REFLECT SCIENTIFIC INC
Form 10-Q
November 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

or

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT of 1934

For the transition period from __________ to __________

Commission File Number 000-31377

REFLECT SCIENTIFIC, INC.

(Exact name of registrant as specified in its charter)

Utah

87-0642556

(State or other jurisdiction of

(IRS Employer Identification No.)

incorporation or organization)

<u>1266 South 1380 West Orem, Utah 84058</u>

(Address of principal executive offices) (Zip Code)

<u>(801) 226-4100</u>

(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large Accelerated filer [ ]

Accelerated filer [ ]

Non-accelerated filer [ ]

Smaller reporting company [X]

Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

Yes [ ] No [X]

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes [X] No [ ]

Applicable Only to Issuers Involved in Bankruptcy Proceedings During the Preceding Five Years:

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Not applicable.

Applicable Only to Corporate Issuers:

Indicate the number of shares outstanding of each of the Registrant s classes of common equity, as of the latest practicable date.

Class

Outstanding as of November 14, 2018

76,512,086 shares of $0.01 par value common stock on November 14, 2018

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

PART II OTHER INFORMATION

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

Reflect Scientific, Inc.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

September 30, 2018

The financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. However, in the opinion of management, all adjustments (which include only normal recurring accruals) necessary to present fairly the financial position and results of operations for the periods presented have been made. These financial statements should be read in conjunction with the 10-K for the period ended December 31, 2017, the accompanying notes, and with the historical financial information of the Company.

REFLECT SCIENTIFIC, INC.

Condensed Consolidated Balance Sheets

ASSETS

	September 30, 2018 (Unaudited)	December 31, 2017
CURRENT ASSETS		
Cash	$ 178,664	$ 235,858
Accounts receivable, net	189,989	122,435
Inventory, net	142,810	155,352
Prepaid assets	23,938	3,100
Total Current Assets	535,401	516,745
FIXED ASSETS, NET	-	-
OTHER ASSETS		
Goodwill	60,000	60,000
Deposits	3,100	3,100
Total Other Assets	63,100	63,100
TOTAL ASSETS	$ 598,501	$ 579,845

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

REFLECT SCIENTIFIC, INC.

Condensed Consolidated Balance Sheets (Continued)

LIABILITIES AND STOCKHOLDERS EQUITY

	September 30, 2018 (Unaudited)	December 31, 2017
CURRENT LIABILITIES		
Accounts payable and accrued expense	$ 74,367	$ 53,507
Short-term lines of credit	10,177	-
Customer deposits	12,029	70,812
Income taxes payable	100	100
Total Current Liabilities	96,673	124,419
Total Liabilities	96,673	124,419
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS EQUITY		
Preferred stock, $0.01 par value, authorized 5,000,000 shares; No shares issued and outstanding	-	-
Common stock, $0.01 par value, authorized 100,000,000 shares; 76,512,086 and 71,312,086 issued and outstanding, respectively	765,120	713,120
Additional paid in capital	19,949,491	19,793,490
Accumulated deficit	(20,212,783)	(20,051,184)
Total Stockholders Equity	501,828	455,426
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 598,501	$ 579,845

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

REFLECT SCIENTIFIC, INC.

Condensed Consolidated Statements of Operations

(Unaudited)

	For the Three Months Ended September 30, 2018	2017	For the Nine Months Ended September 30, 2018	2017
REVENUES	$ 359,151	$ 325,870	$ 1,119,491	$ 880,072
COST OF GOODS SOLD	151,178	84,636	381,015	266,328
GROSS PROFIT	207,973	241,234	738,476	613,744
OPERATING EXPENSES				
Salaries and wages	128,339	105,589	400,873	316,654
Rent expense	6,379	8,070	27,830	25,167
Research and development expense	34,542	12,710	49,447	30,677
General and administrative expense	80,830	55,808	421,469	171,480
Total Operating Expenses	250,090	182,177	899,619	543,978
OPERATING PROFIT (LOSS)	(42,117)	59,057	(161,143)	69,766
OTHER INCOME (EXPENSE)				
Interest Expense	(456)	-	(456)	-
Total Other Income (Expenses)	(456)	-	(456)	-
NET INCOME (LOSS)BEFORE TAXES	(42,573)	59,057	(161,599)	69,766
Income tax benefit (expense)	-	-	-	-

NET INCOME (LOSS)	$	(42,573)	$	59,057	$	(161,599)	$	69,766
NET INCOME (LOSS) PER SHARE - BASIC	$	(0.00)	$	0.00	$	(0.00)	$	0.00
NET INCOME (LOSS) PER SHARE - DILUTED	$	(0.00)	$	0.00	$	(0.00)	$	0.00
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC AND DILUTED		76,512,086		65,401,086		73,959,705		65,401,086

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

REFLECT SCIENTIFIC, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Nine Months Ended September 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (161,599)	$ 69,766
Adjustments to reconcile net income to net cash used in operating activities:		
Common Stock issued for services	158,322	-
Stock-based compensation	40,000	-
Changes in operating assets and liabilities:		
Accounts receivable	(67,554)	(132,575)
Inventory	12,542	(4,639)
Prepaid expenses	(11,159)	-
Accounts payable and accrued expenses	20,860	(21,443)
Customer deposits	(58,783)	284
Net Cash (used in) provided by Operating Activities	(67,371)	(88,607)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Cash used in investing Activities	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Net funds received from line of credit	10,177	-
Net Cash used in Financing Activities	10,177	-
NET CHANGE IN CASH	(57,194)	(88,607)
CASH AT BEGINNING OF PERIOD	235,858	263,964
CASH AT END OF PERIOD	$ 178,664	$ 175,357
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash Paid For:		
Interest	$ 203	$ -
Income taxes	$ -	$ -

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

REFLECT SCIENTIFIC, INC.

Notes to the Condensed Consolidated Financial Statements

September 30, 2018

(Unaudited)

NOTE 1 **-**

BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to accounting principles generally accepted in the United States of America. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in accordance with rules and regulations of the Securities and Exchange Commission. The information furnished in the interim condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although management believes the disclosures and information presented are adequate to make the information not misleading, it is suggested that these interim condensed consolidated financial statements be read in conjunction with the Company s most recent audited consolidated financial statements and notes thereto included in its December 31, 2017 financial statements. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

NOTE 2 -

ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND LINE OF BUSINESS:

Cole, Inc. (the Company) was incorporated under the laws of the State of Utah on November 3, 1999. The Company was organized to engage in any lawful activity for which corporations may be organized under the Utah Revised Business Corporation Act. On December 30, 2003 the Company changed its name to Reflect Scientific, Inc.

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

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

SIGNIFICANT ACCOUNTING POLICIES:

ACCOUNTING METHOD: The Company s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

REVENUE RECOGNITION: In May 2014 the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company s sources of revenue are from the sales of various specialty lab supplies and equipment and ultra-low temperature freezers. The Company recognizes the sales upon shipment of such goods. The Company offers a 100% satisfaction guarantee against defects for 30 days after the sale of their product except for a few circumstances. The Company extends this return policy to its customers for a 30-day period. Returns are less than 1% of sales for all periods presented in these financial statements. Revenues are reported net of returns. All conditions of ASC 606 are met and the revenue is recorded upon sale, with an estimated allowance for returns where material.

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

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

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

The Company charged $0 to bad debt expense for the nine months ended September 30, 2018 and 2017. As the Company has historically experienced minimal bad debts, management fees the allowance for doubtful accounts of $4,000 at September 30, 2018 to be an adequate reserve based on the experience seen over multiple years.

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

INVENTORY: Inventories are stated at the lower of cost or market value based upon the average cost inventory method. The Company s inventory consists of parts for scientific vial kits, refrigerant gases, components for the imaging and inspection systems which it builds, parts for the ultra-low temperature freezers which it builds, and other scientific items. At September 30, 2018, inventory was made up of $142,810 of finished goods, net an allowance for obsolescense of $86,339. At December 31, 2017, inventory was comprised $155,352 of finished goods, net an allowance for obsolescense of $86,339. There were no raw materials or work in progress for either period presented.

ADVERTISING EXPENSE: The Company follows the policy of charging the costs of advertising to expense as incurred. The Company recognized $8,033 and $7,100 of advertising expense for the nine months ended September 30, 2018 and 2017, respectively.

RESEARCH AND DEVELOPMENT EXPENSE - The Company accounts for research and development costs in accordance with the Financial Accounting Standards Board's Accounting Standard Codification Topic 730 Research and Development". Under ASC 730, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and developments costs are expensed when the contracted work has been performed or as milestone results have been achieved. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. Research and development expenditures for the nine months ended September 30, 2018 and 2017 were $49,447 and $30,677.

EARNINGS PER SHARE: The computation of basic earnings per share of common stock is based on the weighted average number of shares outstanding during the period. Diluted EPS is computed by dividing net earnings by the weighted-average number of common shares and dilutive common stock equivalents during the period. Common stock equivalents are not used in calculating dilutive EPS when their inclusion would be anti-dilutive. At September 30, 2018 and 2017, the Company had no common stock equivalents.

RECLASSIFICATION OF OPERATING EXPENSES: The Company has made a reclassification of the 2017 operating expenses that affects cost of goods sold and general and administrative expense. In the previously published 2017 financial statement presentations freight charges paid for the shipment of products were included in general and administrative expenses. In these accompanying unaudited financial statements those freight charges have been reclassified to cost of goods sold to conform to the 2018 presentation.

RECENT ACCOUNTING PRONOUNCEMENTS: Public law No. 115-97, known as the Tax Cuts and Jobs Act the Tax Act). Enacted on December 22, 2017, reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. Also on December 22, 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 (SAB 118), which provides guidance on accounting for tax effects of the Tax Act. SAB 118 provides a measurement period of up to one year from the enactment date to complete the accounting. Any adjustments during this measurement period will be included in net earnings from continuing operations as an adjustment to income tax expense in the reporting period when such adjustments are determined. As the Company has net operating loss carryforwards which will offset tax liability for the coming year or years, no adjustments for the effect of the income tax rate change is reflected in our financial statements.

In January 2018 the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The Company is using the ASU 606 five step model, as outlined above. We have completed our assessment of the impact under the new revenue standard on our condensed financial statements. Based on our assessment, we have concluded that our financial statements will not be materially impacted.

In February 2018, the Financial Standards Accounting Board (FASB) issued Accounting Statement Update No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* This ASU allows a reclassification from accumulated other comprehensive income (AOCI) to retained earnings for certain income tax effects stranded in AOCI as a result of the Tax Act. The reclassification eliminates the stranded tax effects resulting from the Tax Act and is intended to improve the usefulness of information reported to financial statement users. ASU No. 2018-02 is effective for reporting periods beginning on January 1, 2019; early adoption is permitted. The Company does not currently have amounts to be reclassified under this and therefore believes it will not have an impact on its financial statements and statements of operations.

In June 2018, the FASB issued ASU No. 2018-07, Compensation Stock Compensation (Topic 718), (ASU 2018-07). ASU 2018-07 is intended to reduce cost and complexity of financial reporting for non-employee share-based payments. Currently, the accounting requirements for non-employee and employee share-based payments are significantly different. ASU 2018-07 expands the scope of Topic 718, which currently only includes share-based payments to employees, to include share-based payments to non-employees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. This ASU supersedes Subtopic 505-50, Equity Equity-Based Payments to Nonemployees . The amendments to ASU 2018 - 07 are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than a company s adoption date of ASU No. 2014-09, (Topic 606), Revenue from Contracts with Customers . The Company is currently evaluating ASU 2018-07 and its impact on its condensed consolidated financial statements or disclosures.

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, *Disclosure Update and Simplification*, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule is effective on November 5, 2018. The Company is in the process of evaluating the impact of the final rule on its consolidated financial statements.

The Company has reviewed all other recently issued, but not yet adopted, accounting standards in order to determine their effects, if any, on its consolidated results of operation, financial position and cash flows. Based on that review, the Company believes that none of these pronouncements will have a significant effect on its current or future earnings or operations.

NOTE 3 GOING CONCERN

The Company continues to accumulate significant operating losses and has an accumulated deficit of $20,212,783 at September 30, 2018. These factors raise substantial doubt about the Company s ability to continue as a going concern for a period of one year from the issuance of these financial statements. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Management has taken a number of actions to reduce expenses. Management is seeking additional funding through the capital markets to facilitate the settlement of the remaining debentures, as well as to provide operating capital for its operations. However, there is no assurance that additional funding will be available on acceptable terms, if at all.

NOTE 4 COMMON STOCK ISSUANCES

On May 14, 2018 the Board of Directors authorized the issuance of 5,200,000 shares of restricted common stock. Of the stock issued, 4,200,000 shares were issued to consultants for services and 1,000,000 shares were issued to an employee. The closing price of the stock on the date of grant was $0.04 per share, resulting in a $158,322 charge to consulting expense for consulting services previously performed and a $40,000 charge to stock-based compensation. The remaining $9,678 is recorded as a prepaid expense and will be amortized over the remainder of 2018 for consulting services to be performed during that period.

NOTE 5 LINE OF CREDIT

The Company has a credit line with a commercial bank of $100,000 secured by its inventory and accounts receivable bearing a variable interest rate, which is 7.75% as of the balance sheet date, and automatically renews on April 1 of each year. At September 30, 2018, the Company has a balance due of $10,177 on this line of credit.

NOTE 6 COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

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

Building Lease Orem, UT: The Company leases an office and manufacturing facility with 6,000 square feet of space. The lease for this facility is $3,480 per month through November 30, 2018 and then increases to $3,584 per month December 1, 2018 and $3,692 per month December 31, 2019 through the term of the lease, which ends November 30, 2020.

Rent expense is $27,830 for the nine months ended September 30, 2018 compared to $25,167 for the nine months ended September 30, 2017.

Automobile Lease In August 2017, the Company entered into an automobile lease with a lease payment of $629 per month. The automobile lease will expire on July 7, 2021.

Automobile lease expense was $5,661 and $4,376 for the nine months ended September 30, 2018 and 2017, respectively.

Minimum lease obligations under the non-cancelable operating leases are as follows:

Lease	2018	2019	2020	2021	Total
Building	$10,544	$43,122	$40,612	$ -	$94,277
Automobile	1,887	7,548	7,548	3,774	20,757
Total	$12,431	$50,669	$48,160	$3,774	$115,034

Royalties

A royalty agreement was executed with JMST as a condition of the Company s acquisitions during 2006. Terms of the royalty agreement are as follows:

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% royalty if gross revenues exceed $600,000. Royalties will be paid in the common stock of Reflect Scientific annually. Common stock will be valued at $3.00 per share for these purposes. Royalty payments are due for years where there are valid Carver Patents. The agreement will remain in effect as long as the Company is selling products utilizing the Carver Patent technology.

As sales did not reach or exceed the triggering threshold, no royalty payments were made under the royalty agreement for the nine months ended September 2018 and 2017.

NOTE 7 SUBSEQUENT EVENTS

In accordance with ASC 855-10 management reviewed all material events through the date of this report. There are no material subsequent events to report.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Special Note Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the Act) provides a safe harbor for forward-looking statements made by or on behalf of our Company. Our Company and our representatives may from time to time make written or oral statements that are forward-looking, including statements contained in this Annual Report and other filings with the Securities and Exchange Commission and in reports to our Company s stockholders. Management believes that all statements that express expectations and projections with respect to future matters, as well as from developments beyond our Company s control including changes in global economic conditions are forward-looking statements within the meaning of the Act. These statements are made on the basis of management s views and assumptions, as of the time the statements are made, regarding future events and business performance. There can be no assurance however, that management s expectations will necessarily come to pass. Factors that may affect forward- looking statements include a wide range of factors that could materially affect future developments and performance, including the following:

.

Changes in Company-wide strategies, which may result in changes in the types or mix of businesses in which our Company is involved or chooses to invest;

.

Changes in U.S., global or regional economic conditions;

.

Changes in U.S. and global financial and equity markets, including significant interest rate fluctuations, which may impede our Company s access to, or increase the cost of, external financing for our operations and investments;

.

Increased competitive pressures, both domestically and internationally;

.

Legal and regulatory developments, such as regulatory actions affecting environmental activities;

.

The imposition by foreign countries of trade restrictions and changes in international tax laws or currency controls;

.

Adverse weather conditions or natural disasters, such as hurricanes and earthquakes, labor disputes, which may lead to increased costs or disruption of operations.

This list of factors that may affect future performance and the accuracy of forward-looking statements are illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the unaudited Financial Statements and accompanying notes. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions. The Company believes there have been no significant changes during the nine month period ended September 30, 2018, to the items disclosed as significant accounting policies in management's Notes to the Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Plan of Operation and Business Growth

Our revenues during the three month reporting periods increased to $359,151 during 2018 compared to 2017 revenues of $325,870, an increase of $33,281, or 10%. Revenues during the nine month reporting periods increased to $1,119,491 during 2018 compared to $880,072 in 2017, an increase of $239,419, or 27%.

Our efforts continue to be focused on increasing the sales of our life science consumables and detectors while, at the same time, working to enhance the design of our liquid nitrogen refrigeration products. Of those liquid nitrogen refrigeration products, the ultra-low temperature freezer is receiving highest priority. We have received positive feedback of the improvements and enhancements made to the design of the ultra-low temperature freezer. We also continue work on the refrigerated trailer, or reefer. We have our first manufactured unit operational, have conducted a number of road tests and are working to develop alliances with contract manufacturers for those products.

Concurrent with the development and commercialization of the above products, we have completed our on-line catalog and are making progress in enrolling new distributors for our consumable products.

An analysis of operating results for the three and nine months ended September 30, 2018 follows.

Results of Operations

Three Months Ended September 30, 2018 and 2017

	For the three months ended September 30,		
	2018	2017	Change
Revenues	$ 359,151	$ 325,870	$ 33,281
Cost of goods sold	151,178	84,636	66,542
Gross profit	207,973	241,234	(33,261)
Operating expenses	250,090	182,177	67,913
Other expense	456	-	456
Net profit (loss)	$ (42,573)	$ 59,057	$ (101,630)

Revenues increased during the quarter ended September 30, 2018, to $359,151 from $325,870 for the quarter ended September 30, 2017, an increase of $33,281. The primary driver for the sales increase was our purification products, which had sales of $112,722 in 2018 compared to $79,751 in 2017, an increase of $33,021. We are continuing work to increase our market penetration in the specialty lab supplies marketplace while growing our ultra-low temperature freezer product line.

Cost of goods increased in the quarter ending September 30, 2018, as compared to September 30, 2017, to $151,178 from $84,636, an increase of $66,542. The cost of goods increase results from a higher percentage of our sales coming from our specialty laboratory products, which carry lower margins that our ultra-low temperature freezers. We realized a gross profit percentage of 58% for the three months ended September 30, 2018, compared to 74% for the three months ended September 30, 2017. The gross profit percentage is dependent on the mix of product sales, which varies from quarter to quarter. We continue to actively work to obtain more favorable pricing from our vendors in order to increase the margins realized on all product lines.

Operating expenses increased to $250,090 for the three months ended September 30, 2018, an increase of $67,913 over the expenses of $182,177 incurred in the three month period ended September 30, 2017. The increase results primarily from increases in salaries, consulting, stock based compensation, health insurance, and professional fees, offset by small increases in a number of other expense categories. While we continue to monitor and minimize operating costs, we also realize that certain levels of expenditures are required in order to commercialize the products and achieve market penetration.

The net loss for the three month period ended September 30, 2018 was $42,573, compared to a net profit of $59,057 for the three month period ended September 30, 2017. Management continues to look for opportunities to increase sales, improve gross margins and control ongoing operating expenses.

The net loss of $42,573 for the three month period ended September 30, 2018 represents a loss of $(0.00) per share. This compares to the net profit of $59,057, or $0.00 per share, for the three months ended September 30, 2017.

Nine Months Ended September 30, 2018 and 2017

	For the nine months ended September 30,		
	2018	2017	Change
Revenues	$ 1,119,491	$ 880,072	$ 239,419
Cost of goods sold	381,015	266,328	114,687
Gross profit	738,476	613,744	124,732
Operating expenses	899,619	543,978	355,641

Other expense	456	-	456
Net profit (loss)	$ (161,599)	$ 69,766	$ (231,365)

Revenues increased during the nine month period ended September 30, 2018, to $1,119,941 from $880,072 for the nine month period ended September 30, 2017, an increase of $239,419. The increase results primarily from the sale of ultra-low temperature freezers which generated revenue of $312,795 in 2018 compared to $170,253 in 2017, an increase of $142,542. We are continuing work to increase our market penetration in the ultra-low temperature freezer market.

With the increase experienced in sales, cost of goods increased in the nine month period ending September 30, 2018, as compared to September 30, 2017, to $381,015 from $266,328, an increase of $114,687. We realized a gross profit percentage of 66% for the nine months ended September 30, 2018, compared to 70% for the nine months ended September 30, 2017. The gross profit percentage is dependent on the mix of product sales, which varies from quarter to quarter. The ultra-low temperature freezers provide higher gross margins than do our laboratory supplies. We continue to actively work to obtain more favorable pricing from our vendors in order to increase the margins realized on all product lines.

Operating expenses increased to $899,619 in the nine months ended September 30, 2018, an increase of $355,641 over the expenses of $543,978 incurred in the nine month period ended September 30, 2017. The increase was primarily the result of a $188,645 non-cash charge for shares of restricted common stock issued for services and a $40,000 non-cash charge for stock-based compensation, as well as increased salary and benefit expenses and increased consulting fee and commission expenses. While we continue to monitor and minimize operating costs, we also realize that certain levels of expenditures are required in order to commercialize the products and achieve market penetration.

The net loss for the nine month period ended September 30, 2018 was $161,599, which compares to a $69,766 profit for the nine month period ended September 30, 2017. Management continues to look for opportunities to increase sales, improve gross margins and control ongoing operating expenses.

The net loss of $161,599 for the nine month period ended September 30, 2018 represents a loss of $0.00 per share. This compares to the net profit of $69,766, or $0.00 per share for the nine months ended September 30, 2017.

Seasonality and Cyclicality

We do not believe our business is cyclical.

Liquidity and Capital Resources

Our cash resources at September 30, 2018, were $178,664, with accounts receivable of $189,989, net of allowance, and inventory of $142,810, net of allowance. Our working capital on September 30, 2018, was $438,728. Working capital on December 31, 2017 was $392,326.

For the nine month period ended September 30, 2018, net cash used by operating activities was $67,371 which compares to $88,607 net cash used by operating activities for the nine month period ended September 30, 2017.

We have a $100,000 line of credit with a commercial bank, which carries a variable rate of interest, which rate is 7.75% at September 30, 2018. In June 2018 we drew $10,750 against this line of credit. The minimum payment on the line is $176 per month. The line may be paid off at any time without penalty. At September 30, 2018, the balance due was $10,177.

Off-Balance Sheet Arrangements

We lease office and warehouse space under a non-cancelable operating lease in Utah. The office lease has been extended through November 30, 2020. Future minimum lease payments under the operating lease at September 30, 2018, are $94,277 for that facility. In addition, on July 7, 2017, the Company entered into an automobile lease with a term of four years. Future minimum lease payments under this lease are $20,757 at September 30, 2018. The lease has an expiration date of July 7, 2021.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Not required.

Item 4. Controls and Procedures

(a)

Evaluation of Disclosure Controls and Procedures.

As of the end of the period covered by this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon this evaluation, our Chief Executive Officer and Principal Financial Officer concluded that information required to be disclosed is recorded, processed, summarized and reported within the specified periods, and is accumulated and communicated to management, including our Chief Executive Officer and Principal Financial Officer, to allow for timely decisions regarding required disclosure of material information required to be included in our periodic Securities and Exchange Commission reports. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and our Chief Executive Officer and Principal Financial Officer have concluded that our disclosure controls and procedures are not effective at that reasonable assurance level as of the end of the period covered by this report based upon our current level of transactions and staff. However, it should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

(b)

Changes in Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act. Management reviewed our internal controls over financial reporting, and there have been no changes in our internal controls over financial reporting for the nine month period ended September 30, 2018 that have materially affected, or are likely to affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

None; not applicable.

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

Recent Sales of Unregistered Securities

None; not applicable.

Use of Proceeds of Registered Securities

None; not applicable.

Purchases of Equity Securities by Us and Affiliated Purchasers

During the nine months ended September 30, 2018, we have not purchased any equity securities nor have any officers or directors of the Company.

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Mine Safety Disclosure

Not applicable.

ITEM 5. Other Information.

None

ITEM 6. Exhibits

(a)

Exhibits.

Exhibit No.	Title of Document	Location if other than attached hereto
3.1	Articles of Incorporation	10-SB Registration Statement*
3.2	Articles of Amendment to Articles of Incorporation	10-SB Registration Statement*
3.3	By-Laws	10-SB Registration Statement*
3.4	Articles of Amendment to Articles of Incorporation	8-K Current Report dated December 31, 2003*
3.5	Articles of Amendment to Articles of Incorporation	8-K Current Report dated December 31, 2003*
3.6	Articles of Amendment	September 30, 2004 10-QSB Quarterly Report*
3.7	By-Laws Amendment	September 30, 2004 10-QSB Quarterly Report*
4.1	Debenture	8-K Current Report dated June 29, 2008*
4.2	Form of Purchasers Warrant	8-K Current Report dated June 29, 2008*
4.3	Registration Rights Agreement	8-K Current Report dated June 29, 2008*
4.4	Form of Placement Agreement	8-K Current Report dated June 29, 2008*
10.1	Securities Purchase Agreement	8-K Current Report dated June 29, 2008*
10.2	Placement Agent Agreement	8-K Current Report dated June 29, 2008*
14	Code of Ethics	December 31, 2003 10-K Annual Report*
21	Subsidiaries of the Company	December 31, 2006 10-K Annual Report*

Exhibit No.	Title of Document	Location if other than attached hereto
31.1	302 Certification of Kim Boyce	
31.2	302 Certification of Keith Merrell	
32	906 Certification	

Exhibits

Additional Exhibits Incorporated by Reference

*	Reflect California Reorganization	8-K Current Report dated December 31, 2003
*	JMST Acquisition	8-K Current Report dated April 4, 2006
*	Cryomastor Reorganization	8-K Current Report dated June 27, 2006

*	Image Labs Merger Agreement Signing	8-K Current Report dated November 15, 2006
*	All Temp Merger Agreement Signing	8-K Current Report dated November 17, 2006
*	All Temp Merger Agreement Closing	8-KA Current Report dated November 17, 2006
*	Image Labs Merger Agreement Closing	8-KA Current Report dated November 15, 2006

* Previously filed and incorporated by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Reflect Scientific, Inc.

(Registrant)

Date:

November 14, 2018

By: /s/ Kim Boyce

Kim Boyce, CEO, President and Director

Date:

November 14, 2018

By: /s/ Tom Tait

Tom Tait, Vice President and Director

Date:

November 14, 2018

By: /s/ Keith Merrell

Keith Merrell, CFO, Principal Financial

Officer