granted

4,151,895

.90

Expired/Cancelled

-

-

Exercised

-

-

Outstanding,  
December 31,  
2009

4,151,895

.90

Expired/Cancelled

-

-

Exercised

-

-

Outstanding,  
December 31,  
2010

4,151,895

\$

.90

Exercisable

4,151,895



\$

.90

Outstanding

Exercisable

Range of  
Exercise  
Prices

Number  
outstanding at  
December 31,  
2010

Weighted  
Average  
Remaining  
Contractual  
Life

Number  
Exercisable at  
December  
31,2010

\$

0.80

2,036,510

1.50

2,036,510

1.00

2,115,385

1.50

2,115,385

4,151,895

At December 31, 2010, the outstanding indebtedness for the debentures and penalty resulting from forfeiture was \$2,925,000. Assuming all debentures were converted, 4,500,000 shares of restricted common stock would be issued. Additionally, assuming all outstanding warrants were exercised, the total shares issued from conversion and exercise would total 8,651,895 shares.

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

NOTE 13 COMMON STOCK OPTIONS

On December 31, 2007, the Company's board of directors approved an equity plan. The equity plan known as the 2007 Equity Incentive Plan (the Plan) reserves up to 6,000,000 shares of the Company's authorized common stock for issuance to officers, directors, employees and consultants under the terms of the Plan. On December 31, 2009, the Company's board of directors amended the Plan to authorize 12,000,000 shares. The Plan permits the board of directors to issue stock options and restricted stock.

The fair value of each option granted under the Plan is estimated on the date of grant, using the Black-Scholes option pricing model, based on the following weighted average assumptions:

**Options  
granted  
December  
31, 2007:**

Expected  
life (years)

5.0

Expected  
stock price  
volatility

66.27

%

Expected  
dividend  
yield

0.0

%

Risk-free  
interest  
rate

3.38

%

**Options  
granted  
December  
31, 2008:**

Expected  
life (years)

5.0

Expected  
stock price  
volatility

65.79

%

Expected  
dividend  
yield

0.0

%

Risk-free  
interest  
rate

3.41

%

**Options  
granted  
December  
31, 2009:**

Expected  
life (years)

5.0

Expected  
stock price  
volatility

88.22

%

Expected  
dividend  
yield

0.0

%

Risk-free  
interest  
rate

2.34

%

The risk-free interest rate is based upon the U.S. Treasury yield curve at the time of grant for the respective expected life of the option. The expected life (estimated period of time outstanding) of options was estimated. The expected volatility of the Company's options was calculated using historical data. Expected dividend yield was not considered in the option pricing formula since the Company does not pay dividends and has no current plans to do so in the future. If actual periods of time outstanding and rate of forfeitures differs from the expected rates, the Company may be required to make additional adjustments to compensation expense in future periods.

The Company granted options to purchase 5,000,000 shares of common stock to key directors on December 31, 2007. On June 13, 2008, the Company granted options to purchase 66,660 shares of common stock to employees. On December 31, 2009, the Company granted options to purchase 5,176,660 shares of common stock to certain officers, directors and employees. In July 2010 the Company cancelled 5,066,660 options which had been issued prior to December 2009. A summary of the status of the Company's outstanding stock options as of December 31, 2010 and changes during the period then ended is presented below:

Shares

Weighted Average  
Exercise Price

Outstanding,  
January 1, 2009

5,066,660

\$

1.32

Granted

5,176,660

.13

Expired/Cancelled

-



	-
Exercised	-
	-
Outstanding, December 31, 2009	10,243,320
	.71
Expired/Cancelled	(5,066,660)
	1.31
Granted	-
	-
Exercised	-

-

Outstanding,  
December 31,  
2010

5,176,660

\$

0.13

Exercisable

5,176,660

\$

0.13

Outstanding

Exercisable

Range of  
Exercise  
Prices

Number  
outstanding at  
December 31,  
2010

Weighted  
Average  
Remaining  
Contractual  
Life

Number  
Exercisable at  
December  
31,2010

\$

0.13

4,800,000

9.00

4,800,000

0.12

376,660

9.00

376,660

5,176,660

5,176,600

The total fair value of options vested was \$0 and \$422,804 for the years ended December 31, 2010 and 2009, respectively. As of December 31, 2010, there was no unrecognized compensation cost related to non-vested stock options granted under the Plan. The 5,176,660 options granted in 2009 fully vested during the year and were fully expensed at the time of grant.

NOTE 14 INTANGIBLE ASSETS

Intangible assets are stated at cost. Amortization computed using the straight-line method. The lives over which the intangible assets are amortized range from 10 to 20 years. Intangible assets and related amortization for the period are as follows:

2009

Accumulated

Cost

Amortization

Net Book Value

Trademarks

\$ 87,525

\$ 37,358

\$ 50,167

Trade Secrets

375,807

126,255

249,552

Patents

3,523,967

751,283

2,772,684

Customer lists

1,047,222

411,022

636,200

Goodwill

652,149

-

652,149

Totals

\$ 5,686,670

\$ 1,308,393

\$ 4,360,751

2010

Accumulated

Cost

Amortization

Net Book Value

Trademarks

\$ -

\$ -

\$ -

Trade Secrets

200,807

94,197

106,610

Patents

3,339,567

919,375

2,420,192

Customer lists

892,372

457,197

435,175

Goodwill

652,149

-

652,149

Totals

\$ 5,084,895

\$ 1,470,769

\$ 3,614,125

Amortization expense for the years ended December 31, 2010, and 2009, was \$310,498 and \$396,030, respectively.

#### NOTE 15 ROYALTIES

Royalty agreements were executed with JMST, Cryometrix, All Temp and Image Labs as a condition of the companies acquisitions. Terms of the royalty agreements are as follows:

JMST David Carver will receive a royalty payment on gross revenues related to revenues derived from the Carver Patents or Carver Technology. Such payments are due on revenue in excess of \$500,000 derived from products under the Carver Patents or Carver Technology. The royalty payment is 2.5% on the revenue in excess of \$500,000 and is payable quarterly. Payments are to be made in Reflect Scientific s common stock not to exceed 500,000 shares in total. New products developed from the Carver Technology are subject to a royalty of 3% of gross revenues in excess of \$100,000, with an additional 2% if gross revenues exceed \$600,000. Royalties will also be paid in our common stock annually. Common stock will be valued at \$3.00 per share for these purposes. Royalty payments are only due



for years where there are valid Carver Patents.

Cryometrix The prior shareholders of Cryometrix receive a 2.5% royalty on all sales, licensing or other distributions on revenue derived from products and technology received from Cryometrix. The royalty payment is not due or payable unless and until the revenue derived from such products and technology exceeds \$3,000,000. The payment is payable in shares of Reflect Scientific's common stock not to exceed 2,000,000 shares in aggregate. Common stock will be valued at \$1.80 or market value at time of accrual whichever is greater, for these purposes. Payments are due quarterly.

No royalty payments were made or accrued under the royalty agreements during 2010 and 2009.

#### NOTE 16 INCOME TAXES

The provision (benefit) for income taxes for the year ended December 31, 2010 and 2009 consist of the following:

2010

2009

Federal:

Current

\$

-

\$

-

Deferred

-

-

State:

Current

-

3,116

Deferred

-

-  
\$  
-  
\$  
3,116

Net deferred tax assets consist of the following components as of December 31, 2010 and 2009:

2010

2009

Deferred tax assets:

NOL Carryover

\$

3,089,540

\$

2,730,600

Stock Based  
Compensation

125,962

1,397,938

Depreciation and  
Amortization

2,125

102,052

R&D Tax Credits

50,474

51,627

Other Reserves

14,659

38,642

V a l u a t i o n  
A l l o w a n c e

(3,282,760)

(4,320,860)

Total

-

-

D e f e r r e d t a x  
l i a b i l i t i e s :

	-
	-
Net deferred tax asset (liability)	
\$	-
	-
\$	-

The income tax provision differs from the amount of income tax determined by applying the U.S. federal statutory rate of 34% to pretax income from continuing operations for the year ended December 31, 2010 and 2009 due to the following.

2010

2009

Expected Tax Expense

\$

(602,562)

\$

(1,658,779)

Non deductible  
Expenses

2,279

1,900

R&D Tax Credit

1,153

(51,627)

Stock for Services

-

	43,523
Warrant Amortization	
	203,417
	198,645
State Tax Effect	
	(70,890)
	(163,620)
Cancellation/expiration of Options	
	1,271,991
	-
Other, net	
	232,712



(245,214)

Change in Valuation  
Allowance

(1,038,100)

1,878,288

\$

-

\$

3,116

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carryforwards for Federal income tax reporting purposes are subject to annual limitations. If a change in ownership occurs, then net operating loss carryforwards may be limited as to use in future years. At December 31, 2010, the Company had net operating loss carryforwards of approximately \$8,130,368 that may be offset against future taxable income from the year 2010 through 2030. In addition the Company had research and development tax credit carryforwards of \$50,474. During 2010 the company evaluated its deferred tax assets and concluded that none of the asset would be realizable and that a full valuation allowance should be recorded. The

valuation allowance decreased by \$1,308,100 and leaves the company with a net deferred tax asset of \$0 as of December 31, 2010.

Included in the balance at December 31, 2010, are no tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The tax years 2007 through 2010 remain open to examination for federal income tax purposes and by the other major taxing jurisdictions to which we are subject.

NOTE 17 RELATED PARTY TRANSACTIONS

Loan from Shareholder

At December 31, 2010, a shareholder of the Company had advanced \$24,000 in funding in the form of a non-interest bearing loan to the Company. It is the intent of the Company to repay this loan upon the closing of a major capital raise.

NOTE 18 DISCONTINUED OPERATIONS

In accordance with ASC 205-20, the Company has classified all results from operations of ImageLabs and MiraLogix into discontinued operations line items within the Company's statements of operations and statements of cash flow.

The Company recorded a loss on disposal of \$947,941 all of which is reported in the twelve-month period covered by this report.

Net loss from discontinued operations for the year ended December 31, 2010 and 2009 consisted of the following:

December 31,

2010

December 31,

2009

Revenue

\$

169,363

\$

2,343,917

Cost of Goods  
Sold

(105,772)

(1,492,895)

Operating  
Expenses

(263,500)

(1,732,443)

Net Loss from  
Discontinued  
Operations

\$

(199,909)

\$

(881,421)