

REFLECT SCIENTIFIC INC

Form 424B3

December 21, 2007

---

**PROSPECTUS**

REFLECT SCIENTIFIC, INC.

4,653,846 shares of Common Stock, 0.01 par value

This prospectus relates to periodic offers and resales of an aggregate of 4,653,846 shares of our common stock held by certain selling security holders which includes:

3,946,154 shares of our common stock underlying 12% senior convertible debenture;

807,692 shares of our common stock underlying future interest payments.

All shares are being offered through the selling security holder. We will not receive any proceeds from the sale of the shares by the selling security holders. The shares of common stock are being offered for sale by the selling security holders at prices established on the OTC Bulletin Board ( OTCBB ) or other trading markets or exchanges where our stock trades or by agreement between selling security holder and the buyer during the term of this offering. There are no minimum purchase requirements. These prices will fluctuate based on the demand for the shares of common stock. Our common stock is quoted on the OTCBB under the symbol RSCF. On November 19, 2007, the closing price for our common stock was \$1.45 of per share.

A current prospectus must be in effect at the time of the sale of the shares of common stock offered herein. Each selling shareholder of the common stock is required to deliver a current prospectus upon the sale. In addition, for the purposes of the Securities Act of 1933, selling shareholders may be deemed underwriters. Therefore, the selling shareholder may be subject to statutory liabilities if the registration statement, which includes this prospectus, is defective by virtue of containing a material misstatement or failing to disclose a statement of material fact.

**Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 5 of this prospectus to read about the risks of investing in our common stock.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Edgar Filing: REFLECT SCIENTIFIC INC - Form 424B3

The date of this Prospectus is December 21, 2007.

---

**REFLECT SCIENTIFIC HAS NOT REGISTERED THE SHARES FOR SALE BY THE SELLING SHAREHOLDERS UNDER THE SECURITIES LAWS OF ANY STATE. BROKERS OR DEALERS EFFECTING TRANSACTIONS IN THE SHARES SHOULD CONFIRM THAT THE SHARES HAVE BEEN REGISTERED UNDER THE SECURITIES LAWS OF THE STATE OR STATES IN WHICH SALES OF THE SHARES OCCUR AS OF THE TIME OF SUCH SALES, OR THAT THERE IS AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES LAWS OF SUCH STATES.**

**THIS PROSPECTUS IS NOT AN OFFER TO SELL ANY SECURITIES OTHER THAN THE SHARES. THIS PROSPECTUS IS NOT AN OFFER TO SELL SECURITIES IN ANY CIRCUMSTANCES IN WHICH SUCH AN OFFER IS UNLAWFUL.**

**REFLECT SCIENTIFIC HAS NOT AUTHORIZED ANYONE, INCLUDING ANY SALESPERSON OR BROKER, TO GIVE ORAL OR WRITTEN INFORMATION ABOUT THIS OFFERING, REFLECT SCIENTIFIC, OR THE SHARES THAT IS DIFFERENT FROM THE INFORMATION INCLUDED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS. YOU SHOULD NOT ASSUME THAT THE INFORMATION IN THIS PROSPECTUS, OR ANY SUPPLEMENT TO THIS PROSPECTUS, IS ACCURATE AT ANY DATE OTHER THAN THE DATE INDICATED ON THE COVER PAGE OF THIS PROSPECTUS OR ANY SUPPLEMENT TO IT.**

**IN THIS PROSPECTUS, REFERENCES TO REFLECT SCIENTIFIC, THE COMPANY, WE, US, A OUR, REFER ~~TO~~ REFLECT SCIENTIFIC, INC., AND ITS SUBSIDIARIES.**

**TABLE OF CONTENTS**

	<u>Section</u>	<u>Page</u>
Prospectus Summary		3
Risk Factors		5
Use of Proceeds		10
Determination of Offering Price		10
Selling Security Holders		10
Plan of Distribution		14
Legal Proceedings		16
Directors, Executive Officers, Promoters and Control Persons		17
Security Ownership of Certain Beneficial Owners and Management		20
Description of Securities		21
Interest of Named Experts and Counsel		23
Disclosure of Commission Position of Indemnifications for Securities Act Liabilities		23
Description of Business		24
Management's Discussion and Analysis or Plan of Operation		32
Description of Property		37
Certain Relationships and Related Transactions		37
Market for Common Equity and Related Stockholder Matters		37
Executive Compensation		40
Financial Statements		43
Changes in and Disagreements with Accountants on Accounting and Financial Disclosure		44
SIGNATURES		

## Prospectus Summary

This summary highlights information contained in this prospectus and may not contain all of the information that should be considered prior to investing in our shares. We encourage you to read this prospectus in its entirety, with particular attention to the information under Risk Factors and our consolidated financial statements and related notes included in this prospectus.

### THE OFFERING

Securities offered by Selling Stockholders	4,653,846 shares of common stock
--	----------------------------------

Common stock outstanding before the offering	34,019,483
--	------------

Common stock to be outstanding after the offering	38,673,329
---	------------

Use of proceeds	The only proceeds will be from the exercise of warrants. Initially, we do not expect the warrants to be exercised until all of the Debentures are converted. If the warrants are exercised, we will use the funds received for general working capital.
-----------------	---

OTC bulletin board symbol	RSCF
---------------------------	------

Risks	As part of your evaluation, you should take into account not only our business approach and strategy, but also special risks we face in our business. For a detailed discussion of these risks and others, see Risk Factors beginning on page 5.
-------	--

### Overview

Reflect Scientific is engaged in the manufacture and distribution of 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 as well as chemical and industrial companies.

Reflect Scientific 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 and currently our wholly-owned subsidiary, changed our name to Reflect Scientific, Inc. and succeeded to the business operations of Reflect Scientific,

Inc., that involved the manufacture and distribution of 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. Since the acquisition of our lifescience business, we have acquired several other companies in an effort to expand our product lines and expertise.

Our goal is to provide our customers with the best solution for their needs. This philosophy extends into our business strategies and acquisition plans. Through a series of strategic acquisitions in 2006 and 2007, 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 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.

### Summary of Financial Information

We reported revenues of approximately \$5,939,251 and a net loss of approximately \$2,517,537 for the nine-month period ended September 30, 2007. At September 30, 2007, we had cash and cash equivalents of approximately \$1,335,750 and working capital of approximately \$2,904,285, which represented an increase in working capital of approximately \$2,135,431 from the amount reported at December 31, 2006, of approximately \$768,854. The increase in our working capital is related to funds received as a result of the completion of a private placement of 12% senior convertible debentures in which we raised \$2,500,000. We believe our revenue stream will increase as we continue to grow our business, allowing us to continue to meet our existing and new financial obligations.

The following table shows selected summarized financial data for Reflect Scientific at the dates and for the periods indicated. The data should be read in conjunction with the financial statements and notes included in this prospectus beginning on page F-1.

### STATEMENT OF OPERATIONS DATA:

	<u>For the Year Ended</u> <u>December 31, 2006</u>	<u>For the Year Ended</u> <u>December 31, 2005</u>	<u>For the Nine Months</u> <u>Ended September 30,</u> <u>2007</u>  <u>(Unaudited)</u>
	<u>(Audited)</u>	<u>(Audited)</u>	
Revenues	\$2,572,955	\$2,241,069	\$5,939,251
Cost of Goods Sold	\$1,519,547	\$1,323,883	\$3,341,277
Operating Expenses	\$2,181,850	\$852,862	\$4,250,004
Net Income (Loss)	\$(978,630)	\$38,163	\$(2,517,537)
Basic Income (Loss) per Share	\$(0.03)	\$(0.03)	\$(0.08)



Weighted Average Number	28,432,024	24,441,014	31,780,093
of Shares Outstanding			

**BALANCE SHEET DATA:**

	<b><u>December 31, 2006</u></b>	<b><u>September 30, 2007</u></b>
		<b>(Unaudited)</b>
Total Current Assets	\$1,039,277	\$3,580,738
Total Assets	\$6,342,473	\$10,446,216
Total Current Liabilities	\$270,423	\$676,453
Working Capital	\$768,854	\$2,904,285
Shareholders' Equity	\$6,010,344	9,418,705

**Corporate Information**

We were incorporated in 1999 in Utah. Our principal office is located at 1270 South 1380 West, Orem, Utah 84058. Our telephone number at this location is (801) 226-4100. We also maintain a regional office in San Jose, California and Bozemen, Montana.

## Risk Factors

An investment in our common stock involves a high degree of risk, and should not be made by anyone who cannot afford to lose their entire investment. You should consider carefully the risks set forth in this section, together with the other information contained in this prospectus, before making a decision to invest in our common stock. Our business, operating results and financial condition could be seriously harmed and you could lose your entire investment if any of the following risks were to occur.

We are currently losing money and even with recent capital infusions, we will need to reduce our losses if we are to survive.

For the nine months ended September 30, 2007, we had a net loss of \$2,517,537 on revenues of \$5,939,251. We cannot continue to cover the current losses and are striving to reduce the losses. We are hopeful that with the completion of the acquisitions started in 2006 and the addition of the new products to our portfolio, we will see revenues increasing and be able to cover our expenses. Several of the companies we acquired have products in the early phase of commercialization so we do not have a track record on which to base an estimate on future sales. Accordingly, we are analyzing our expenses and seeing where we can make adjustments to reduce our overall cost. If we are not successful in increasing revenues and/or reducing cost, there will be a substantial question as to our long term viability.

Our business consist of multiple companies that were brought together over the last year and the integration of the diverse product line and work force may be difficult and in the end may be unsuccessful.

Our business model for the last year and a half was focused on the acquisition of several companies that we believed had niche products with competitive advantages over existing products on the marketplace. Most of the companies we acquired had products in the very early stage of commercialization. As a result of our acquisitions which were only completed during the first quarter of 2007, our management is stretched and integrating the different companies has been time consuming. We are looking to hire additional personnel, but have not had the resources to make this commitment until recently. Our future success with these diverse companies is still unknown and an investor in Reflect Scientific will not have a track record to analyze in making a decision on if we are a good investment and if we will be successful integrating these acquisitions.

Our lack of capital limits our ability to compete in the market place, which can adversely affect our market share, revenue and gross margins.

Many of our competitors are substantially larger and better financed than we are. Although we recently completed a round of financing, we continue to lose money. Accordingly, we are limited in our ability to provide the marketing

and research and development dollars that many of our competitors are able to invest. We are hopeful with the completion of our last acquisition, some administrative expenses will be reduced particularly associated with legal, accounting and consulting cost; however, even with reductions in these categories we must start making money to be able to invest the dollars needed to stay competitive in the marketplace. If revenues do not improve, we may have to seek additional financing and there can be no assurance additional capital will be available.

Several of our key products are in the early phase of commercialization so their long-term acceptance by the marketplace is unknown, and if they are not accepted, our ability to continue will be questionable.

Several of our products, including our freezers and detectors, have only recently been introduced on a commercial basis to the marketplace. Although we are hopeful on the products long-term acceptance, at this time, there is no assurance that they will be accepted by the marketplace or that there will not be another product which supersedes them before they can obtain a foothold. Much of our future success is dependent on these freezers and detectors and

if they are not successful, our long term profitability will be very questionable. Investors in Reflect Scientific will not have the advantage of being able to look to a mature product or long-term revenue streams when making an investment decision.

Our inability to adequately retain or protect our employees, customer relationships and proprietary technology could harm our ability to compete.

Our future success and ability to compete depends in part upon our employees and their customer relationships, as well as our proprietary technology and patents, which we attempt to protect with combination of patent, trademark and trade secret claims as well as with our confidentiality procedures and employee contract provisions. These legal protections afford only limited protection and are time consuming and expensive to maintain. Further, despite our efforts, we may not prevent third parties from soliciting our employees or customers or infringing upon or misappropriating our intellectual property. Our employees, customer relationships and intellectual property may not provide us with a competitive advantage adequate to prevent the competitors from entering the markets for our products and services. Additionally, our competitors, which are larger and better financed, could independently develop non-infringing technologies that are competitive with, and equivalent or superior to our technology.

The departure of certain key personnel could affect the financial condition of Reflect Scientific due to the loss of their expertise and customer relationships.

Certain key employees, primarily Kim Boyce and Tom Tait, are very closely involved in our business and have day-to-day relationships with critical customers. One of the key aspects in the purchase of our initial technology was the ability to obtain the employees responsible for developing our technology. The loss of these employees would severely hinder our ability to develop new products and improve on existing products and technology. Competition for highly skilled business, product development, technical and other personnel is intense, and we may not be successful in recruiting new personnel or in retaining our existing personnel. With the size and funding advantages enjoyed by our competitors, it may be difficult to keep key employees, particularly those in the scientific fields. A failure on our part to retain the services of these key personnel could have a material adverse effect on our operating results and financial conditions. We do not maintain key man life insurance on any of our employees. Although we do maintain employment contracts with key employees, these contracts may not be sufficient to keep the employees from leaving.

We face numerous competitors and as a result, we may not get the business we seek.

We have many competitors with comparable technology and capabilities that compete for the same group of customers. Our competitors are competent and experienced and are continuously working to take projects away from us. Many of our competitors have greater financial, technical, marketing and other resources than we do. Our ability to compete effectively may be adversely affected by the ability of these competitors to devote greater resources to the sale and marketing of their products and services.

We are a small company that relies on a few significant employees to ensure that our business operates efficiently. If we were to lose one of these employees it would effect our business operations and we would experience difficulty in replacing one of these employees.

Other larger companies have greater capital resources and therefore greater recruitment capability than Reflect Scientific. This may limit our ability to hire new talent and retain current employees. We have a very small staff of executives and significant employees. We rely on our executive officers, senior management and significant employees to ensure our business operates efficiently. The loss of such an employee could harm our business. We believe that our success in this business depends on our ability to continue to attract and retain highly skilled and knowledgeable staff.

Trading in our common stock is limited.

Our common stock is quoted on the OTC Bulletin Board. The OTC Bulletin Board is a significantly more limited market than the New York Stock Exchange or NASDAQ system. The quotation of our shares on the OTC Bulletin Board may result in a less liquid market available for existing and potential stockholders to trade shares of its common stock could depress the trading price of its common stock and could have a long-term adverse impact on our ability to raise capital in the future.

Our issuances of shares in connection with exercises of the Series A and B Warrants and conversions of the Debentures likely will result in overall dilution to market value and relative voting power of previously issued common stock, which could result in substantial dilution to the value of shares held by shareholders prior to sales under this prospectus.

The issuance of common stock in connection with exercises of the Series A and B Warrants and conversions of the Debentures by the Selling Shareholders may result in substantial dilution to the equity interests of holders of our common stock other than the Selling Shareholders. Specifically, the issuance of a significant amount of additional common stock will result in a decrease of the relative voting control of our common stock issued and outstanding prior to the issuance of common stock in connection with exercises of the Series A and B Warrants and conversions of the Debentures. Furthermore, public resales of our common stock by the Selling Shareholders following the issuance of common stock in connection with exercises of the Series A and B Warrants and conversions of the Debentures likely will depress the prevailing market price of our common stock. Even prior to the time of actual exercises, conversions, and public resales, the market overhang resulting from the mere existence of our obligation to honor such conversions or exercises could depress the market price of our common stock, which could make it more difficult for existing investors to sell their shares of our common stock, and could reduce the amount they would receive on such sales.

There is an increased potential for short sales of our common stock due to the sales of shares issued to the Selling Shareholders in connection with the Series A and B Warrants and the Debentures, which could materially effect the market price of our stock.

Downward pressure on the market price of our common stock that likely will result from sales of our common stock by the Selling Shareholders issued in connection with exercises of the Series A and B Warrants and conversions of the Debentures could encourage short sales of common stock by the Selling Shareholders or others. A short sale is defined as the sale of stock by an investor that the investor does not own. Typically, investors who sell short believe that the price of the stock will fall, and anticipate selling at a price higher than the price at which they will buy the stock. Significant amounts of such short selling could place further downward pressure on the market price of our common stock, which could make it more difficult for existing shareholders to sell their shares.

The restrictions on the number of shares issued upon exercise of the Series A and B Warrants and on conversion of the Debentures may have little if any effect on the adverse impact of our issuance of shares in connection with exercise of the Series A and B Warrants and conversion of the Debentures, and as such, the Selling Shareholders may sell a large number of shares, resulting in substantial dilution to the value of shares held by our existing shareholders.

The Selling Shareholders are prohibited, except in certain circumstances, from exercising the Series A and B Warrants and converting amounts of the Debentures to the extent that the issuance of shares would cause any Selling Shareholder to beneficially own more than 4.99% of our then outstanding common stock. These restrictions, however, do not prevent any Selling Shareholder from selling shares of common stock received in connection with an exercise or conversion, and then receiving additional shares of common stock in connection with a subsequent exercise or conversion. In this way, a Selling Shareholder could sell more than 4.99% of the outstanding common stock in a relatively short time frame while never holding more than 4.99% at one time. As a result, existing shareholders and new investors could experience substantial dilution in the value of their shares of our common stock.

The trading market for our common stock is limited, and investors who purchase shares from the Selling Shareholders may have difficulty selling their shares.

The public trading market for our common stock is limited. As of the date of this registration statement, our common stock was listed on the OTC Bulletin Board. Nevertheless, an established public trading market for our common stock may never develop or, if developed, it may not be able to be sustained. The OTCBB is an unorganized, inter-dealer, over-the-counter market that provides significantly less liquidity than other markets. Purchasers of our common stock therefore may have difficulty selling their shares should they desire to do so.

It may be more difficult for us to raise funds in subsequent stock offerings as a result of the sales of our common stock by the Selling Shareholders in connection with the Series A and B Warrants, the Debentures.

As noted above, sales by the Selling Shareholders likely will result in substantial dilution to the holdings and interest of current and new shareholders. Additionally, as noted above, the volume of shares sold by the Selling Shareholders could depress the market price of our stock. These factors could make it more difficult for us to raise additional capital through subsequent offerings of our common stock, which could have a material adverse effect on our operations.

We may face penalties if the registration process is delayed.

As a portion of our obligations under the sale of the Debentures and Warrants, we are required to file for registration for the underlying shares and to have the registration deemed effective by the SEC within certain time frames. There is no assurance that we will meet those deadlines, despite all our efforts. In the event of delay, we will incur financial penalties in accordance with the transactional documents. The use of resources to cover these obligation will take them from other plans and needs within Reflect Scientific.

We are considered a penny-stock, which may limit the market for our common equity securities.

Our common stock is quoted on the OTCBB and currently trades below \$5.00 per share. For much of our history our shares have been treated as "penny stock" within the definition of that term contained in Rules 15g-1 through 15g-9 promulgated under the Securities Exchange Act of 1934, as amended. These rules impose sales practices and disclosure requirements on certain broker-dealers who engage in certain transactions involving penny stocks. These additional sales practices and disclosure requirements could impede the sale of our securities, including securities purchased herein, in the secondary market. In general, penny stocks are low priced securities that do not have a very high trading volume. Consequently, the price of the stock is volatile and you may not be able to buy or sell the stock when you want. Accordingly, the liquidity for our securities may be adversely affected, with related adverse effects on the price of our securities.



Under the penny stock regulations, a broker-dealer selling penny stocks to anyone other than an established customer or "accredited investor" (generally, an individual with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with his or her spouse) must make a special suitability determination for the purchaser and must receive the purchaser's written consent to the transaction prior to the sale, unless the broker-dealer is otherwise exempt. In addition, unless the broker-dealer or the transaction is otherwise exempt, the penny stock regulations require the broker-dealer to deliver, prior to any transaction involving a penny stock, a disclosure schedule prepared by the Securities and Exchange Commission relating to the penny stock. A broker-dealer is also required to disclose commissions payable to the broker-dealer and the Registered Representative and current quotations for the securities. A broker-dealer is additionally required to send monthly statements disclosing recent price information with respect to the penny stock held in a customer's account and information with respect to the limited market in penny stocks.

The market for our common stock is limited and there are no assurances an active market for our common stock will ever develop. Accordingly, purchasers of our common stock cannot be assured any liquidity in their investment.

You will not receive dividend payments.

We have not paid and do not plan to pay dividends in the foreseeable future even if our operations are profitable. Additionally, under the terms of the Debentures, we are not permitted to pay a dividend while they are outstanding. Earnings, if any, will be used to expand our operations, hire additional staff, pay operating expenses and salaries, rather than to make distributions to shareholders. Future value of an investment will be tied to an increase in Reflect Scientific's enterprise value and/or market price of our common stock, if trading on an exchange or market.

We may issue more stock without shareholder input or consent which could dilute the book value of your investment.

The board of directors has authority, without action by or vote of the shareholders, to issue all or part of the authorized but unissued shares. In addition, the board of directors has authority, without action by or vote of the shareholders, to fix and determine the rights, preferences, and privileges of the preferred stock, which may be given voting rights superior to that of the common stock in this offering. Any issuance of additional shares of common stock or preferred stock will dilute the ownership percentage of shareholders and may further dilute the book value of Reflect Scientific's shares. It is likely we will seek additional capital in the future to fund operations. Any future capital will most likely reduce investors in this offerings percentage of ownership.

Current management owns most of the shares and will control Reflect Scientific.

Current shareholders and managers own 18,329,250 shares of common stock or 53.88% of the issued and outstanding shares. As a result, management will most likely be in a position to elect the Board of Directors, to dissolve, merge or sell our assets, and to direct our business affairs without shareholder input or consent. Until all of the Debentures are converted and Warrants exercised, current management will continue to be able to be in control on any matters submitted to a shareholder vote.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this prospectus constitute forward-looking statements. These statements involve risks known to us, significant uncertainties, and other factors which may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results,

levels of activity, performance, or achievements expressed or implied by those forward-looking statements.

You can identify forward-looking statements by the use of the words "may," "will," "should," "could," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "potential," "proposed," or "continue" or the negative of those terms. These statements are only predictions. In evaluating these statements, you should specifically consider various factors, including the risks outlined above. These factors may cause our actual results to differ materially from any forward-looking statement.

Although we believe that the exceptions reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

### **Use of Proceeds**

We will not receive any proceeds upon the resale of shares by the selling security holders. Any proceeds that we receive will be from the selling security holders upon the exercise of the outstanding warrants. We will use these proceeds for general working capital. The actual allocation of proceeds realized from the exercise of these securities will depend upon the amount and timing of such exercises, our operating revenues and cash position at such time and our working capital requirements. There can be no assurances that any of the outstanding warrants will be exercised or that any of the debentures will be converted.

### **Determination of Offering Price**

Our common stock will be offered by the selling security holder in amounts, at prices, and on terms to be determined in light of market conditions at the time of sale. The shares may be resold directly by the selling stockholders in the open market at prevailing prices or through negotiations between selling shareholder and prospective buyer or through agents, underwriters, or dealers. We will not control or determine the price at which the shares are sold.

### **Selling Security Holder**

On June 29, 2007, Reflect Scientific and the selling security holders executed a securities purchase agreement which involved the sale of 12% Senior Convertible Debentures (the Debentures ) and 3,846,154 warrants ( Warrants ) consisting of 1,923,077, both of which underlie an aggregate 8,500,000 shares of our common stock. The closing for this transaction occurred on June 29, 2007.

This prospectus, and the registration statement of which it is a part, cover the resales of the shares to be issued to the Selling Shareholders, in connection with shares of common stock issued on conversion of Debentures and payment of interest with shares of our common stock. Although we believe we will have the ability to repay the Debenture over the terms of the Debenture, if the price for our common stock is above the conversion price, and there is sufficient liquidity in our stock for the Selling Shareholder to sell shares received on conversion of the Debenture, it is likely the Selling Shareholders would elect to convert the Debenture into shares of common stock rather than having us pay the Debenture off.

The following table provides information about the actual and potential ownership of shares of our common stock by the Selling Shareholders in connection with the conversion of the Debentures and exercise of the Series A and B Warrants, and the number of our shares registered for sale in this prospectus. We are contractually obligated to register for resale amounts equal to 100% of the shares issued upon conversion of the Debentures and exercise of the shares issuable upon exercise of the Series A and B Warrants. This prospectus and the registration statement of which it is a part covers the resale of up to 4,653,846 shares of our common stock issued or issuable to the Selling

Shareholders in connection with conversions of the Debentures and payment of interest thereon. We will file a separate registration statement in the future to cover the Series A and B Warrants once such registration statement is warranted by the pending exercise of the Warrants.

Under the terms and conditions of the Debentures and the Series A and B Warrants, each Selling Shareholders is prohibited from converting the Debentures or exercising the Series A and B Warrants that would cause such Selling Shareholder to beneficially own more than 4.99% of the then-outstanding shares of our common stock following such issuance. This restriction does not prevent any Selling Shareholder from receiving and selling shares and thereafter receiving additional shares. In this way, a Selling Shareholder could sell more than 4.99% of our outstanding common stock in a relatively short time frame while never beneficially owning more than 4.99% of the outstanding Reflect Scientific common stock at any one time. For purposes of calculating the number of shares of common stock issuable to the Selling Shareholders assuming a conversion of the Debenture and the payment of the interest thereon in shares of our common stock and the exercise of the full amount of the Series A and B Warrants, as set forth below, the effect of such 4.99% limitation has been disregarded. The number of shares issuable to a Selling Shareholder as described in the table below therefore may exceed the actual number of shares such Selling

Edgar Filing: REFLECT SCIENTIFIC INC - Form 424B3

Shareholder may be entitled to beneficially own under the terms and conditions of the Debenture and Series A and B Warrants. The following information is not determinative of any Selling Shareholder's beneficial ownership of our common stock pursuant to Rule 13d-3 or any other provision under the Securities Exchange Act of 1934, as amended.

The selling security holders are:

<u>Shareholders</u>	<u>Number of Shares Beneficially Owned</u>	<u>Percentage of Outstanding Shares (1)</u>	<u>Number of Shares Being Registered</u>	<u>Registered Shares as a Percentage of Outstanding Shares</u>
Dynamic Decisions Growth Premium(2)				
25 Cabot Square London, E14, 4QA Chestnut Ridge Partners, LP(3)	930,769	2.7%	930,769	2.7%
50 Tice Blvd Woodcliffe Lake, NJ 07677 Enable Growth Partners, LP(4)	850,000	2.4%	465,384	1.37%
One Ferry Building, Suite 255 San Francisco, CA 94111 Enable Opportunity Partners, LP(5)	4,760,000	12%	2,606,155	7.66%
One Ferry Building, Suite 255 San Francisco, CA 94111 Pierce Diversified Strategy Master Fund, LLC ENA(6)	892,500	2.6%	488,654	1.4%
One Ferry Building, Suite 255 San Francisco, CA 94111	<u>297,500</u>	<u>0.87%</u>	<u>162,884</u>	<u>0.48%</u>
Total	7,730,769	22.7%	4,653,846	12.68%
	=====	=====	=====	=====

(1) As noted above, the Selling Shareholders are prohibited by the terms of the Debentures and Series A and B Warrants from converting amounts of the Series A Notes or exercising the Series A Warrants that would cause it to beneficially own more than 4.99% of the then outstanding shares of our common stock. The percentages set forth are not determinative of any Selling Shareholder's beneficial ownership of our common stock pursuant to Rule 13d-3 or any other provision under the Securities Exchange Act of 1934, as amended. Inasmuch as the total allowable amount of stock at the 4.99% level is based on the then outstanding share count, these numbers are computed as the minimum amount that would be available to be converted in the event that the only additional issued (then outstanding) shares were the shares issued to the individual Selling Shareholder. The number of shares actually issuable will be subject to the then number of Selling Shareholders that convert the Debentures and exercise the Warrants. All percentages assume 34,019,483 issued and outstanding shares of common stock at December 13, 2007.

Percentages assume the conversion only of the individual shareholders ownership position to the issued and outstanding amount.

(2) Dynamic Decision Growth Premium investment making authority and dispositive power over the shares is vested in Alberto Micalizzi, the chairman of the fund.

(3) Chestnut Ridge Partners, LP investment making authority and dispositive power over the shares is vested in Kenneth Pasternak, managing member of the general partner of the fund.

(4) Enable Growth Partners, LP investment making authority and dispositive power over the shares is vested in Mitch Levine, managing partner of the fund.

(5) Enable Opportunity Partners, LP investment making authority and dispositive power over the shares is vested in Mitch Levine, managing partner of the fund.

(6) Pierce Diversified Strategy Master Fund, LLC ENA investment making authority and dispositive power over the shares is in Mitch Levine, managing partner of the fund.

All selling shareholders purchased in a private placement of completed in June 2007. The private placement consisted of Debentures along with series A and series B common stock purchase warrants ( Series A Warrants and Series B Warrants. Set forth below is the amounts purchased along with the warrant allocation to each selling shareholder:

<u>Shareholders</u>	<u>Debentures Purchased</u>	<u>Series A Warrants</u>	<u>Series B Warrants</u>	<u>Interest Shares</u>
Dynamic Decisions Growth Premium	\$500,000	-	-	161,538
Chestnut Ridge Partners, LP	\$250,000	192,308	192,308	80,769
Enable Growth Partners, LP	\$1,400,000	1,076,923	1,076,923	452,308
Enable Opportunity Partners, LP	\$262,500	201,923	201,923	84,808
Pierce Diversified Strategy Master Fund, LLC ENA	<u>\$87,500</u>	<u>67,308</u>	<u>67,308</u>	<u>28,269</u>
Total	\$2,500,000	1,538,462	1,538,462	807,692

Interest shares has been calculated based on a two years of interest payments which may be paid in shares of common stock. For purposes of calculating the interest to be paid in shares of common stock we have assumed the conversion price of the Debentures of \$0.65 will be the dollar amount assigned to each share of common stock issued on the payment of interest. The first quarter's interest payments were prepaid in cash and have been deducted from the interest calculations. Interest is calculated based on 12% per year. We have assumed for all calculations that the entire amount of the Debentures remains outstanding for the balance of its term which would be June 29, 2009.

Accordingly, if the entire debenture remains outstanding, interest payments of \$300,000 would be due each year or \$75,000 per quarter. Presently, the first quarter payment, which was due on October 1, 2007, has been paid in cash leaving \$225,000 in payments for the first year and a total of \$525,000 in payments until maturity of the Debentures.

We have assumed an interest payments with shares of our common stock would be made at the current conversion price of \$0.65 per resulting in a total possible shares of 807,692. This assumes we pay all interest payments with shares of our common stock.



The selling security holders have never in the past nor currently held a position or office with Reflect Scientific. The selling security holder have not had any material relationship with Reflect Scientific during the last three (3) years.

**Information on Selling Shareholders Investment**

Based on the price of our common stock on the date of the sale of the Debentures, the shares to be registered for the Selling Shareholders would have had a market value of:

	<u>Number of Shares</u>	<u>Market price Per Share on June 29, 2007</u>	<u>Total Dollar of Shares on June 29, 2007 (Assuming Market Price)</u>
Shares Registered for Conversion of Note	3,846,154	\$1.70	\$6,538,462
Shares Registered for Payment of Interest on Notes	<u>807,692</u>	<u>\$1.70</u>	<u>\$1,373,076</u>
Total Shares	<u>4,653,846</u>	<u>\$1.70</u>	<u>\$7,911,538</u>

Based on the purchase of the Debentures and the cost associated with such sale, we received net proceeds on the Debenture sale of:

	<u>Payments Made or to Be Made</u>	<u>Proceeds to Company</u>
Gross Proceeds		\$2,500,000
Placement Agent Fees	\$250,000	
Prepaid Interest for first quarter(1)	75,000	
Interest for Balance of First Year	225,000	
Professional Fees (Attorney)	<u>27,787</u>	
Total Fees First Year	<u>\$577,787</u>	<u>577,787</u>
Net Proceeds to Company After One Year		<u>\$1,922,213</u>
Interest for Second Year	<u>\$300,000</u>	\$300,000
Net Proceeds to company After Two Years		<u>\$1,622,213</u>

(1) At closing we pre-paid the first quarter of interest with such payments placed into an escrow account. We may make future interest payments with shares of our common stock depending on our stock price and availability of capital.

Edgar Filing: REFLECT SCIENTIFIC INC - Form 424B3

If our stock price remains at current levels, we estimate the Selling Shareholders would receive proceeds from the conversion of the Debentures and interest of:

	<u>Principal and Interest Amount</u>	<u>Conversion Price Per share(1)</u>	<u>Number of Shares upon Conversion</u>	<u>Market Price Per share on June 29, 2007</u>	<u>Market Value of Shares on June 29, 2007</u>	<u>Total Possible Discount to Market</u>
Shares Issuable for Conversion of Notes	\$2,500,000	\$0.65	3,846,154	\$1.70	\$6,538,462	\$4,038,462
Shares Issuable for Payment of Interest on Notes	\$525,000	\$0.65	<u>807,692</u>	\$1.70	<u>\$1,373,076</u>	<u>\$848,076</u>
Total Shares			<u>4,653,846</u>	\$1.70	<u>\$7,911,538</u>	<u>\$4,886,538</u>

(1) We have assumed a conversion price of \$0.65 as set forth in the Debentures. The conversion price would be reduced if we sold equity securities at less than \$0.65 per share. At this time we would not expect to sell shares at below this price. The interest conversion is based on the \$0.65 or, if lower 85% of our average trading price. At this time, our stock is above these conversion amounts and we have assumed a \$0.65 price on interest payments.



Edgar Filing: REFLECT SCIENTIFIC INC - Form 424B3

In addition to the shares being registered for the Selling Shareholders herein, the Selling Shareholders hold Series A and B Warrants. The following chart shows the Selling Shareholders warrant position based on the exercise price of the Warrants and the market price of our common stock on the date of the placement of the Warrants on June 29, 2007:

	<u>Total</u> <u>Number of</u> <u>Shares on</u> <u>Full</u> <u>Exercise</u>	<u>Market</u> <u>Price Per</u> <u>share on</u> <u>June 29,</u> <u>2007</u>	<u>Exercise</u> <u>Price of</u> <u>Warrants</u>	<u>Profit</u> <u>Per</u> <u>Share</u>	<u>Total Combined</u> <u>Market Price</u>	<u>Total</u> <u>Combined</u> <u>Exercise Price</u>	<u>Total Possible</u> <u>Discount to</u> <u>Market</u>
Shares Issuable on Exercise of Series A Warrants	1,923,077	\$1.70	\$0.80	\$0.90	\$3,269,230.90	\$1,538,461.60	\$1,730,769
Shares Issuable on Exercise of Series B Warrants	<u>1,923,077</u>	\$1.70	\$1.00	\$0.70	\$3,269,240.90	\$1,923,077.00	<u>\$1,346,153.90</u>
T o t a l Shares	<u>3,846,154</u>						<u>\$3,076,923.20</u>

Based on the price of our common stock on June 29, 2007, and the net proceeds received by Reflect Scientific, we estimate Selling Shareholders received:

Gross Proceeds	<u>\$ 2,500,000</u>
Fees and Cost of Placement:	
Placement Agent Fees	\$ 250,000

Professional Fees (attorney)	27,787	
Prepaid Interest (October 2007 Quarter)	75,000	
Interest for Balance of Term of Debenture	<u>525,000</u>	
Total Out of Pocket Cost of Placement		\$ <u>877,787</u>
Discount to Market on Shares Receivable on Note Conversion		<u>\$ 4,886,538</u>
Out of Pocket Cost of Placement including Discount to Market		<u>\$ 5,764,325</u>
Cost as a Percentage of Offering		<u>230.57%</u>
Cost as a Percentage of Offering over the term of Debenture		<u>115.29%</u>

Interest accrues and is due and payable quarterly at the rate of 12% per annum. We have paid the October 2007 interest payment of \$75,000. The next interest payment is due on January 1, 2008. We may elect to make future interest payments with shares of our common stock.

#### **Plan of Distribution**

The selling security holder may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at

fixed or negotiated prices. The selling security holder may use any of the following methods when selling shares:

- (1) Ordinary brokerage transaction and transactions in which the broker-dealer solicits purchasers;
- (2) Block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- (3) Purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- (4) An exchange distribution in accordance with the rules of the applicable exchange;
- (5) Privately negotiated transactions;
- (6) Settlement of short sales entered into after the effective date of the registration statement of which this prospectus is a part;
- (7) Broker-dealers may agree with the Selling Shareholders to sell a specified number of such shares at a stipulated price per share;
- (8) Through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- (9) A combination of any such methods of sale; or
- (10) Any other method permitted pursuant to applicable law.

The Selling Shareholders may also sell shares under Rule 144 under the Securities Act of 1933, as amended (the Securities Act ), if available, rather than under this prospectus.

The selling security holder may also engage in short sales against the box after this registration statement becomes effective, puts and calls and other transactions in our securities or derivatives of our securities and may sell or deliver shares in connection with these trades.

Broker-dealers engaged by the Selling Shareholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the Selling Shareholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated, but, except as set forth in a supplement to this Prospectus, in the case of an agency transaction not in excess of a customary brokerage

commission in compliance with NASDR Rule 2440; and in the case of a principal transaction a markup or markdown in compliance with NASDR IM-2440.

In connection with the sale of the common stock or interests therein, the Selling Shareholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The Selling Shareholders may also sell shares of the common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The Selling Shareholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The Selling Shareholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be underwriters within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Each Selling Stockholder has informed the Company that it does not have any written or oral agreement or understanding, directly or indirectly, with any person to distribute the Common Stock. In no event shall any broker-dealer receive fees, commissions and markups which, in the aggregate, would exceed eight percent (8%).



The Company is required to pay certain fees and expenses incurred by the Company incident to the registration of the shares. The Company has agreed to indemnify the Selling Shareholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

Because Selling Shareholders may be deemed to be underwriters within the meaning of the Securities Act, they will be subject to the prospectus delivery requirements of the Securities Act including Rule 172 thereunder. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 under the Securities Act may be sold under Rule 144 rather than under this prospectus. There is no underwriter or coordinating broker acting in connection with the proposed sale of the resale shares by the Selling Shareholders.

We agreed to keep this prospectus effective until the earlier of (i) the date on which the shares may be resold by the Selling Shareholders without registration and without regard to any volume limitations by reason of Rule 144(k) under the Securities Act or any other rule of similar effect or (ii) all of the shares have been sold pursuant to this prospectus or Rule 144 under the Securities Act or any other rule of similar effect. The resale shares will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the resale shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the resale shares may not simultaneously engage in market making activities with respect to the common stock for the applicable restricted period, as defined in Regulation M, prior to the commencement of the distribution. In addition, the Selling Shareholders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of shares of the common stock by the Selling Shareholders or any other person. We will make copies of this prospectus available to the Selling Shareholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale (including by compliance with Rule 172 under the Securities Act).

### **Legal Proceedings**

We are not currently a party to any legal proceedings that we believe will have a material adverse effect on our financial condition or results of operations.



**Directors, Executive Officers, Promoters and Control Persons**

The following table identifies all directors and executive officers:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of Election or Designation</u>
Kim Boyce	52	President and Director	December 2003
Tom Tait	51	Vice President & Director	December 2003
Kevin Cooksy	45	Secretary/Treasurer	January 2005
Craig D. Morrison	63	Director	January 2005
David Strate	44	CFO	October 2007

The term of office of each director is one year and until his or her successor is elected at the annual shareholders meeting and is qualified, subject to removal by the shareholders. The term of office for each officer is for one year and until a successor is elected at the annual meeting of the board of directors and is qualified, subject to removal by the board of directors.

We do not have a standing audit, nominating or compensation committee. The size our board has not permitted the board of directors to divide up some of the corporate governance provisions. It is anticipated as our business expands, that board of director committees will be formed. At this time, however, the exact timing and the nature of such committees is unknown. As we expand our board and are able to attract independent directors we will form an audit and compensation committee. We currently have only one independent director, Craig D. Morrison, and will seek additional directors with financial and accounting knowledge to serve on these committees. At this time we do not know of any persons who will be nominated.

Biographical information

Set forth below is certain biographical information with respect to our existing officer and director.

**Kim Boyce - CEO, Director**

Mr. Boyce, 52, is the founder of Reflect Scientific and serves as President, Chief Executive Officer and Chairman of our Board of Directors. Mr. Boyce founded Reflect Scientific in 1993. 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, 51, 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. Mr. Tait was with Danaher from 2002 to 2004, prior to joining Reflect Scientific in 2005. From 1998 to 2002, Mr. Tait was the General Manager HyperQuan, Inc., in Colorado Springs, Colorado. HyperQuan is a technology startup focused on analytical instrumentation. Prior assignments have included 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, 45, 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. Mr. Cooksy has been with Agilent Technologies since 2005 in their Corporate Development group. Previously, Mr. Cooksy was a principal at Gerent LLC, a private consulting firm since 2001. 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, 63, serves on the Board of Directors. Dr. Morrison is a surgeon practicing in the State of Utah at the Brigham Young Student Health Center. Dr. Morrison has been a practicing surgeon since 1978 at the following hospitals: Utah Valley Regional Medical Center, Orem Community Hospital, Colombia Mountain View Hospital and Central Valley Hospital. He has been an attending and consulting staff general surgeon since 1978. Dr. Morrison received his Doctor of Medicine Degree from the University of Oregon Medical School in 1970, followed by a pediatric internship and surgical residency at the University of Southern California-Los Angeles County Hospital and the Huntington Memorial Hospital in 1975. He has provided his medical expertise and is one of the pioneering shareholders in the finance and development of Sanguine Corporation traded on the OCBB. Sanguine Corporation 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. Dr. Morrison is still a director at Sanguine Corporation.

### **David Strate**

#### **Chief Financial Officer**

Mr. Strate, age 44, has been working as a CPA in public practice for over 14 years with an emphasis on public company auditing and review. Mr. Strate was previously employed by HJ & Associates, LLC in Salt Lake City, Utah. HJ & Associates, LLC is a certified public accounting firm. Mr. Strate was employed by HJ & Associates, LLC from August 2000 to September 2007. Prior to joining HJ & Associates, LLC, Mr. Strate was employed by Radiators, Inc., a regional wholesaler, as its corporate controller. Mr. Strate received his BA degree in accounting from the University of Utah. Mr. Strate does not have an employment contract.

### **Significant Employees**

#### **John Hammerman**

##### **Business Development & Marketing**

Mr. Hammerman, 59, serves as Business Development & Marketing Director. Prior to joining us, Mr. Hammerman was employed for twenty-seven years by UOP. Mr. Hammerman's most recent position was as General Manager, UOP Specialty Products that included responsibility for the Mat/Sen Analytical and Semiconductor Division. During his tenure, he also held the positions of Director Chemical Products, where he managed a \$150 Million per year business unit; Manager International Sales and Market Development and Manager Commercial Development Group. Recent accomplishments include the formation and start up of a new joint venture company that provides custom separations

and catalysis services to the Pharma/Biotech Industry. Mr. Hammerman received his BSc degree in Chemical Engineering from the University of Wales, United Kingdom. He is the holder of five U.S. patents.

**Brian Smithgall**

General Manager Image Labs

Mr. Smithgall, age 50, has been involved in the machine vision industry for 25 years. He started Image Labs International (previously known as Vision 1) in 1993 to provide the custom machine vision and imaging solutions. Mr. Smithgall holds an MS in Electrical Engineering from the University of Southern California, and led two successful startups before Image Labs. He is a long time member of SPIE, SME and IEEE, and is recognized as a Certified Manufacturing Engineer with the SME Machine Vision Association, a Senior Member of the IEEE, and on the Editorial Advisory Board of Advanced Imaging Magazine. Mr. Smithgall holds patents in image processing systems and has given numerous professional papers. He led Image Labs to its selection as an IC-500 company in 2000 and 2001.

**Eric Pierson**

General Manager Miralogix

Mr. Pierson, age 45, has been involved in all aspects of the development of the CatPro product line used for inspection of catalytic converter monoliths including product design, market development, customer and vendor relations and web site development. Prior to this Mr. Pierson was cofounder of Pathway Systems which designed and manufactured critical components and sub-systems used by leading semiconductor and rigid memory disk equipment manufacturers. He brings strong product development skills and valuable insight to the capital equipment manufacturing arena.

**John Dain**

General Manager All Temp Engineering

Mr. Dain, age 48, has been involved in the field of controlled environments for 30 years. Co-founding All Temp Engineering in 1985, Mr. Dain was instrumental in growing the company and leading its development as an environmental service design company in the State of California through his expertise in engineering, attention to customer support and knowledge of cryogenic systems. Through his work with customers a new product direction was recognized and implemented via the founding of Cryomastor a company that specializes in state of the art ultra-low temperature freezers. In addition to patents, Mr. Dain has memberships in several key engineering organizations.

**Nicholas Henneman**

Director of Manufacturing Cryometrix

Mr. Henneman, age 50, has been involved in environmental systems for 25 years. His experience spans control logic, human interface systems, cryogenic systems and management. As President and Director of Operations for All Temp Engineering, Mr. Henneman's contribution to the growth of All Temp Engineering has been significant. His prior experience includes Section Head and Lab supervisor at Phillips Semiconductors. He was also instrumental in applying his skills in developing the Cryomastor product.

**Family Relationships**

There are no family relationships between our officers and directors.

None of the aforementioned directors or executive officers have, during the last five (5) years, filed for bankruptcy, was convicted in a criminal proceeding or was the subject of any order, judgment, or decree permanently, temporarily, or otherwise limiting activities (1) in connection with the sale or purchase of any security or commodity or in

connection with any violation of Federal or State securities laws or Federal commodities laws, (2) engaging in any type of business practice, or (3) acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of an investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity.

### **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.



### Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of December 13, 2007, 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).

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 34,019,483 shares of common stock outstanding as of December 13, 2007, 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.

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Owner</u>	<u>Percentage of Outstanding Common stock</u>
	<u>Principal Shareholders</u>		
Common Stock	Kim Boyce 1270 South 1380 West Orem, Utah 84058	17,918,250	52.67%
Common Stock	Dain Family Revocable Trust 4057 Cienega Road	2,530,000	7.44%

Edgar Filing: REFLECT SCIENTIFIC INC - Form 424B3

	Hollister, California 95023		
Common Stock	Nicholas J. Henneman	2,470,000	7.26%
	P.O. Box 1175		
	5885 Diablo Hills Road		
	Tres Pinos, California 95075-1175		
	<u>Officers and Directors</u>		
Common Stock	Kim Boyce	17,918,250	52.67%
Common Stock	Tom Tait	161,000	.47%
Common Stock	Kevin Cooksy	40,000	.12%
Common Stock	Craig D. Morrison, M.D.	<u>210,000</u>	<u>.62%</u>
	All directors and executive officers of the Company as a group (Four individuals)	18,329,250 =====	53.88% =====

## Description of Securities

Our authorized capital stock consists of 50,000,000 shares of common stock, par value \$0.01 per share and 5,000,000 shares of preferred stock, par value \$0.01 per share. As of December 13, 2007, there were 34,109,483 shares of common stock outstanding and no shares of preferred stock outstanding. The following description is a summary of our securities and contains the material terms of our securities. Additional information can be found in our articles of incorporation, bylaws and other documents discussed below.

We are offering 4,653,846 shares of our common stock underlying shares convertible under the Debentures and an aggregate of 3,846,154 shares of common stock on exercise of Series A and B Warrants. The Debenture shall be convertible into shares of common stock at any time after notice is given by the debenture holder. Series A Warrants entitles the holder to purchase a total of 1,923,077 shares of common stock at an exercise price of \$0.80 and Series B Warrants entitles the holder to purchase a total of 1,923,077 shares of common stock at an exercise price of \$1.00 per share.

### Common stock

Holders of our common stock are entitled to one vote per share with respect to each matter presented to our stockholders on which, the holders of common stock are entitled to vote. Subject to the rights of the holders of any preferred stock we may designate or issue in the future, or as may otherwise be required by law or our articles of incorporation, our common stock is our only common stock entitled to vote in the election of directors and on all other matters presented to our stockholders. The common stock does not have cumulative voting rights or preemptive rights. Subject to the prior rights of holders of preferred stock, if any, holders of our common stock are entitled to receive dividends as may be lawfully declared from time to time by our board of directors. Upon our liquidation, dissolution or winding up, whether voluntary or involuntary, holders of our common stock will be entitled to receive such assets as are available for distribution to our stockholders after there shall have been paid, or set apart for payment, the full amounts necessary to satisfy any preferential or participating rights to which the holders of any outstanding series of preferred stock are entitled.

### Preferred Stock

Our board of directors is authorized to issue preferred stock in one or more series and, with respect to each series, to determine the preferences, rights, qualifications, limitations and restrictions thereof, including the dividend rights, conversion rights, voting rights, redemption rights and terms, liquidation preferences, sinking fund provisions, the number of shares constituting the series and the designation of such series.

We had previously authorized and issued a Series A Preferred Stock. All shares issued under the series A preferred stock were subsequently converted into shares of common stock and there are no shares of preferred stock outstanding.

12% Senior Convertible Debenture

On June 29, 2007, we issued \$2,500,000 in 12% Senior Convertible Debentures ( Debentures ). The purchasers of the Debentures were the Selling Security holders listed in this prospectus. The Debentures have a maturity date of June 29, 2009, and will accrue interest at a rate of 12% per annum. Payments of principal under the Debentures are not due until the maturity date and interest is due on a quarterly basis, however the Investors can convert the principal amount of the Debentures into common stock of the Company. Interest shall be payable at the option of the Company to the Investors either in cash or in registered common stock at a rate of the lesser of fifteen percent (15%) discount to the market price calculation or \$0.65. At the Closing, the Company prepaid the first quarterly interest payments out proceeds of the offering from escrow. The conversion price of the Debentures is \$0.65 per share yielding an aggregate total of possible shares to be issued as a result of conversion of 3,846,154 shares. Accordingly, solely for purpose of illustration if a debenture holder wanted to convert \$650 in principal of the debenture, the holder would receive 1,000 shares of our common stock.

Holders of Debentures may only convert that amount of the Debenture that will not make them more than a 4.99% holder of our common stock subject to a one time waiver, at the option of the holder, on not less than 61 days notice, that they would like to increase their ownership percentage of our common stock to 9.9%. The conversion price will be reduced if we issue shares of common stock or securities convertible or exercisable into shares of our common stock at a price less than the conversion price of \$0.65. While the Debentures are outstanding, we cannot pay a cash dividend on our stock. The Debentures will be considered in default if the registration statement registering the shares the Debenture converts into is not declared effective within 210 days of June 29, 2007.

The Debentures have anti-dilution protections, and Reflect Scientific has agreed to certain registration rights for the resale of the shares of common stock underlying the Debentures, for the resale of the shares of common stock underlying the Debentures and Warrants, pursuant to a registration rights agreement entered into simultaneously with the transaction (the Registration Rights Agreement ).

We believe we can make all payments required under the Debentures as long as our business continues to see increased sales and we move further towards profitability. If the share price for our common stock stays above the conversion price of the Debentures and the Selling Shareholders have the ability to sell shares of our common stock received on conversion of the Debentures at a profit, we believe they will convert the Debenture.

### Warrants

Reflect Scientific has 3,846,154 warrants outstanding representing 1,923,077 Series A Warrants and 1,923,077 Series B Warrants. The warrants contain the same terms except the Series A Warrants have an exercise price of \$0.80 per share of common stock and the Series B Warrants have an exercise price of \$1.00 per share of common stock. The warrants are exercisable at any time within five years from the issuance date of June 29, 2007. The warrants have a cashless exercise feature allowing the holder to exchange warrants for shares with each warrant assigned a value of the difference between the exercise price and the current trading price. The warrants cashless feature is contingent upon the expiration of one year from issuance and that there then be no effective registration statement covering the underlying shares. No warrant holder may exercise warrants which would increase the holders share position of Reflect Scientific to more than 4.99% unless upon sixty one days notice the holder has requested such provision be removed in which case the holder may own up to 9.9% of Reflect Scientific s common stock. The exercise price will be reduced if Reflect Scientific issues shares of its common stock or rights to purchase shares of its common stock at a price less than the current exercise price. In such a case, the exercise price is reduced to the price Reflect Scientific issued its shares or rights to purchase its shares for to other parties.

The warrants have anti-dilution protections, and Reflect Scientific has agreed to certain registration rights for the resale of the shares of common stock underlying the Warrants, pursuant to a registration rights agreement.

Registration Rights Agreement

In connection with the Securities Purchase Agreement dated June 29, 2007, we entered into a Registration Rights Agreement, pursuant to which we agreed to file a registration statement covering the resale of the shares of our common stock issueable upon the conversion and exercise of the Debentures and Warrants issued under the securities purchase agreement no later than August 29, 2007, and to use our reasonable commercial efforts to cause such registration statement to be declared effective no later than 180 days after such date. We must use our reasonable commercial efforts to keep the registration statements continuously effective under the Securities Act until such time as all of the securities, which are subject of such registration statement cease to be Registrable Securities. Reflect Scientific may suspend the effectiveness for not more than sixty (60) consecutive trading days during each year.

If we fail to have an effective registration statement on or before one hundred and eighty days from June 29, 2007, or if the registration statement is not effective on or before such date then Reflect Scientific shall pay to selling security

holder as liquidated damages an amount equal to one and one half percent of the original amount raised of two million five hundred thousand dollars (\$2,500,000). Additionally, our Debentures may be considered in default if the registration statement is not effective within 210 days of the June 29, 2007 date.

The registration statement to which this prospectus is a part was filed for purposes of satisfying our obligations under the registration rights agreement.

#### 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, 2006, except Tom Tait, our Vice President and a director, purchased 3,000 shares in the open market on April 19, 2006, for \$1.60 per share; and 3,000 shares in the open market on April 25, 2006, for \$1.50 per share.

#### **Interest of Named Experts and Counsel**

No expert or counsel named in this prospectus as having prepared or certified any part of this prospectus or having given an opinion upon the validity of the securities being registered or upon other legal matters in connection with the registration or offering of the common stock was employed on a contingency basis or had, or is to receive, in connection with the offering, a substantial interest, directly or indirectly, in the registrant or any of its parents or subsidiaries. Nor was any such person connected with the registrant or any of its parents, subsidiaries as a promoter, managing or principal underwriter, voting trustee, director, officer or employee. This prospectus and registration statement contains consolidated financial statements for the date and years ended December 31, 2006 and 2005, and for the three and nine-month periods ended September 30, 2007 and 2006. The financial statements contained in this prospectus and registration statement for the years ended December 31, 2006 and 2005 have been audited by HJ & Associates, LLC, independent registered accounting firm, as set forth in their report accompanying the consolidated financial statements and have been included herein in reliance upon such report, and upon the authority of said firm as experts in accounting and auditing.

Victor D. Schwarz, PC provided the opinion attached hereto as Exhibit 5.1 stating that the securities being sold pursuant to the Registration Statement are duly authorized and will be, when issued in the manner described in the Registration Statement, legally and validly issued, fully paid and non-assessable.

**Disclosure of Commission Position of Indemnification for Securities Act Liabilities**

Our officers and directors may be indemnified as provided by the Utah Revised Business Corporation Act (the URBCA ) and our bylaws. Under the URBCA, director immunity from liability to a company or its shareholders for monetary liabilities is permitted if contained in the company's articles of incorporation or bylaws. Excepted from that indemnification are:

- (1) an intentional infliction of harm on Reflect Scientific or its shareholders;
- (2) An intentional violation of criminal law (unless the director had reasonable cause to believe that his or her conduct was lawful or no reasonable cause to believe that his or her conduct was unlawful);
- (3) a transaction from which the director derived an improper personal profit; and
- (4) An unlawful distribution.



Our bylaws provide that we may indemnify our officers and directors and may advance all expenses incurred to any director who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was our director or officer, or is or was serving at our request as a director or executive officer of another company, partnership, joint venture, trust or other enterprise, prior to the final disposition of the proceeding, promptly following request. This advancement of expenses is to be made upon receipt of an undertaking by or on behalf of such person to repay said amounts should it be ultimately determined that the person was not entitled to be indemnified under our bylaws or otherwise. The Board of Directors may authorize the corporation to indemnify and advance expense to any officer, employee, or agent of the corporation who is not a director to the extent permitted by law.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

In the event that a claim for the indemnification against such liabilities (other than the payment by the small business issuer of expenses incurred or paid by the director, officer or controlling person of the small business issuer in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the small business issuer will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court or appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudications of such issue.

Reflect Scientific has agreed to indemnify, defend and hold the selling security holder harmless against and in respect of any and all claims, demands, losses, costs, expenses, obligations, liabilities or damages, including interest, penalties and reasonable attorney's fees, that it shall incur or suffer, which arise out of, result from or relate to any breach of the stock purchase agreement or failure to perform with respect to any of its representations, warranties, or covenants contained therein. In no event shall Reflect Scientific or the selling security holder be entitled to recover consequential or punitive damages resulting from a breach or violation of the stock purchase agreement nor shall any party have liability in the event of gross negligence or willful misconduct or the indemnified party.

At this time, there are no current or pending lawsuits which would require indemnification.

### **Description of 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 as well as 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 and acquisition plans. Through a series of strategic acquisitions in 2006 and 2007, 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.

### Organization

Reflect Scientific 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 and currently our wholly-owned subsidiary, changed our name to Reflect Scientific, Inc. and succeeded to the business operations of Reflect Scientific, Inc., that involved the manufacture and distribution of 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.

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). 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 freezers 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.

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 ). 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 David Carver, a shareholder of JMST ( 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.

On November 15, 2006, we entered into an Agreement and Plan of Merger (the Image Labs Merger Agreement ) to acquire Image Acquisition Corp., a Georgia corporation by our wholly-owned subsidiary; Smithgall & Associates, Inc., dba Image Labs International, a Georgia corporation ( Image Labs ). 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. Effective February 28, 2007, the Image Labs Merger Agreement was completed.

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. and All Temp Engineering Inc., a California corporation ( All Temp ). All Temp is located in San Jose, California and has been providing engineered solutions and services to the cryogenics industry for over 23 years. All Temp serves over 1,450 companies in business sectors such as biotech, pharmaceutical, medical devices, research, universities, semiconductor, aerospace, military and industrial food processing. Effective January 19, 2007, the All Temp Merger Agreement was completed.

## Business

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-do they provide a superior cost/benefit to the customer than other products in the same marketplace. 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 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 for tooling and manufacturing equipment. This focus on the intellectual expertise as opposed to manufacturing of products also allows us to develop products along multiple industries and to tailor our products to specific needs in a variety of industrial settings. Our products are sold in the biotechnology, pharmaceutical, medical industries as well as the manufacturing industries such as automotive.

## **PRODUCTS**

### 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 companies and organizations like the Red Cross, hospitals and biotechnology research facilities.

Currently, the only ultra low temperature freezers are produced by only a few 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 found 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 resulting in 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 freezers are outdated and our freezers will be the direction the industry will move offering us a chance to gain a significant market share in this large market.

### 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

-27-



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.

### Testing Equipment

Our testing equipment provides automated inspection products and services including part handling and automation to manufacturers of automotive and diesel catalysts and filters, exhaust systems, and OEM's including inspection of in service components such as Diesel Particulate Filters. Although there are several markets that can be addressed with these products the first to be accessed is the automotive industry. The inspection product for this market takes advantage of the increased focus on environmental protection with respect to emissions from gas and diesel engines as well as the increased attention to 100% inspection directives from OEM's. Environmental Protection Agency (EPA) Tier 2 emission standards on diesel cars and light trucks will be phased in from 2004 - 2010 and beyond.

Through our subsidiary, CATPRO, Inc., we will continue forward with the CATPRO line using its presence in the market and its strength as a product to position itself as a key supplier of automation equipment, inspection equipment and data management solutions.

### 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 competitors' size and association with large multinational companies creates 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 have 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 our 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 market. To that end, we recently completed the acquisition of All Temp and Image Labs, and we acquired Cryometrix in June, 2006.

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.

All Temp provides service and installation of ultra low temperature freezers and other environmental chambers. A strong synergy with the Cryometrix freezer products also exists. We will be able to further vertically integrate our freezer line of business and gain revenues from service contracts, installations and other services provided by All Temp.

Image Labs expertise is in the field of machine vision and robotics. A key component to product extension of the Cryometrix freezers is automation. Image Labs will provide the necessary technology to create product line extensions that integrate automation into existing products. Larger automated freezer systems are used world wide for the storage of vaccines and tissues and will allow Reflect Scientific to participate in this market.

CatPro, a division of Image Labs, provides automated inspection products and services, including part handling and automation to manufacturers of automotive and diesel catalysts and filters, exhaust systems and OEM's, and inspection of in service components such as Diesel Particulate Filters.

### Manufacturing, Supplies, and Quality Control

Many of our products are manufactured by third party manufactures, including our ultra low temperature freezers. 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

With the recent acquisitions and expansion of our product line, 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

The integrated disclosure system for small business issuers adopted by the Securities and Exchange Commission in Release No. 34-30968 and effective as of August 13, 1992, substantially modified the information and financial requirements of a Small Business Issuer, defined to be an issuer that has revenues of less than \$25 million; is a U.S. or Canadian issuer, is not an investment company, and if a majority-owned subsidiary, the parent is also a small business issuer. We are a small business issuer.

The Securities and Exchange Commission, state securities commissions and the North American Securities Administrators Association, Inc. (NASAA) have expressed an interest in adopting policies that will streamline the registration process and make it easier for a small business issuer to have access to the public capital markets.

We are also 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-KSB and quarterly reports on Form 10-QSB 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; 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 products.

Patents have been issued covering the following products:

JMST chemical detectors 4 patents issued

Cryomastor ultra low temperature freezers 1 patent issued

Catalytic Converter Testing Equipment-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
7,283,224	Face lighting for edge location in catalytic converter inspection	October 16, 2007	September 30, 2004	September 30, 2024

Royalty agreements were executed with JMST, Cryomastor, All Temp and Image Labs 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 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 which ever is greater, for these purposes. Payments are due quarterly.

All Temp The shareholders of All Temp will receive a pro-rata running royalty totaling 5% of the gross annual revenues earned from the All Temp s business unit. This revenue covers all revenues received by the All Temp subsidiary or any other business unit of Reflect Scientific which revenue is derived from products or services derived from All Temp as part of its acquisition. The royalty is payable as long as Reflect Scientific owns and operates the All Temp business provided that the royalty is not payable if the All Temp business does not have earnings of at least 10% measured by earnings before interest and taxes. The royalty is payable quarterly within 45 days following the close of each quarter. If within three years of the closing of the acquisition of All Temp, Reflect Scientific sells or transfers All Temp, its products or services, All Temp shareholders shall receive a cash payment of six hundred thousand dollars less any accumulated royalties payable.

-31-



Image Labs The shareholders of Image Labs will receive a 2.5% running earnout on the gross revenues derived from products associated with Image Labs including value added re-sales and custom engineering business segments. This segment specifically excludes anything received from our Catpro product lines. The royalty is payable quarterly so long as Reflect Scientific owns the Image Labs product line and services and as long as the business segment achieves an earnings before interest and taxes of 10% in the quarter the royalty payments are due. The royalty last for the life of the Image Labs shareholders.

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

From January 1, 2006, to December 31, 2006, we expended \$13,261 for research and development; during 2005, we expended \$804 for research and development. The majority of the research and development on our products was completed by the companies we purchased prior to our purchase of the companies. We expect research and development cost to increase in the future with our ownership of the new companies and product line.

### **Employees**

As of December 13, 2007, subsequent to the balance sheet date, we had 38 employees on a full-time basis and 2 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 Commissions 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).

### **Management's Discussion and Analysis or Plan of Operations**

Certain statements in this Report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future

results, performance or achievements expressed or implied by such forward-looking statements. Factors that might cause such a difference include, among others, uncertainties relating to general economic and business conditions; industry trends; changes in demand for our products and services; uncertainties relating to customer plans and commitments and the timing of orders received from customers; announcements or changes in our pricing policies or that of our competitors; unanticipated delays in the development, market acceptance or installation of our products and services; changes in government regulations; availability of management and other key personnel; availability, terms and deployment of capital; relationships with third-party equipment suppliers; and worldwide political stability and economic growth. The words "believe", "expect", "anticipate", "intend" and "plan" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the unaudited Condensed 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, 2006.

Reflect Scientific's accounting policies are more fully described in Note 1 of the consolidated financial statements. As discussed in Note 1, 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 differences 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 in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, Revenue Recognition (SAB 104). Under SAB 104, revenue is recognized at the point of passage to the customer of title and risk of loss, when there is persuasive evidence of an arrangement, the sales price is determinable, and collection of the resulting receivable is reasonably assured. We recognize revenue as services are provided with specific long lead time orders.

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 No. 109, Accounting for Income Taxes (SFAS No. 109). Under SFAS No. 109, 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.

**Plan of Operation**

For the next 12 months, we see:

(1) A continued expansion of our core business through the development and commercialization of new products, that have already been identified, to meet existing market opportunities. This will be supported by an ongoing effort to create strategic marketing alliances that are targeted towards increasing net present value by optimizing cost and speed to market. Several new products are currently pending commercialization.

(2) The continuation of a complementary growth initiative, through strategic acquisitions, to improve our position with respect to tools, technologies and intellectual property as well as providing a near term increase in earnings.

(3) As part of an ongoing management process, our fund raising efforts and support for the above initiatives will be continuously reviewed and prioritized to ensure that returns are commensurate with levels of investment.

During 2006, we entered into material agreements with JSMT, LLC and Cryrometrix, Inc. These agreements resulted in the acquisition of strategic products and technologies that will allow us to increase our market penetration into the Life Sciences market.

During 2005 and 2006, we focused extensively on the acquisition of additional companies and their products and on the raising of capital to support our expanding operations. With the closing of the last acquisition in February 2007, we are changing our focus and management's efforts to more marketing and selling of the product line. Additionally, we are hopeful; we can reduce some of our expenses associated with consultants, attorneys and accountants without the need for outside support of the acquisitions.

### Our Business Growth

Our sales have increased substantial from 2005 through September 2007, as we completed the acquisition of new companies and their products. We anticipate this trend to continue in the future as we continue to expand our marketing and sales efforts related to our product line. The long term growth of our product line is still unknown as we have only recently completed the final acquisitions. We are hopeful based on sales in the first six months of 2007, that the product lines are becoming commercially accepted and that sales will continue to increase.

We do not anticipate we will emphasize acquisitions as we have in the past and instead will focus on managing our current product line. This will require a focus from management on the sales of these products. We completed a capital raise in June 2007, with the hope we will be able to use the capital to aggressively market our products and pay for the expansion resulting from the acquisitions. We anticipate the future business growth over the next twelve months to come from our current product line.

### Results of Operations

#### December 31, 2006 and 2005

Our revenues increased during the year ended December 31, 2006, to \$2,572,955 from \$2,241,069 for the year ended December 31, 2005, primarily as a result of increased business from our acquisitions.

Our cost of goods increased in the period ending December 31, 2006, as compared to December 31, 2005, to \$1,519,547 from \$1,323,883. The difference was partly as a result of increased sales and raw material price increases.

The percentage on gross margins for the two years was essentially unchanged.

Although sales increased, the increase was not sufficient to offset additional expenses as we expanded our operations in 2006. General and administrative expenses increased to \$1,303,598 during the year ended December 31, 2006, from \$380,845 during the year ended December 31, 2005. This was due to the issuance of common stock for services in the amount of \$446,315, a substantial increase in legal and accounting fees related to acquisitions, Securities and Exchange Commission regulations compliance and acquisition audits, business relocation costs and other one time costs relating to the acquisitions. We expanded operations in an effort to staff anticipated product development and product launches. We anticipate some expenses to be less in coming periods as we will not have the acquisition expenses at the levels we had in 2006 and in the first part of 2007.

With the acquisitions, our salaries increased from \$362,935 to \$779,579 from December 31, 2005 to December 31, 2006. This was a direct result of the acquisitions. We anticipate salaries will increase further as we search for

additional management personnel. We are hopeful, however, that we will be able to reduce expenses in other areas to somewhat offset future salary increases. One area we are hopeful in reducing expenses is the consulting, legal and accounting cost associated with the acquisitions.

As a result of the expenses associated with the acquisitions, we had a net loss of \$978,630 for the year ended December 31, 2006 compared to net income of \$38,163 before payment of preferred stock dividends for the year ended December 31, 2005. With many of the acquisitions not closing until towards the end of the year or in the first part of 2007, it will be difficult to compare last years results with future periods or expected results going forward. We are hopeful that sales will continue to increase and will be able to offset expenses going forward. Since we are in the initial phases of several product launches and these products are entering into new markets, the time frame until we reach profitability is still unknown.

Three Months Ended September 30, 2007 compared to Three Months Ended September 30, 2006.

Our revenues increased during the quarter ended September 30, 2007, to \$1,383,614 from \$652,359 for the quarter ended September 30, 2006, primarily as a result of increased business from our acquisitions.

Our cost of goods increased in the quarter ended September 30, 2007, as compared to September 30, 2006, to \$940,710 from \$417,351. The difference was primarily the result of increased sales resulting in an increase in cost.

General and administrative expenses decreased to \$513,928 in the quarter ended September 30, 2007, from \$724,569 for the quarter ended September 30, 2006. This was due to a substantial decrease in legal and accounting fees related to acquisitions. Overall, however, for the nine months ended September 30, 2007, our general and administrative cost increased to \$2,629,428 from \$1,053,099 for the corresponding period in 2006. This increase related to the acquisitions and private placements completed during the nine months ended September 30, 2007. We are hopeful the general and administrative cost over the last quarter, when we were not engaged in acquisitions or capital raising is more indicative of our long term general and administrative cost.

Nine Months Ended September 30, 2007 compared to Nine Months Ended September 30, 2006.

Our revenues increased during the Nine months ended September 30, 2007, to \$5,939,251 from \$1,907,540 for the Nine months ended September 30, 2006, primarily as a result of increased business from our acquisitions.

Our cost of goods increased in the Nine months ended September 30, 2007, as compared to September 30, 2006, to \$3,341,277 from \$1,177,137. The difference was partly as a result of increased sales, costs of goods included from

acquisitions and raw material price increases.

General and administrative expenses increased to \$2,629,428 in the nine months ended September 30, 2007, from \$1,053,099 for the Nine months ended September 30, 2006. This was due to a substantial increase in legal and accounting fees related to acquisitions, Securities and Exchange Commission regulations compliance, increased operational costs from new acquisitions, acquisition audits, amortization and other one time costs relating to the acquisitions.

Our cash resources on September 30, 2007, were \$1,335,750, with accounts receivable of \$1,155,385 and inventory of \$820,540. We have relied on revenues and sales of securities for cash resources.

#### Seasonality and Cyclicity

We do not believe our business is cyclical.



Liquidity and Capital Resources

December 31, 2006

Our cash resources at December 31, 2006, were \$271,038, with accounts receivable of \$389,591 and inventory of \$364,796. We have relied on revenues and sales of preferred stock for cash resources. As a result of capital raises, our working capital on December 31, 2006, was \$768,854. To complete acquisitions and to fund our expanding operations, much of the working capital was used in the first part of 2007 requiring us to raise additional capital which was completed in June 2007. This capital was used to increase our manufacturing resulting in increased inventory. We hope to devote some of the available cash to marketing to help increase sales over the next twelve months.

Historically, we have financed our working capital requirements through capital raises which has generated sufficient funds to offset shortfalls and cover losses. As we continue to expand our operations, we anticipate seeking additional capital through the sale of equity securities. It is highly likely, we will again seek additional capital in the equity markets. At this time we do not know the extent of the overall financing will need in the future. Financing will depend on how well our products are received in the marketplace.

In 2006, net cash used by operating activities was approximately \$855,019 in cash as opposed to \$19,601 in 2005. The major changes were the result of the acquisitions and the cost to cover such acquisitions. We were able to offset the use of cash by raising additional equity in 2006. We are hopeful that in 2007, with the additional capital to focus on operations, including marketing, we will be able to reduce our loss for the year.

We anticipate losses to continue as we expand our sales efforts. Since the products are new to the marketplace, we are not sure how sales will be in upcoming quarters but we are hopeful they will continue to increase and should start covering our expenses.

September 30, 2007

Our cash resources on September 30, 2007, were \$1,355,750, with accounts receivable of \$1,155,385 and inventory of \$820,540. Overall, our working capital increased to \$2,904,285 on September 30, 2007, from \$768,854 on December 30, 2006. The major factor in this increase was the closing of a private placement of \$2,500,000 in June 2007. We also saw a jump in our accounts receivables as we continue to increase sales with the completion of our acquisitions. With our current capital we believe we will have sufficient funds to continue our business plan over the next twelve months and to continue to expand operations. As sales increase, we are hopeful they will cover expenses.

In the future, we may issue additional debt or equity securities to satisfy our cash needs. Any debt incurred or issued may be secured or unsecured, at a fixed or variable interest rates and may contain other terms and conditions that our board of directors deems prudent. Any sales of equity securities may be at or below existing market prices. We cannot assure you that we will be successful in generating sufficient capital to adequately fund our liquidity needs.

With additional capital, we believe we could further expand operations and sales. Management will continue to evaluate our capital needs over the next two quarters of 2007 to see how our capital needs to be allocate. Since we have only been operating since the first part of 2007 with all of the acquisitions complete, future sales as well as capital needs are still somewhat unknown. We believe sales will continue to increase and that our current capital should be sufficient for at least the next twelve months.

#### **Off-Balance Sheet Arrangements**

We have no off balance sheet arrangements.

### **Description of Property**

Reflect Scientific operates out of three facilities.

Orem, Utah - This facility is a manufacturing and office facility with 6,000 square feet of space; we lease this facility at \$3,563 per month, with the lease term expiring on November 30, 2008.

San Jose, California - This facility is a manufacturing, office and showroom facility with 10,944 square feet of space; we lease this facility at \$9,489 per month, with the lease term expiring on December 31, 2009.

Bozeman, Montana - This facility is a manufacturing and office facility with 9,140 square feet of space; we lease this facility at \$7,617 per month, with the lease term expiring on June 30, 2010.

### **Certain Relationships and Related Transactions**

We believe that all purchases from or transactions with affiliated parties were on terms and at prices substantially similar to those available from unaffiliated third parties.

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.

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.

**Market for Common Equity and Related Stockholder Matters**

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 2007, 2006 and 2005. Such high and low bid information reflects inter-dealer quotes, without retail mark-up, mark down or commissions and may not represent actual transactions.

	<u>2007</u>		<u>2006</u>		<u>2005</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
Quarter ended March 31	\$ 1.15	\$ 0.92	\$ 2.00	\$ 1.45	\$ 0.30	\$ 0.25
Quarter ended June 30	\$ 1.75	\$ 0.99	\$ 1.69	\$ 1.20	\$ 0.30	\$ 0.30
Quarter ended September 30	\$ 1.88	\$ 1.12	\$ 1.22	\$ 0.90	\$ 1.82	\$ 0.30
Quarter ended December 31	--	\$ --	\$ 1.30	\$ 0.91	\$ 1.97	\$ 1.21

As of December 13, 2007, there were 34,019,483 shares of our common stock outstanding. On November 19, 2007, the high and low bid price for our common stock was \$1.50 and \$1.45, respectively.

### Possible Sale of Common Stock Pursuant to Rule 144

Reflect Scientific has previously issued shares of common stock that constitute restricted securities as that term is defined in Rule 144 adopted under the Securities Act. Subject to certain restrictions, such securities may generally be sold in limited amounts under the current rules one year after their acquisition. Under recently approved rules by the Securities and Exchange Commission, the one year holding period is being reduced to six months. In 2006, Reflect Scientific issued 5,142,175 shares of common stock to shareholders as part of acquisitions and to help raise capital. Additionally in January 2007, we issued 2,000,000 shares of common stock as part of an acquisition and in February 2007 we issued another 525,000 shares as part of a separate acquisition. The shares issued in 2006 will all become available for resale under Rule 144 in the next few months. Additionally, the shares issued in 2007 will become available for resale under Rule 144 in early 2008. Generally, shares held for more than one year under the current rules, and once instituted six months under the new rules, may be sold if certain conditions are met and after two years without any limitations or conditions if held by non-affiliates. For shares held less than two years, a seller can only sell up to one percent of the company's issued and outstanding shares of common stock during a 90 day period. In order to sell the shares after one year, Reflect Scientific will have to have current public information available and the shares will have to be sold in a market transaction through a broker-dealer. After two years, these limitations do not apply unless the seller is an affiliate of Reflect Scientific under the current rules. Under the new rules, once they go into effect in early 2008, the holding period of Rule 144 to six months for non-affiliates. If these new proposals are instituted, the shares held after six months, would be available for sale. Shares held by an affiliate would also be available for resale but subject to volume limitations. With the number of shares potentially becoming available for resale, there could be a depressive effect on our stock price.

### Shareholders

As of December 13, 2007, Reflect Scientific had 183 shareholders of record this number does not include an indeterminate number of stockholders whose shares may be held by brokers in street name.

### Control by Existing Shareholders

Currently, current management has over 50% control of the issued and outstanding shares of our common stock. Unless the Debentures are converted and Warrants exercised, current management will continue to have control over matters brought to a vote of shareholders. As a result, the person currently in control of Reflect Scientific will most likely continue to be in a position to elect at least a majority of the Board of Directors of Reflect Scientific, to dissolve, merge or sell the assets of Reflect Scientific, and generally, to direct the affairs of Reflect Scientific.

### 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.

Transfer Agent

Reflect Scientific's transfer agent is Interwest Stock Transfer Company, 1981 Murray-Holliday Road, Salt Lake City, Utah 84117, Telephone (801) 272-9294.

Reports to Shareholders

Reflect Scientific will prepare and file an annual report on Form 10KSB with the Securities and Exchange Commission which report will contain audited financial statements. We intend to file this report within 90 days of the end of our fiscal year. This report will be available over the internet at the Securities and Exchange Commission web site [www.sec.gov](http://www.sec.gov). We will also supply this report to any shareholders who request it. In addition, Reflect Scientific may, from time to time, issue unaudited interim reports and financial statements, as may be required under the Securities Exchange Act of 1934, as amended. These reports will also be supplied to any shareholders who request it and be available for review on the SEC web site.

Recent Sales of Unregistered Securities

During the last three years, we issued the following unregistered securities:

## Common Stock Issued in Reflect California Reorganization Completed December 31, 2003

Name and Address*	Number of Shares Owned of Reflect California	Number of Shares of Our Common Stock Received in Exchange
Kim Boyce	8,171	18,723,250
Michael Dancy	43.6	100,000
Diversified Instruments, LLC	733.8	1,681,500
David Nelson	43.6	100,000
SCS, Inc.	1,008	2,310,199
Totals	10,000	22,914,949

During the year ended December 31, 2005, we sold 700,000 shares of our 2004 Series A Convertible Preferred Stock at an offering price of \$1.00 per share to 26 persons who were accredited investors as that term is defined in Regulation D of the Securities and Exchange Commission.

During the calendar year ended December 31, 2005, 690,000 shares of this class of our preferred stock were converted by the holders thereof into 1,150,002 shares of our common stock.

Effective May 6, 2005, we issued 380,000 shares of our common stock to eleven persons, which included three of our directors and executive officers, for services rendered and valued at approximately \$0.03 per share.

The remaining 10,000 shares of our outstanding 2004 Series A Convertible Preferred Stock was converted to 16,667 shares of our common stock.

In 2006, we issued 400,000 shares of our common stock for \$0.80 per shares; and 1,073,500 shares of our common stock for \$1.00 per share in two separate private placements. Additionally, in 2006, we issued 415,000 and 53,675 shares of our common stock for services.

In 2006, we also issued 200,000 shares in connection with the JMST acquisition; and 3,000,000 shares in connection with the Cryometrix merger.

On January 29, 2007, we issued 2,000,000 shares of our common stock to the four shareholders of All Temp as part of the acquisition of All Temp and on February 29, 2007 we issued 525,000 shares of our common stock to the one shareholder of Image Labs.



During the period ended September 30, 2007, we issued shares:

<u>To whom</u>	<u>Date</u>	<u>Number of shares</u>	<u>Consideration</u>
Sales to accredited investors	4/30/2007	465,969	\$.75 per share
Employees	5/2/2007	285,000	Services
Consultant	5/2/2007	50,000	Services
V Finance Investments	5/2/2007	35,000	Services
Sales to accredited investors	6/27/2007	133,334	\$.75 per share

On June 29, 2007, 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. The selling shareholders all purchased in this placement.

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.

### **Executive Compensation**

The following table sets forth, for the fiscal years indicated, all compensation awarded to, earned by or paid to Reflect Scientific's chief executive officer and each of the other executive officers who were serving as executive officers at December 31, 2004 (collectively referred to as the "Named Executives"). No other executive officer serving from 2002 to 2004 received compensation greater than \$100,000.



**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation (\$)	All Other Compensation (\$)	Total Earnings (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Kim Boyce President & Director	12/31/06	\$105,000	0	0	0	0	0	0	\$105,000
Tom Tait VP & Director	12/31/05	\$105,000	0	0	0	0	0	0	\$105,000
Tom Tait VP & Director	12/31/04	\$108,132	0	0	0	0	0	0	\$108,132
Tom Tait VP & Director	12/31/06	\$60,000	0	*	0	0	0	0	\$60,000
Tom Tait VP & Director	12/31/05	\$50,769	0	*	0	0	0	0	\$50,769
Kevin Cooksy Sec/Treas	12/31/06	0	0	*	0	0	0	0	0
Kevin Cooksy Sec/Treas	12/31/05	0	0	*	0	0	0	0	0
Craig D. Morrison, MD Director	12/31/06	0	0	*	0	0	0	0	0
Craig D. Morrison, MD Director	12/31/05	0	0	*	0	0	0	0	0
Pamela Boyce Former S/T	12/31/04	\$53,362	0	0	0	0	0	0	\$53,362

\* Effective August 28, 2006, the following persons were issued the following shares of our common stock that were restricted securities, for services rendered and all valued at approximately \$0.03 per share: Tom Tait, 75,000 shares; Kevin Cooksy, 15,000 shares; Craig D. Morrison, M.D., 10,000 shares.

\* Effective May 6, 2005, the following persons were issued the following shares of our common stock that were restricted securities, for services rendered and all valued at approximately \$0.03 per share: Tom Tait, 50,000 shares; Kevin Cooksy, 25,000 shares; Craig D. Morrison, M.D., 100,000 shares; and Pamela Boyce, 50,000 shares.

**Outstanding Equity Awards**

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

<u>Name</u>	<u>Option Awards</u>				<u>Stock Awards</u>					
	<u>Number of securities underlying unexercised Options (#) Exercisable</u>	<u>Number of Securities Underlying Unexercised Options (#) Unexercisable</u>	<u>Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)</u>	<u>Option Exercise Price (\$)</u>	<u>Option Expiration Date</u>	<u>Number of Shares or Units of Stock That Have Not Vested (#)</u>	<u>Market Value of Shares or Units of Stock That Have Not Vested (\$)</u>	<u>Number of Shares or Units or Rights That Have Not Vested (#)</u>	<u>Equity Incentive Plan Awards: Number of Unearned Shares or Units or Rights That Have Not Vested</u>	<u>Equity Plan Awards Market or Payout Value of Unearned Units or Rights That Have Not Vested</u>
None	None	None	None	None	None	None	None	None	None	None

**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	None

Option/SAR Grants in Last Fiscal YearStock Option Exercise

In fiscal 2006, none of the named executives exercised any options to purchase shares of common stock.

Long-Term Incentive Plan ( LTIP )

There were no awards granted during fiscal year 2006 under a long-term incentive plan.

Board of Directors Compensation

Each director may be paid his expenses, if any, of attendance at each meeting of the board of directors, and may be paid a stated salary as director or a fixed sum for attendance at each meeting of the board or directors or both. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefore. We did not compensate our directors for service on the Board of Directors during fiscal 2006 or 2005.

No other compensation arrangements exist between Reflect Scientific and our Directors.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

Reflect Scientific does not have employment contracts with Kim Boyce, Tom Tait or other officers. As part of the acquisition of several companies, we obtained employment contracts on four individuals. These employment contracts were aimed at non-compete and shop right issues. No other compensatory plan or arrangements exist between Reflect Scientific and our executive officers that results or will result from the resignation, retirement or any other termination of such executive officer's employment with Reflect Scientific or from a change-in-control of the Company.

Report on Repricing of Options/SARs

We have not adjusted or amended the exercise price of stock options or SARs previously awarded to any executive officers.