REFLECT SCIENTIFIC INC
Form 10-K
April 15, 2009

U. S. Securities and Exchange Commission

Washington, D. C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

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

For the transition period from __________________ to __________________

Commission File No. - 000-31377

REFLECT SCIENTIFIC, INC.

(Name of Small Business Issuer in its Charter)

Utah	87-0642556
(State or Other Jurisdiction of	(I.R.S. Employer Identification No.)

incorporation or organization)

1270 South 1380 West

Orem, Utah 84058

(Address of Principal Executive Offices)

Issuer s Telephone Number: (801) 226-4100

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

Name of Each Exchange on Which Registered: None

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

$0.01 par value common stock

Title of Class

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

Yes [ ] No [X]

Check whether the Issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. (1) Yes [X] No (2) Yes [X] No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of Issuer s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

Large Accelerated filer ¨

Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company)

Smaller reporting company x

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

[ ] No [X]

State Issuer s revenues for its most recent fiscal year: December 31, 2008 - $10,126,805.

State the aggregate market value of the voting and non-voting common stock held by non-affiliates computed by reference to the price at which the common stock was sold, or the average bid and asked price of such common stock, as of a specified date within the past 60 days.

There are approximately 16,289,360 shares of common voting stock of the Issuer held by non-affiliates, and based upon the average bid and asked prices of our common stock on April 3, 2009 of $0.20, as reported by the OTC Bulletin Board of the National Association of Securities Dealers, Inc., the aggregate market value of our common stock held by non-affiliates was approximately $3,257,872.

Issuers Involved in Bankruptcy Proceedings During the Past Five Years

None; not applicable.

Check whether the Issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes [ ] No [ ]

Not applicable.

Applicable Only to Corporate Issuers

State the number of shares outstanding of each of the Issuer s classes of common equity, as of the latest practicable date:

April 3, 2009: Common 34,721,117

Documents Incorporated by Reference

A description of Documents Incorporated by Reference is contained in Part III, Item 13, of this Annual Report.

Transitional Small Business Issuer Format Yes [ ] No [X]

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PART I

Item 1. Description of Business

Business Development

General

Reflect Scientific, Inc., a Utah corporation (the Company, we, our, us and words of similar import), was organized under the laws of the State of Utah on November 3, 1999, under the name Cole, Inc. On December 31, 2003, we acquired Reflect Scientific, Inc., a California corporation and currently our wholly-owned subsidiary (Reflect California), changed our name to Reflect Scientific, Inc. and succeeded to the business operations of Reflect California, that involved the manufacture and distribution of unique laboratory consumables and disposables such as filtration and purification products, customized sample handling vials, electronic wiring assemblies, high temperature silicone, graphite and vespel/graphite sealing components for use by original equipment manufacturers (OEM) in the chemical analysis industries, primarily in the field of gas/liquid chromatography. See our 8-K Current Report dated December 31, 2003, which was filed with the Securities and Exchange Commission on January 15, 2004, and is incorporated herein by reference. See Part III, Item 13.

December 31, 2005

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).

December 31, 2006

Effective as of April 4, 2006, we entered into a Purchase Agreement (the JMST Agreement) with JM SciTech, LLC, a limited liability company organized under the laws of the State of Colorado, and doing business as JMST Systems (JMST); David Carver, an individual (Carver); and Julie Martin, an individual (Martin) (JMST, Carver and Martin are sometimes hereinafter referred to collectively as Sellers). Pursuant to the JMST Agreement, we purchased and JMST sold all right, title and interest in and to the JMST Technology (the JMST Technology), as described in the JMST Agreement; and Carver conveyed and assigned any rights he had in and to certain patents (the Carver Patents) and related intellectual assets as described in the JMST Agreement (collectively, including the Carver Patents, referred to herein as the Carver Technology). JMST had created a line of chemical detection instruments that are used in the pharmaceutical, biotechnology and homeland security markets. The patented technology allows researchers to accurately analyze chemical formulations for their composition and identity. See our 8-K Current Report dated April 4, 2006, which was filed with the Securities and Exchange Commission on April 7, and is incorporated herein by reference. See Part III, Item 13.

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. See our 8-K Current Report dated June 27, 2006, which was filed with the Securities and Exchange Commission on June 30, 2006, and is incorporated herein by reference. See Part III, Item 13.

On November 15, 2006, we entered into an Agreement and Plan of Merger (the Image Labs Merger Agreement) between Image Acquisition Corp., a Georgia corporation and our wholly-owned subsidiary (Merger Subsidiary); Smithgall & Associates, Inc., dba Image Labs International, a Georgia corporation (Image Labs); and Brian Smithgall (Smithgall), the sole shareholder of Image Labs (the Image Labs Shareholder). Established in 1993 and located in Bozeman, Montana, Image Labs is a manufacturer and developer of factory automation equipment. The primary product lines focus in the areas of automated inspection, measurement and material handling. See our 8-K Current Report dated November 15, 2006, which was filed with the Securities and Exchange Commission on November 21, 2006, and is incorporated herein by reference. See Part III, Item 13.

On November 17, 2006, we entered into an Agreement and Plan of Merger (the The All Temp Merger Agreement) between our wholly-owned subsidiary, Cryometrix, Inc. (Merger Subsidiary); All Temp Engineering Inc., a California corporation (All Temp); J F Dain & E L Dain CO T Tee Dain Family Revocable Trust U/A Dated 12/17/2001 (the Dain Trust) and Nicholas J. Henneman (Henneman), the sole All Temp Shareholders (collectively, the All Temp Shareholders); and John F. Dain, individually (Dain). All Temp 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

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biotech, pharmaceutical, medical devices, research, universities, semiconductor, aerospace, military, and industrial food processing. See our 8-K Current Report dated November 17, 2006, which was filed with the Securities and Exchange Commission on November 22, 2006, and is incorporated herein by reference. See Part III, Item 13.

December 31, 2007

Effective January 19, 2007, the All Temp Merger Agreement was completed. See our 8-K Current Report dated November 17, 2006, which was amended on January 23, 2007, and is incorporated herein by reference. See Part III, Item 13.

Effective February 28, 2007, the Image Labs Merger Agreement was completed. See our 8-K Current Report dated November 15, 2006, which was amended on March 6, 2007, and is incorporated herein by reference. See Part III, Item 13.

On June 29, 2007, we completed the sale of $2,500,000 of debentures. See our 8-K Current Report dated July 2, 2008, and is incorporated herein by reference. See Part III, Item 13.

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.

<u>Business</u>

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 CyrometrixTM 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 marketspace. 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.

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High energy usage   a growing problem with rising energy costs

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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

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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:

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Low energy requirements

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Flexible temperature control   wide range of usable temperatures

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

§

Uniform temperatures throughout freezer   more usable storage volume

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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

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 verses 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 completed the acquisition of All Temp in January 2007 and Image Labs in February 2007, 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 smaller reporting companies. 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 smaller reporting 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 bund blackout periods; and establishes a federal crime of securities fraud, among other provisions.

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

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

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PATENT INFORMATION

Patent number	Title	Issue	Filing	Expiration
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.

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

During the year ended December 31, 2008, we expended $297,402 for research and development. During the year ended December 31, 2007, we expended $198,396 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 April 3, 2009, subsequent to the balance sheet date, we had 32 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.

Item 1a. Risk Factors

Not applicable for Small Business Issuers

Item 2. 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 $3,800 per month, with the lease term expiring on November 30, 2011.

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.

Item 3. Legal Proceedings

We are not a party to any pending legal proceeding. To the knowledge of management, no federal, state or local governmental agency is presently contemplating any proceeding against us. No director, executive officer or affiliate of ours or owner of record or beneficially of more than five percent of our common stock is a party adverse to us or has a material interest adverse to us in any proceeding.

Item 4. Submission of Matters to a Vote of Security Holders

Except as set forth below, no matter was submitted to a vote of our security holders during the fourth quarter of the period covered by this Annual Report or during the previous two fiscal years.

PART II

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

Market Information

Since July 6, 2005, our common stock has been listed under the symbol RSCF on the OTCBB. Prior to July 6, 2005, our stock traded under the symbol COLH since its initial listing on May 24, 2001. The following table represents the high and low per share bid information for our common stock for each quarterly period in fiscal 2008, 2007 and 2006. Such high and low bid information reflects inter-dealer quotes, without retail mark-up, mark-down or commissions and may not represent actual transactions.

	2008		2007		2006	
	High	Low	High	Low	High	Low
Quarter ended March 31	$ 1.30 $	0.70 $	1.15 $	0.92 $	2.00 $	1.45
Quarter ended June 30	$ 0.95 $	0.70 $	1.75 $	0.99 $	1.69 $	1.20
Quarter ended September 30	$ 0.77 $	0.44 $	1.88 $	1.12 $	1.22 $	0.90
Quarter ended December 31	$ 0.20 $	0.40 $	1.95 $	1.20 $	1.30 $	0.91

As of April 3, 2009, there were 34,721,117 shares of our common stock outstanding. On April 3, 2009, the high and low bid price for our common stock was $0.20 and $0.20, respectively.

Holders

The number of record holders of our common stock as of April 3, 2009, was approximately 172; this number does not include an indeterminate number of stockholders whose shares may be held by brokers in street name.

Dividends

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

Securities Authorized for Issuance under Equity Compensation Plans

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a)

	(a)	(b)	(c)
Equity compensation plans approved by security holders	None	None	None
Equity compensation plans not approved by security holders	5,066,660	None	933,340
Total	None	None	None

Recent Sales of Unregistered Securities

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

2006 Common Stock Issuer for Preferred Stock Conversion*

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

2006 Common Stock Issued for Cash*

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.

2006 Common Stock Issued for Services*

We issued 415,000 and 53,675 shares of our common stock for services.

2006 Common Stock Issued for Acquisitions*

We issued 200,000 shares in connection with the JMST acquisition; and 3,000,000 shares in connection with the Cryometrix merger.

2007 Common Stock Issued for Acquisitions*

On January 29, 2008, 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, 2008 we issued 525,000 shares of our common stock to the one shareholder of Image Labs.

2008 Common Stock issued for Cash and Services

During the period ended December 31, 2008, we issued shares:

To whom	Date	Number of shares	Consideration
Conversion of Debenture	1/23/2008	94,615	Debt
Conversion of Debenture	4/15/2008	20,769	Debt

Debenture Holders	4/16/2008	105,230	Interest
Conversion of Debenture	5/1/2008	50,000	Debt
Conversion of Debenture	6/13/2008	26,923	Debt
Conversion of Debenture	6/20/2008	20,000	Debt
Debenture Holders	7/2/2008	5,727	Debt
Debenture Holders	10/3/2008	78,808	Debt

On June 29, 2006, Reflect Scientific pursuant to the securities purchase agreement sold to five institutional investors convertible debentures in the aggregate principal amount of $2,500,000 and stock purchase warrants exercisable over a five year period for 3,846,154 shares of common stock (the Warrants) in a private placement. All purchasers are accredited investors and a form D was filed covering this transaction.

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

Use of Proceeds of Registered Securities

There were no proceeds received during the calendar year ended December 31, 2008, from the sale of registered securities.

Purchases of Equity Securities by Us and Affiliated Purchasers

There were no purchases of our equity securities by us or any of our affiliates during the year ended December 31, 2008. 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.

SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may yet be Purchased Under the Plans or Programs
Month #1 October 1, 2008 through October 30, 2008	None	None	None	None
Month #2 November 1, 2008 through November 30, 2008	None	None	None	None
Month #3 December 1, 2008 through December 31, 2008	None	None	None	None
Total	None	None	None	None

Item 6. Select Financial Data

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Not applicable to Small Business Issuers

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

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

Reflect Scientific s accounting policies are more fully described in Note 2 of the consolidated financial statements. As discussed in Note 2, the preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about the future events that affect the amounts reported in the consolidated financial statements and the accompanying notes. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual 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.

The Company recognizes revenue on long-term contracts using the percentage-of-completion method. We generally recognize revenue using the percentage-of-completion method for original equipment that requires a minimum of six months to produce. When using the percentage-of-completion method, sales and gross profit are recognized as work is performed

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based on the relationship between actual costs incurred and total estimated costs at completion. Estimated losses are recognized in full when identified. The asset, costs and estimated earnings in excess of contract billings on uncompleted contracts represents revenues recognized in excess of amounts billed. The liability, contract billings in excess of costs and estimated earnings on uncompleted contracts, represents billings in excess of revenues recognized.

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.

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

The Company reviews long-lived assets, at least annually, to determine if impairment has occurred and whether the economic benefit of the asset (fair value for assets to be used and fair value less disposal costs for assets to be disposed) is expected to be less than the carrying value. Triggering events, which signal further analysis, consist of a significant decrease in the asset s market value, a substantial change in the use of an asset, a significant physical change in the asset, a significant change in the legal or business climate that could affect the asset, an accumulation of costs significantly in excess of the amount originally expected to acquire or construct the asset, or a history of losses that imply continued losses associated with assets used to generate revenue. No such adjustments were required for the year ended December 31, 2008.

Plan of Operation

<u>For the next 12 months, we see</u>:

(1) A continued expansion of our core business through the development and commercialization of new products, which 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 substantially from 2006 through December 2008, 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 lines. The long term growth of our product lines are still unknown as we have only recently completed the final acquisitions. We are hopeful based on sales during 2008 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 lines. 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, 2008 and 2007

Our revenues increased during the year ended December 31, 2008, to $10,126,805 from $8,020,266 for the year ended December 31, 2007, primarily as a result of increased business from our acquisitions.

Our cost of goods increased in the period ending December 31, 2008, as compared to December 31, 2007, to $5,500,694 from $4,633,278. The difference is primarily attributed to increased sales. The percentage on gross margins for the two years was essentially unchanged.

General and administrative expenses decreased to $2,998,008 during the year ended December 31, 2008, from $3,447,791 during the year ended December 31, 2007. This was due to our stabilization of our operations and our costs of operations. With this stability and our increase in revenues, our operating loss decreased to $535,033, after the operating loss in 2007 of $5,410,334. In 2007 we expanded operations in an effort to staff anticipated product development and product launches.

With the acquisitions, our salaries increased from $1,752,103 to $1,855,730 from December 31, 2007 to December 31, 2008. We anticipate salaries will increase further as we search for additional management personnel. We anticipate, however, that we will 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.

There were expenses associated with the acquisitions in 2007, and as a result, we had a net loss of $2,164,396 for the year ended December 31, 2008, compared to net loss of $7,076,619 for the year ended December 31, 2007. With many of the acquisitions not closing until the first part of 2007, it will be difficult to compare last year's results with future periods or expected results going forward. We anticipate 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.

Seasonality and Cyclicality

We do not believe our business is cyclical.

Liquidity and Capital Resources

Our cash resources at December 31, 2008, were $447,037, with accounts receivable of $1,005,864 and inventory of $765,589. We have relied on revenues and sales of equity and debt securities for cash resources. As a result of the issuances of debt and common stock, our working capital on December 31, 2008, was $263,279. 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 the issuances of debt and common stock 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 2008, net cash used by operating activities was $286,105 as opposed to $1,930,313 in 2007. 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 2007. We are hopeful that in 2009, 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 anticipate they will continue to increase and should start covering our expenses.

Off-Balance Sheet Arrangements

We have no off balance sheet arrangements.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

Not applicable to Small Business Issuers

Item 8. Financial Statements

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

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

With the hiring of David Strate as our CFO, our auditors, HJ & Associates, LLC, were no longer independent. We engaged Mantyla McReynolds, LLC effective October 3, 2007. With the hiring of David Strate as the CFO of Reflect Scientific, we were required to change auditors and accordingly, notified HJ & Associates that we were going to dismiss them as auditors effective October 1, 2007 for all further services because of the hiring of Mr. Strate. Mr. Strate was employed by HJ & Associates at the time we hired him and we believed, along with HJ & Associates, that this created a potential conflict of interest going forward and would make HJ & Associates no longer independent in the future. We have had no disagreements with any of our auditors or accountants.

Item 9(A)T. Controls and Procedures.

Management s Annual Report on Internal Control Over Financial Reporting

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our President and CFO, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our President and CFO concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective such that the information required to be disclosed by us in reports filed under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and (ii) accumulated and communicated to our management, including our President and CFO, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Management s Annual Report on Internal Control over Financial Reporting

Management s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is designed to

Ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2008 we conducted an evaluation, under the supervision and with the participation of our president (also our principal executive officer and principal financial officer), of the effectiveness of our internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based upon this assessment, we determined that there are material weaknesses affecting our internal control over financial reporting

The matters involving internal controls and procedures that the Company s management consider to be material weaknesses under COSO and SEC rules are: (1) lack of a functioning audit committee and lack of independent directors on the Company s board of directors, resulting in ineffective oversight in the establishment and monitoring of required internal controls and procedures; (2) inadequate segregation of duties consistent with control objectives; (3) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements; and (4) ineffective controls over period end financial disclosure and reporting processes. The aforementioned potential material weaknesses were identified by the Company s Chief Financial Officer in connection with the preparation of our financial statements as of December 31, 2008 and communicated the matters to our management and board of directors.

Management believes that the material weaknesses set forth in items (2), (3) and (4) above did not have an affect on the Company s financial results. However, the lack of a functioning audit committee and lack of a majority of independent directors on the Company s board of directors, resulting in ineffective oversight in the establishment and monitoring of required internal controls and procedures, can impact the Company s financial statements for the future years.

Management s Remediation Initiatives

Although the Company is unable to meet the standards under COSO because of the limited funds available to a company of our size, we are committed to improving our financial organization. As funds become available, we will undertake to: (1) create a position to segregate duties consistent with control objectives, (2) increase our personnel resources and technical accounting expertise within the accounting function (3) appoint one or more outside directors to our board of directors who shall be appointed to the audit committee of the Company resulting in a fully functioning audit committee who will undertake the oversight in the establishment and monitoring of required internal controls and procedures; and (4) prepare and implement sufficient written policies and checklists which will set forth procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements.

We will continue to monitor and evaluate the effectiveness of our internal controls and procedures and our internal control over financial reporting on an ongoing basis and are committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow. However, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based in part on 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. Projections of any evaluation of controls effectiveness to future periods are subject to risks.

This annual report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management s report in this annual report.

Changes in internal control over financial reporting

There have been no changes in internal control over financial reporting.

Item 9(B). Other Information.

Subsequent to December 31, 2008, the Company issued 218,507 shares of its common stock for the payment of interest of $35,220.

PART III

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

Identification of Directors and Executive Officers

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

Name	Positions Held	Date of Election or Designation	Date of Termination or Resignation
Kim Boyce	President &	12/03	*
	Director	12/03	*
Tom Tait	Vice President &	01/05	*
	Director	01/05	*
Kevin Cooksy	Secretary	01/05	*
	Treasurer	01/05	*
Craig D. Morrison	Director	1/05	*
David Strate	Chief Financial Officer	10/07	*

* These persons presently serve in the capacities indicated.

Business Experience

Kim Boyce - CEO, Director

Mr. Boyce, 54, is the founder of Reflect Scientific and serves as President, Chief Executive Officer and Chairman of our Board of Directors. Mr. Boyce has over thirty years of experience in manufacturing, sales, distribution and management of scientific products related to companies in the chemical analysis, semiconductor fabrication and optics industries. His responsibilities have included serving as a Western Regional Sales Manager, OEM Special Accounts Manager, Plant Operations Manager and various other senior management positions within these industries.

Thomas Tait - Vice President, Director

Mr. Tait, 52, serves as Vice President. Mr. Tait brings experience with accelerated product development, lean process management tools, strategic market analysis, and acquisition integration. Mr. Tait joined us from Danaher Company where he was a Business Manager over a $120 million in sales product line. Prior assignments have included General Manager of HyperQuan Inc., Product Manager J&W Scientific and Project Manager Varian Inc. He also co-founded ChiraTech Inc, a high technology Company that was sold to Thermo Electron Corporation. Mr. Tait holds an MBA in Technology Management from the University of Phoenix and a BS in Chemistry from Clarkson University. He also holds patents in Optics and MEMS technologies.

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Kevin Cooksy - Secretary / Treasurer

Mr. Cooksy, 46, serves as the company s secretary and treasurer with general responsibility for financial, legal and administrative matters. Over the last twenty years, Mr. Cooksy has served in corporate legal, corporate development and finance capacities with public and private emerging technology organizations in the commercial, academic and government sectors. He is an Honors Research Program graduate in Analytical Chemistry from Northern Illinois University and received his MBA (Finance) from The Lake Forest College Graduate School of Management (magna cum laude) and a Juris Doctor degree from the McGeorge School of Law, University of the Pacific.

Craig Morrison, MD- Board Member

Dr. Morrison, 65, serves on the Board of Directors. Dr. Morrison is a surgeon practicing in the State of Utah. He has provided his medical expertise and is one of the pioneering shareholders in the finance and development of Sanguine Corporation. Sanguine is a company focused on developing synthetic alternatives to blood. Dr. Morrison will support the activities of the Board lending his knowledge of startup operations gained through his long experience and development of Sanguine.

David Strate

Chief Financial Officer

Mr. Strate, age 46, 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

Brian Smithgall

General Manager Image Labs

Mr. Smithgall, age 52, 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 47, 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 50, 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 to the largest envrionmental 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 52, 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, 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.

Involvement in Certain Legal Proceedings

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

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

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

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

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

Compliance with Section 16(a) of the Exchange Act

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

Based solely on a review of the copies of such forms furnished to us or written representations from certain persons, we believe that during our calendar year ended December 31, 2008, all filing requirements applicable to our officers, directors and 10% stockholders were met by such persons.

Code of Ethics

We have adopted a Code of Ethics that applies to all of our directors and executive officers serving in any capacity for our Company, including our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions, which Code of Ethics was attached to our Form 10-KSB annual Report for the year ended December 31, 2003. See Part III, Item 13.

Nominating Committee

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

Audit Committee

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

Item 11. Executive Compensation

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

SUMMARY COMPENSATION TABLE

Name and Principal Position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) (e)	Option Awards ($) (f)	Non-Equity Incentive Plan Compensation ($) (g)	Nonqualified Deferred Compensation ($) (h)	All Other Compensation ($) (i)	Total Earnings ($) (j)
Kim Boyce	12/31/08	$105,000	0	0	0	0	0	0	$105,000
President &	12/31/07	$105,000	0	0	3,214,456	0	0	0	$3,319,456
Director	12/31/06	$105,000	0	0	0	0	0	0	$105,000
Tom Tait VP &	12/31/08	$70,000	0	0	0	0	0	0	$70,000
Director	12/31/07	$63,077	0	*	139,101	0	0	0	$202,178
	12/31/06	$60,000	0	*	0	0	0	0	$60,000
Kevin Cooksy	12/31/08	0	0	0	0	0	0	0	0
Sec/Treas	12/31/07	0	0	*	0	0	0	0	0
	12/31/06	0	0	*	0	0	0	0	
Craig D. Morrison,	12/31/08	0	0	0	0	0	0	0	0
MD Director	12/31/07	0	0	*	0	0	0	0	0
	12/31/06	0	0	*	0				0
David Strate,	12/31/08	$85,000	0	0	0	0	0	0	0
CFO	12/31/07	$21,250	0	0	0	0	0	0	0

* 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.

David Strate was hired in October, 2007. His annual salary is currently set at $85,000.

Outstanding Equity Awards

Outstanding Equity Awards At Fiscal Year-End

Name	Option Awards					Stock Awards			
	Number of securities underlying unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (#)
Kim Boyce	4,8000,000	4,800,000	None	$1.32	December 31, 2012	None	None	None	None
Tom Tait	200,000	200,000	None	$1.20	December 31, 2012	None	None	None	None

The fair market value of the options issued above is $3,353,557. This value was calculated using the Black Scholes pricing model for Options and Warrants.

Compensation of Directors

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
None	None	None	None	None	None	None	None

Item 12. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Beneficial Owners

The following table sets forth, as of March 14, 2009, 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 34,721,117 shares of common stock outstanding as of April 3, 2009, 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.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner	Percentage of Outstanding Common stock
	Principal Shareholders		
Common Stock	Kim Boyce(1) 1270 South 1380 West Orem, Utah 84058	21,718,250	63.84%
Common Stock	Dain Family Revocable Trust 4057 Cienega Road Hollister, California 95023	2,530,000	7.44%
Common Stock	Nicholas J. Henneman P.O. Box 1175 5885 Diablo Hills Road Tres Pinos, California 95075-1175	2,470,000	7.26%
	Officers and Directors		
Common Stock	Kim Boyce	21,718,250	63.84%
Common Stock	Tom Tait(2)	361,000	1.1%
Common Stock	Kevin Cooksy	40,000	.12%
Common Stock	Craig D. Morrison, M.D.	210,000	.62%
	All directors and executive officers of the Company as a group (Four individuals)	22,329,250 ========	65.64% ======

(1) Includes 4,800,000 shares issuable upon exercise of stock options with an exercise price of $1.32 per share. The options are exercisable at any time within five years from their date of issuance in December 2007.

(2) Includes 200,000 shares issuable upon exercise of stock options with an exercise price of $1.20 per share. The options are exercisable at any time within five years from their date of issuance in December 2007.

Changes in Control

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

Securities Authorized for Issuance under Equity Compensation Plans

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a)
	(a)	(b)	(c)
Equity compensation plans approved by security holders	None	None	None
Equity compensation plans not approved by security holders	5,066,6600	$1.32	933,340
Total	5,066,660	$1.32	933,340
	=======		=======

Item 13. Certain Relationships and Related Transactions

Transactions with Related Persons

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

Parents of the Issuer

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

Transactions with Promoters and control persons

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

Item 14. Principal Accounting Fees and Services

The Following is a summary of the fees billed to us by our principal accountants during the fiscal years ended December 31, 2008 and 2006:

Fee Category		**2008**		**2007**
Audit Fees	$	68,507	$	66,668
Audit-related Fees	$	0	$	0
Tax Fees	$	0	$	1,408
All Other Fees	$	0	$	274
Total Fees	$	68,507	$	68,350

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

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

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

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

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

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

Item 15. Exhibits

Exhibits

Exhibit No.	Title of Document	Location if other than attached hereto
3.1	Articles of Incorporation	10-SB Registration Statement*
3.2	Articles of Amendment to Articles of Incorporation	10-SB Registration Statement*
3.3	By-Laws	10-SB Registration Statement*
3.4	Articles of Amendment to Articles of Incorporation	8-K Current Report dated December 31, 2003*
3.5	Articles of Amendment to Articles of Incorporation	8-K Current Report dated December 31, 2003*
3.6	Articles of Amendment	September 30, 2004 10-QSB Quarterly Report*
3.7	By-Laws Amendment	September 30, 2004 10-QSB Quarterly Report*
4.1	Debenture	8-K Current Report dated June 29, 2008*
4.2	Form of Purchasers Warrant	8-K Current Report dated June 29, 2008*
4.3	Registration Rights Agreement	8-K Current Report dated June 29, 2008*
4.4	Form of Placement Agreement	8-K Current Report dated June 29, 2008*
5.1	Legal Opinion and Consent	This Filing
10.1	Securities Purchase Agreement	8-K Current Report dated June 29, 2008*
10.2	Placement Agent Agreement	8-K Current Report dated June 29, 2008*
10.3	JMST Purchase Agreement	8-k Current Report dated April 4, 2006*
10.4	Cryomastor Merger Agreement	8-K Current Report dated April 19, 2006*
10.5	Image Labs Merger Agreement	8-K Current Report dated November 15, 2006*
10.6	All Temp Merger Agreement	8-K Current Report dated November 17, 2006*
14	Code of Ethics	December 31, 2003 10-K Annual Report*
21	Subsidiaries of the Company	December 31, 2006 10-K Annual Report*
31.1	302 Certification of Kim Boyce	This Filing
31.2	302 Certification of David Strate	This Filing
32	906 Certifications	This Filing

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

Additional Exhibits Incorporated by Reference

*	Reflect California Reorganization	8-K Current Report dated December 31, 2003
*	JMST Acquisition	8-K Current Report dated April 4, 2006
*	Cryomastor Reorganization	8-K Current Report dated June 27, 2006
*	Image Labs Merger Agreement Signing	8-K Current Report dated November 15, 2006
*	All Temp Merger Agreement Signing	8-K Current Report dated November 17, 2006
*	All Temp Merger Agreement Closing	8-KA Current Report dated November 17, 2006
*	Image Labs Merger Agreement Closing	8-KA Current Report dated November 15, 2006
*	Debenture Placement	8-K Current Reported dated

* Previously filed and incorporated by reference.

SIGNATURES

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

REFLECT SCIENTIFIC, INC.

Date:	*April 15, 2009*	*By:*	*/s/Kim Boyce* *Kim Boyce, President and Director*
Date:	*April 15, 2009*	*By:*	*/s/David Strate* *David Strate, Chief Financial Officer* *(Principal Accounting Officer*

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

REFLECT SCIENTIFIC, INC.

Date:	*April 15, 1009*	*By:*	*/s/Kim Boyce* *Kim Boyce, President and Director*
Date:	*April 15, 2009*	*By:*	*/s/Tom Tait* *Tom Tait, Vice President and Director*
Date:	*April 15, 2009*	*By:*	*/s/Kevin Cooksy* *Kevin Cooksy, Secretary/Treasurer and* *Director*

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

C O N T E N T S

Notes to the Consolidated Financial Statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders of

Reflect Scientific, Inc. and Subsidiaries

Orem, Utah

We have audited the accompanying consolidated balance sheets of Reflect Scientific, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholder s equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Reflect Scientific, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ *Mantyla McReynolds, LLC*

Mantyla McReynolds, LLC

Salt Lake City, Utah

April 15, 2009

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Consolidated Balance Sheet

ASSETS

	December 31, 2008	December 31, 2007
CURRENT ASSETS		
Cash	$ 447,037	$ 1,154,162
Accounts receivable, net (Note 2)	1,005,864	1,371,770
Other receivables	28,818	28,517
Inventories (Note 4)	765,589	727,970
Cost and estimated earnings in excess of contract billings on uncompleted contracts (Note 2)	692,905	-
Prepaid assets	175,980	168,396
Total Current Assets	3,116,193	3,450,815
FIXED ASSETS, NET (Note 3)	589,298	259,884
OTHER ASSETS		
Intangible assets, net (Note 14)	5,472,851	5,849,036
Prepaid assets long-term	27,223	190,555
Deferred tax asset	-	38,000
Deposits	29,944	29,945
Total Other Assets	5,530,018	6,107,536
TOTAL ASSETS	$ 9,235,509	$ 9,818,235

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

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Consolidated Balance Sheet (Continued)

LIABILITIES AND SHAREHOLDERS EQUITY

		December 31, 2008		December 31, 2007
CURRENT LIABILITIES				
Accounts payable	$	584,638	$	432,392
Short-term lines of credit		141,366		147,530
Convertible debenture (net of discount)(Note 12		1,752,750		-
Royalty payable		73,550		53,565
Contract billings in excess cost and estimated earnings on uncompleted contracts (Note 2)		164,761		82,708
Capital leases short term portion		20,641		20,016
Interest payable		70,110		-
Accrued expenses		44,698		179,778
Income taxes payable		400		400
Total Current Liabilities		2,852,914		916,389
NON-CURRENT LIABILITIES				
Convertible debenture (net of discount Note 12)		-		618,750
Capital leases long-term portion		19,506		40,147
Total Non-Current Liabilities		19,506		658,897
Total Liabilities		2,872,420		1,575,286
COMMITMENTS AND CONTINGENCIES (Note 5)				

SHAREHOLDERS EQUITY				
Preferred stock, $0.01 per value, authorized 5,000,000 shares; no shares issued and outstanding		-		-
Common stock, $0.01 par value, authorized 50,000,000 shares; 34,502,610 and 34,100,538 shares issued and outstanding respectively		345,026		341,006
Additional paid in capital		16,792,610		16,512,094
Accumulated deficit		(10,774,547)		(8,610,151)
Total Shareholders Equity		6,363,089		8,242,949
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	9,235,509	$	9,818,235

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

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

		For the Year Ended December 31, 2008		2007
REVENUES	$	10,126,805	$	8,020,266
COST OF GOODS SOLD		5,500,694		4,633,278
GROSS PROFIT		4,626,111		3,386,988
OPERATING EXPENSES				
Salaries and wages		1,855,730		1,752,103
Rent expense		277,463		243,871
Stock based compensation		29,943		3,353,557
General and administrative expense		2,998,008		3,447,791
Total Operating Expenses		5,161,144		8,797,322
OPERATING INCOME (LOSS)		(535,033)		(5,410,334)
OTHER INCOME (EXPENSE)				
Other income		9,714		17,209
Interest expense		(1,600,177)		(1,405,494)
Total Other Expenses		(1,590,463)		(1,388,285)

INCOME (LOSS) BEFORE INCOME TAX EXPENSE		(2,125,496)		(6,798,619)
Income tax expense (benefit)		38,900		278,000
NET LOSS	$	(2,164,396)	$	(7,076,619)
BASIC AND DILUTED INCOME(LOSS) PER SHARE	$	(0.06)	$	(0.21)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC AND DILUTED		34,359,453		34,328,678

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

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholder s Equity

	Preferred Stock		Common Stock				
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Stock Subscription	Accumulated Deficit
Balances, December 31, 2006 (restated)	-	$ -	30,688,844	$306,889	$6,979,735	$257,251	$(1,533,532)
Common stock issued for subscription	-	-	336,336	3,363	253,889	(257,251)	-
Common stock issued for acquisition of subsidiaries	-	-	2,525,000	25,250	2,604,000	-	-
Common stock used for employment agreement	-	-	500,000	5,000	485,000	-	-
Common stock issued for cash	-	-	168,001	1,680	119,320	-	-
Common stock issued for services	-	-	431,235	4,312	441,214	-	-
Common stock issued for subscriptions	-	-	370,067	3,701	273,849	-	-
Contributed capital	-	-	-	-	51,416	-	-
Beneficial conversion feature of convertible debenture	-	-	-	-	860,971	-	-
Warrants issued in conjunction with convertible debenture	-	-	-	-	2,114,954	-	-
Common stock returned pursuant to agreement							

	-	-	(1,000,000)	(10,000)	(1,050,000)	-	-
Cashless exercise of warrants	-	-	42,593	426	(426)	-	-
Partial conversion of convertible debenture	-	-	38,462	385	24,615	-	-
Options issued	-	-	-	-	3,353,557	-	-
Net loss for the year ended December 31, 2007	-	-	-	-	-	-	(7,076,619)
Balance, December 31, 2007	-	$ -	34,100,538	$341,006	$16,512,094	$ -	$(8,610,151)
Partial conversion of convertible debenture	-	-	94,615	946	60,554	-	-
Partial conversion of convertible debenture	-	-	20,769	208	13,292	-	-
Common stock issued for payment of interest	-	-	105,230	1,052	72,609	-	-
Partial conversion of convertible debenture			50,000	500	32,000	-	-
Options issued	-	-	-	-	29,943	-	-
Partial conversion of convertible debenture	-	-	46,923	469	30,031		
Common stock issued for payment of interest	-	-	5,727	57	4,352	-	-
Shareholder Contribution	-	-	-	-	3,500	-	-
Common stock issued for payment of interest	-	-	78,808	788	30,735		
Shareholder Contribution	-	-	-	-	3,500	-	-
Net loss for the year ended December 31, 2008		-	-	-	-	-	(2,164,396)
Balance, December 31, 2008	-	$ -	34,502,610	$345,026	$16,792,610	$ -	$(10,774,547)

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

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended

December 31,

		2008		2007
Net loss	$	(2,164,396)	$	(7,076,619)
Adjustments to reconcile net income to net cash				
From operating activities:				
Depreciation		64,636		46,336
Amortization		1,655,974		1,014,087
Common stock issued for services/interest		109,593		445,526
Warrants issued for services		-		475,925
Bad Debt		2,433		82,344
Options granted		29,943		3,353,557
Changes in operating assets and liabilities:				
Increase (decrease) in accounts receivable		363,472		(1,064,523)
Increase in other receivables		(301)		(27,349)
Increase in inventory		(37,619)		(133,930)
Decrease in income tax receivable		38,000		24,780
Decrease in prepaid asset		155,749		144,901
Decrease in deferred tax asset		-		278,000
Increase in cost and estimated earnings in excess of contract billings on uncompleted contracts		(692,905)		-
Decrease in contract billings in excess of cost and estimated earnings on uncompleted contracts		82,055		-
(Increase) decrease in other asset				(16,544)
Increase in royalties payable		19,985		53,565
Increase in accounts payable and accrued expenses		87,276		469,631
Net Cash Used by Operating Activities		(286,105)		(1,930,313)
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash paid for fixed assets		(394,050)		(37,739)
Cash paid for intangible assets		(7,790)		(200,000)

Net Cash Used by Investing Activities		(401,840)		(237,739)
CASH FLOWS FROM FINANCING ACTIVITIES				
Change in long term line of credit		(6,164)		129,177
Principle payments on capital leases		(20,016)		(1,552)
Proceeds from stock subscription		-		277,550
Proceeds from common stock issuance		-		121,001
Contributed capital		7,000		25,000
Proceeds from issuance of debenture				2,500,000
Net Cash (Used) Provided by Financing Activities		(19,180)		3,051,176
NET INCREASE (DECREASE) IN CASH		(707,125)		883,124
CASH AT BEGINNING OF PERIOD		1,154,162		271,038
CASH AT END OF PERIOD	$	447,037	$	1,154,162
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash Paid For:				
Interest	$	155,500	$	-
Income taxes	$	800	$	800
NON-CASH FINANCING ACTIVITIES:				
Common stock issued for services	$	-	$	445,526
Common stock issued for debt	$	138,000	$	-

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

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

NOTE 1 -

ORGANIZATION AND DESCRIPTION OF BUSINESS

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

Reflect Scientific, Inc. a California Corporation, was incorporated on June 14, 1993, under the laws of California to engage in the manufacture of test kits for use in scientific studies.

On December 30, 2003, pursuant to an agreement and plan of reorganization, the Company completed a reverse merger with the shareholders of Reflect Scientific, Inc. in which it acquired 100% of Reflect Scientific, Inc., a California Company in exchange for 22,914,949 common shares of the Company. The terms of the acquisition are detailed in an 8-K filing dated December 31, 2003. Under the terms of the agreement, the President of Reflect Scientific, Inc. became the President of the Company and was elected to the Board of Directors; the acquisition was accounted for as a recapitalization of Reflect Scientific, Inc. because the members of Reflect Scientific, Inc. controlled the Company after the acquisition. Reflect Scientific, Inc. was treated as the acquiring entity for accounting purposes and Cole, Inc. was the surviving entity for legal purposes. There was no adjustment to the carrying values of the assets or liabilities of Reflect Scientific, Inc. and no goodwill was recorded. The operations for the year ended December 31, 2008 and 2007 are those of Reflect Scientific, Inc.

Cryomastor, (renamed Cryometrix) was acquired in its entirety through a merger agreement on June 27, 2006 where Reflect Scientific issued 3,000,000 shares of common stock as well as $700,000 in cash to Cryomastor shareholders. In addition John Dain was paid $300,000 for the assignment of a key product patent to Reflect Scientific. The acquired assets will allow Reflect Scientific to manufacture and market cryogenic storage systems without significant investment in infrastructure.

All Temp Engineering was acquired in its entirety through a merger agreement on January 19, 2007 where Reflect Scientific issued 1,000,000 shares of common stock to All Temp Engineering shareholders. The Company entered into this merger after considering All Temp s business history, financial condition, and intellectual property. The

Company has a desire to expand its services and attract and retain talented technical personnel and believed there were strategic and financial advantages to combining the businesses.

Image Labs International was acquired in its entirety through a merger agreement on March 6, 2007 where Reflect Scientific issued 525,000 shares of common stock as well as $200,000 in cash to Image Labs International shareholders.

NOTE 2 -

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Accounting Method

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

NOTE 2 -

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Revenue Recognition

The Company recognizes revenues as required by Staff Accounting Bulletin No. 104 Revenue Recognition . Revenue is only recognized on product sales once the product has been shipped to the customers, and all other obligations and criteria of SAB 104 have been met. These criteria are: persuasive evidence of an agreement exists, delivery has occurred, and the price is fixed or determinable,and collectability is reasonable assured.

The Company also recognizes revenue on long-term contracts, using the percentage-of-completion method. We generally recognize revenue using the percentage-of-completion method for original equipment that requires a minimum of six months to produce. When using the percentage-of-completion method, sales and gross profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs at completion. Estimated losses are recognized in full when identified. The asset costs and estimated earnings in excess of contract billings on uncompleted contracts represents revenues recognized in excess of amounts billed. The liability, contract billings in excess of costs and estimated earnings on uncompleted contracts, represents billings in excess of revenues recognized.

c. Estimates

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

d. Cash and Cash Equivalents

The company considers all deposit accounts and investment accounts with a maturity of one year or less to be cash equivalents. As of December 31, 2008 and 2007 the company had no cash equivalents.

e. Accounts Receivable

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

The Company charged $2,433 and $82,344 to bad debt expense for the years ended December 31, 2008 and 2007, respectively. The allowance for doubtful accounts balance at December 31, 2008 and 2007 was $80,161.

f. Fixed Assets

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

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

g. Inventories

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

h. Advertising Expense

The Company follows the policy of charging the costs of advertising to expense as incurred. The Company recognized $62,330 and $42,654 of advertising expense during the years ended December 31, 2008, and 2007, respectively.

i. Newly Issued Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial and Accounting Standards (SFAS) No. 141(R), Business Combinations. SFAS 141(R) changes the accounting for and reporting of business combination transactions in the following way: Recognition with certain exceptions of 100% of the fair values of assets acquired, liabilities assumed, and non controlling interests of acquired businesses; measurement of all acquirer shares issued in consideration for a business combination at fair value on the acquisition date; recognition of contingent consideration arrangements at their acquisition date fair values, with subsequent changes in fair value generally reflected in earnings; recognition of pre-acquisition gain and loss contingencies at their acquisition date fair value; capitalization of in-process research and development (IPR&D) assets acquired at acquisition date fair value; recognition of acquisition-related transaction costs as expense when incurred; recognition of acquisition-related restructuring cost accruals in acquisition accounting only if the criteria in Statement No. 146 are met as of the acquisition date; and recognition of changes in the acquirer s income tax valuation allowance resulting from the business combination separately from the business combination as adjustments to income tax expense. SFAS No. 141(R) is effective for the first annual reporting period beginning on or after December 15, 2008 with earlier adoption prohibited. The adoption of SFAS No. 141(R) will affect valuation of business acquisitions made in 2009 and forward.

In December 2007, the FASB issued SFAS No. 160 "Non-controlling Interest in Consolidated Financial Statements an Amendment of ARB 51. SFAS 160 clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. It also requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest, and requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SAFS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We do not anticipate a material impact upon adoption.

In March 2008, the FSAB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We do not anticipate a material impact upon adoption.

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

NOTE 2 -

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Newly Issued Accounting Pronouncements (Continued)

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expends disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS 157 were originally to be effective beginning January 1, 2008. Subsequently, the FASB provided for a one-year deferral of the provisions of SFAS 157 for non-financial assets and liabilities that are recognized or disclosed at fair value in consolidated financial statements on a non-recurring basis. The Company adopted SFAS 157 on January 1, 2008 for financial assets and liabilities carried at fair value on a recurring basis, with no material impact on its consolidated financial statements. We are currently evaluating the input of adopting the provisions of SFAS 157 for non-financial assets and liabilities that are recognized or disclosed on a non-recurring basis.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, SFAS No. 159 specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Company elected not to measure any additional financial assets or liabilities at fair value at the time SFAS 159 was adopted on January 1, 2008. As a result, implementation of SFAS 159 had no impact on the Company s financial statements.

j. Basic Earnings per Share

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

		For the Years Ended December 31, 2008		2007
Net loss (numerator)	$	(2,164,396)	$	(7,076,619)
Shares (denominator)		34,359,453		34,328,678
Net loss per share amount	$	(0.06)	$	(0.21)

As of December 31, 2008 the Company had 9,181,838 shares of outstanding common stock equivalents; however, the company experienced a net loss during the year. The net loss would make the common stock equivalents anti-dilutive and as such the diluted earnings per share will not be calculated.

k. Shipping and Handling Fees and Costs

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

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

NOTE 2 -

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l. Income Taxes

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

The provision (benefit) for income taxes for the year ended December 31, 2008 and 2007 consist of the following:

	2008		2007	
Federal:				
Current	$	-	$	-
Deferred		38,000		235,493
State:				
Current		900		950
Deferred		-		41,557
Provision for Income taxes	$	38,900	$	278,000

Net deferred tax assets consist of the following components as of December 31, 2008 and 2007:

	2008	2007
Deferred tax assets:		
NOL Carryover	$ 1,302,363	$ 1,124,413
Stock Based Compensation	1,140,209	1,140,209
Valuation Allowance	(2,442,572)	(2,226,622)
Deferred tax liabilities:		
Depreciation	-	-
Net deferred tax asset (liability)	$ -	$ 38,000

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

NOTE 2 -

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l. Income Taxes (Continued)

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and state income tax rates of 34% to pretax income from continuing operations for the year ended December 31, 2008 and 2007 due to the following.

		2008		2007
Expected Tax Expense	$	(722,660)	$	(2,311,530)
Nondeductible Expenses		9,268		523
Stock for Services		37,947		151,479
Warrant Amortization		432,480		212,500
Other, net		65,924		(1,594)
Change in Valuation Allowance		215,950		2,226,622
		38,900		278,000

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carryforwards for Federal income tax reporting purposes are subject to annual limitations. If a change in ownership occurs, then net operating loss carryforwards may be limited as to use in future years. At December 31, 2008, the Company had net operating loss carryforwards of approximately $830,500 that may be offset against future taxable income from the year 2008 through 2028. During 2008 the company reevaluated its deferred tax assets and concluded that none of the asset would be realizable and that a full valuation allowance should be recorded. The valuation allowance was increased by $215,950 and leaves the company with a net deferred tax asset of $0 as of December 31, 2008.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. As a result of the implementation of Interpretation 48, the Company recognized no increase in the liability for unrecognized tax benefits, and we have recorded no additional interest or penalties. The adoption of FIN 48 did not impact our effective tax rates.

Included in the balance at December 31, 2008, are no tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

Our policy is to recognize potential interest and penalties accrued related to unrecognized tax benefits within income tax expense. For the years ended December 31, 2008 and 2007, we did not recognize any interest or penalties in our Statement of Operations, nor did we have any interest or penalties accrued in our Balance Sheet at December 31, 2008 and 2007 relating to unrecognized benefits.

The tax years 2007 and 2006 remain open to examination for federal income tax purposes and by the other major taxing jurisdictions to which we are subject.

m. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, which include Cryometrix (previously Cryomastor), All Temp Engineering and Image Labs International. All subsidiaries are wholly owned. All material intercompany accounts and transactions are eliminated in consolidation.

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

NOTE 2 -

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. Research and development expense

The Company accounts for research and development costs in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 2 ("SFAS 2"), "Accounting for Research and Development Costs". Under SFAS 2, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and developments costs are expensed when the contracted work has been performed or as milestone results have been achieved. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. The Company had $297,402 and $198,396 in research and product development for the years ended December 31, 2008 and 2007, respectively.

o. Stock Based Compensation

In December 2004, the Financial Accounting Standard Board (FASB) issued SFAS 123R, Share-Based Payments (SFAS No. 123R), a revision of SFAS No. 123 Accounting for Stock-Based Compensation (SFAS No. 123), whicl requires companies to measure all employee stock-based compensation awards using a fair value method and record such expense in their financial statements. The Company adopted this standard effective December 1, 2006, and elected the modified-prospective transition method. Under the modified-prospective transition method, awards that are granted, modified, repurchased or canceled after the date of adoption should be measured and accounted for in accordance with SFAS No. 123R. The Company had no options outstanding prior to the issuance of SFAS No. 123R.

p. Intangible Assets

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

q. Impairment

The Company reviews long-lived assets, at least annually, to determine if impairment has occurred and whether the economic benefit of the asset (fair value for assets to be used and fair value less disposal costs for assets to be disposed) is expected to be less than the carrying value. Triggering events, which signal further analysis, consist of a significant decrease in the asset s market value, a substantial change in the use of an asset, a significant physical change in the asset, a significant change in the legal or business climate that could affect the asset, an accumulation of costs significantly in excess of the amount originally expected to acquire or construct the asset, or a history of losses that imply continued losses associated with assets used to generate revenue. No such adjustments were required for the year ended December 31, 2008.

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

NOTE 3 -

FIXED ASSETS

Fixed assets are stated at cost. Expendituresfor 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. Fixed assets and related depreciation for the period are as follows:

		December 31, 2008		December 31, 2007
Machinery and equipment	$	508,324	$	169,826
Furniture and fixtures		71,042		50,608
Computer and office equipment		72,623		32,103
Vehicles		33,625		34,325
Leasehold improvements		31,719		33,799
Accumulated depreciation		(128,035)		(60,777)
Total Fixed Assets	$	589,298	$	259,884

Depreciation expense for the years ended December 31, 2008, and 2007, was $64,636 and $46,336, respectively.

NOTE 4 -

INVENTORIES

Inventories consisted of the following at December 31, 2008:

		December 31, 2008		December 31, 2007
Work in Process	$	63,215	$	-
Finished goods		702,374		727,970
Total Inventories	$	765,589	$	727,970

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

NOTE 5-

COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company leases its office and warehouse space under non-cancelable lease agreements accounted for as operating leases. The Company also leases several automobiles under similar non-cancelable lease agreements, which are also accounted for as operating leases.

Orem, Utah - This facility is a manufacturing and office facility with 6,000 square feet of space; we lease this facility at $3,800 per month, with the lease term expiring on November 30, 2011.

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.

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

Years ending December 31,		Amount
2009	$	263,581

2010		90,468
2011		43,345
2012		45,733
2013		47,334
	$	490,461

Rent expense was $277,463 and $243,871 for the years ended December 31, 2008, and 2007, respectively.

Automobile lease expense was $11,097 and $11,097 for the years ended December 31, 2008, and 2007, respectively.

NOTE 6-

CAPITAL LEASES

During the year ended 2006, the Company entered into two capital lease arrangements for the purchase of equipment. Payments are due in 60 and 36 monthly installments of $920 and $1,101. The leases have a stated interest rate of 8.3%

Aggregate maturities on the capital leases as of December 31, 2008, are due in future years as follows:

2009	$ 20,641
2010	9,971
2011	9,535
2012	-
2013	-
Total	40,147
Less current portion	20,641
	$ 19,506

Depreciation expense on equipment under capital leases was $12,655 and $12,655 for the years ended December 31, 2008 and 2007, respectively.

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

NOTE 7 -

PREFERRED STOCK

In November 2004 the Company amended its Articles of Incorporation so as to authorize 5,000,000 shares of preferred stock. 750,000 of these shares have been designated as Series A Convertible Preferred Stock . During the year ended December 31, 2006 these shares were offered in a private placement. As of December 31, 2008 no shares of the preferred stock are issued and outstanding.

Dividends

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

Convertibility

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

NOTE 8 -

COMMON STOCK TRANSACTIONS

During the year ended December 31, 2008, the Company issued 189,765 shares of common stock for interest payments of $109,593; and 212,307 shares were issued for the conversion $138,000 of debt.

NOTE 9 -

CONCENTRATIONS OF RISK

Cash in Excess of Federally Insured Amount

The Company currently maintains a cash balance at a single financial institution in excess of the federally insured maximum of $250,000. The excess as of December 31, 2008 was $160,298.

Revenues and Accounts Receivable

The Company no concentrations of revenue and accounts receivable risk for the year ended December 31, 2008.

For the year ended December 31, 2007 the Company had two significant customers that account for $1,749,794 or 22% of sales. These same two customers also account for $240,032 or 17% of the total accounts receivable balance at December 31, 2007.

NOTE 10 -

LINE OF CREDIT

The Company has a credit line with a commercial bank of $100,000 secured by its inventory and accounts receivable bearing a variable interest rate, which was 6.25% as of the balance sheet date, and has no stated maturity date. As of December 31, 2008, there was a balance due on the line in the amount of $91,903.

The Company has an additional credit line with a different commercial bank of $50,000 secured by its inventory and accounts receivable bearing a fixed interest rate, which was 12% as of the balance sheet date, and has no stated maturity date. As of December 31, 2008, there was a balance due on the line in the amount of $49,464.

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2006

NOTE 11 - ACQUISITIONS

Effective January 19, 2007, the Company finalized an Agreement and Plan of Merger (the Merger Agreement) with All Temp Engineering, Inc. As part of this agreement, the Company received assets valued at the following:

Trade secrets	$	262.875
Trademarks		65,719
Customer lists		592,127
Customer assets		139,279
	$	1,060,000

The assets are amortized over a range of 9-10 years. As consideration for these assets, the Company issued 1,000,000 shares at $1.06 of its common stock that are restricted securities to the shareholders of All Temp Engineering, Inc. and will pay the shareholders a pro-rata running royalty totaling five percent of the gross annual revenues that will be earned on All Temp s business that will be operated as a separate division within the Company.

An unaudited pro forma balance sheet as of December 31, 2006, and a pro forma income statement for the year ended December 31, 2006, for the combined (post merger) entity, is presented below:

	Reflect As of December 31, 2006	All Temp As of December 31, 2006	Combined Historical Reflect & All Temp	Pro Forma Adjustments	Pro Forma Combined Reflect & All Temp December 31, 2006
ASSETS					

Current Assets:											
Cash	$	271,038	$	-	$	271,038	$	-	$	271,038	(1)
Notes receivable		-		96,236		96,236		-		96,236	(1)
Receivables		389,591		162,596		552,187		-		552,187	
Inventory		364,796		97,825		462,621		-		462,621	
Prepaid assets		13,852		8,189		22,041		-		22,041	
Total Current Assets		1,039,277		364,846		1,404,123				1,404,123	
Fixed Assets, (net)		211,021		4,595		215,616		-		215,616	
Other Assets:											
Deposits		13,400		3,672		17,072		-		17,072	
Income Tax receivable		25,948		4,786		30,734				30,734	
Deferred tax asset		316,000		72,555		388,555				388,555	
Intangibles (net)		4,736,827		-		4,736,827		2,619,372		7,356,199	(1)
Total Other Assets		5,092,175		81,013		5,173,188		2,619,372		7,792,560	
TOTAL ASSETS	$	6,342,473	$	450,454	$	6,792,927	$	2,619,372	$	9,412,299	

	Reflect As of December 31, 2006	All Temp As of December 31, 2006	Combined Historical Reflect & All Temp	Pro Forma Adjustments	Pro Forma Combined Reflect & All Temp December 31, 2006	
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
Current Liabilities:						
Short term loan	$ 18,353	$ 600,054	$ 618,407	$ -	$ 618,407	
Cash overdraft	-	55,640	55,640	-	55,640	
Accounts payable	225,721	272,789	498,510	-	498,510	
Accrued liabilities	25,949	7,209	33,158	-	33,158	
Income taxes payable	400	800	1,200	-	1,200	
Total Current Liabilities	270,423	936,492	1,206,915		1,206,915	
Non-current liabilities:						
Notes payable	61,706	-	61,706	-	61,706	
Total non-current Liabilities	61,706	-	61,706	-	61,706	
Total Liabilities	$ 332,129	$ 936,492	$ 1,268,621	$ -	$ 1,268,621	
Stockholders' Equity:						
Preferred Stock	-	-	-	-	-	
Common stock	306,889	13,334	320,223	(13,334)		(1)
				20,000	326,889	(1)
Additional Paid-in capital	6,979,735	-	6,979,735	13,334		(1)

				2,100,000	9,093,069
Subscription receivable					
	257,251	-	257,251	-	257,251
Accumulated deficit					
	(1,533,531)	-	(1,533,531)	-	(1,533,531)
Accumulated deficit	-	(499,372)	(499,372)	499,372	-
Total Stockholders' Equity					
	6,010,344	(486,038)	5,524,306	2,619,372	8,143,678
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY					
	$ 6,342,473	$ 450,454	$ 6,792,927	$ 2,619,372	$ 9,412,299

Pro Forma Combined Reflect & All Temp December 31, 2006

	Reflect As of December 31, 2006	All Temp as of December 31, 2006	Combined Historical Reflect & All Temp	Pro Forma Adjustment	
Sales	$ 2,572,955	$ 1,871,737	$ 4,444,692	$ -	$ 4,444,692
Cost of Sales	1,519,547	1,138,382	2,657,929	-	2,657,929
Salaries and wages	779,579	539,843	1,319,422	-	1,319,422
Payroll Taxes	35,767	64,603	100,370	-	100,370
Rent expense	62,906	57,569	120,475	-	120,475
General & Administrative	1,303,598	506,293	1,809,891	-	1,809,891
Income (loss) from operations	(1,128,442)	(434,953)	(1,563,395)	-	(1,563,395)
Other income (expense)	(192,911)	(101,281)	(294,192)	-	(294,192)
Interest expense	25	34,961	34,986	-	34,986
Total other income (expense)	(192,936)	(136,242)	(329,178)	-	(329,178)
Income tax expense (benefit)	(342,748)	(84,208)	(426,956)	-	(426,956)
Net Income (loss)	$ (978,630)	$ (486,987)	$ (1,465,617)	$ -	$ (1,465,617)
Basic loss per share	(0.03)				
Weighted average shares Outstanding	28,432,024				

Effective March 6, 2007, the Company finalized an Agreement and Plan of Merger (the Merger Agreement) with Image Labs, International. As part of the Merger Agreement, the Company received assets valued at the following:

Trade secrets	$	184,400
Trademarks		70,000
Customer lists		154,850
IP Patent		105,000
Inventory		125,000
	$	639,250

The assets are amortized over a range of 9-10 years. As consideration for these assets, the Company issued 525,000 shares at $.97 of its common stock that are restricted securities to the shareholder of Image Labs and paid the sum of $200,000 and agreed to pay the shareholder a 2.5 percent Running Earnout Purchase Price. An Employment Agreement was also executed and delivered. As a condition to the closing of the Merger Agreement, the Company has raised approximately $500,000 to support the Catpro business segment of Image Labs that is to be operated as a separate business segment under the Company.

An unaudited pro forma balance sheet as of December 31, 2006, and a pro forma income statement for

the year ended December 31, 2006, for the combined (post merger) entity, is presented below:

	Reflect As of December 31, 2006	Image Labs As of December 31, 2006	Combined Historical Reflect & Image Labs	Pro Forma Adjustments	Pro Forma Combined Reflect & Image Labs December 31, 2006	
ASSETS						
Current Assets:						
Cash	$ 271,038	$	$ 271,038	$ (200,000)	$ 71,038	(1)
Receivables	389,591	1,118,775	1,508,366	-	1,508,366	
Inventory	364,796	80,157	444,953	35,019	479,972	
Prepaid assets	13,852	141,117	154,969	-	154,969	
Total Current Assets	1,039,277	1,340,049	2,379,326	(164,981)	2,214,345	
Fixed Assets, (net)	211,021	30,798	241,819	-	241,819	
Other Assets:						
Deposits	13,400	2,251	15,651	-	15,651	
Income Tax receivable	25,948	-	25,948		25,948	
Deferred tax asset	316,000	-	316,000		316,000	
Intangibles (net)	4,736,827	-	4,736,827	-	4,736,827	(1)
	5,092,175	2,251	5,094,426	-	5,094,426	

Total Other Assets										
TOTAL ASSETS	$	6,342,473	$	1,373,098	$	7,715,571	$	(164,981)	$	7,550,590

	Reflect As of December 31, 2006	Image Labs As of December 31, 2006	Combined Historical Reflect & Image Labs	Pro Forma Adjustments	Pro Forma Combined Reflect & Image Labs December 31, 2006	
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)						
Current Liabilities:						
Short term loan	$ 18,353	$ -	$ 18,353	$ -	$ 18,353	
Cash overdraft	-	56,589	56,589	-	56,589	
Accounts payable	225,721	199,817	425,538	-	425,538	
Accrued liabilities	25,949	22,485	48,434	-	48,434	
Income taxes payable	400	-	400	-	400	
Total Current Liabilities	270,423	278,891	549,314		549,314	
Non-current liabilities:						
Notes payable	61,706	-	61,706	-	61,706	
Contract billing in excess	-	419,976	419,976		419,976	
Total non-current Liabilities	61,706	419,976	481,682	-	481,682	
Total Liabilities	$ 332,129	$ 698,867	$ 1,030,996	$ -	$ 1,030,996	
Stockholders' Equity:						
Preferred Stock	-	-	-	-	-	
Common stock	306,889	100	306,989	(100)	306,889	(1)
Additional Paid-in capital	6,979,735	4,900	6,984,635	100		(1)
	-	-	-	504,250	7,788,985	
Subscription receivable						
	257,251	-	257,251	-	257,251	

Accumulated deficit	(1,533,531)	-	(1,533,531)	-	(1,533,531)
Retained earnings	-	669,231	669,231	(669,231)	-
Total Stockholders' Equity	6,010,344	674,231	6,684,575	(164,981)	6,519,594
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 6,342,473	$ 1,373,098	$ 7,715,571	$ (164,981)	$ 7,550,590

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	Reflect As of December 31, 2006	All Temp as of December 31, 2006	Combined Historical Reflect & All Temp	Pro Forma Adjustment	Pro Forma Combined Reflect & All Temp December 31, 2006
Sales	$ 2,572,955	$ 3,756,303	$ 6,329,258	$ -	$ 6,329,258
Cost of Sales	1,519,547	2,427,651	3,947,198	-	3,947,198
Salaries and wages	779,579	425,413	1,204,992	-	1,204,992
Payroll Taxes	35,767	34,823	70,590	-	70,590
Rent expense	62,906	40,708	103,614	-	103,614
General & Administrative	1,303,598	415,342	1,718,940	-	1,718,940
Income (loss) from operations	(1,128,442)	412,366	(716,076)	-	(716,076)
Other income (expense)	(192,911)	(20,979)	(213,890)	-	(213,890)
Interest expense	(25)	(12,037)	(12,062)	-	(12,062)
Total other income (expense)	(192,936)	(33,016)	(225,952)	-	(225,952)
Income tax expense (benefit)	(342,748)	-	(342,748)	-	(342,748)
Net Income (loss)	$ (976,630)	$ 379,350	$ (597,280)	$ -	$ (597,280)
Basic loss per share	(0.03)	37.93	(37.90)		(0.02)
Weighted average shares					

Outstanding	28,432,024	10,000	28,442,024	-	28,442,024

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

NOTE 12 CONVERTIBLE DEBENTURES AND WARRANTS

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

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

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

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

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

A summary of the status of the Company s outstanding stock warrants as of December 31, 2008 and changes during the period then ended is presented below:

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

NOTE 12 CONVERTIBLE DEBENTURES AND WARRANTS (continued)

	Shares		Weighted Average Exercise Price
Outstanding, January 1, 2007	-	$	-
Granted	4,230,770		.90
Expired/Cancelled	-		-
Exercised	78,875		.80
Outstanding, December 31, 2007	4,151,895		.90
Expired/Cancelled	-		-
Exercised	-		-
Outstanding, December 31, 2008	4,151,895	$	.90
Exercisable	4,151,895	$	.90

		Outstanding		Exercisable
Range of Exercise Prices		Number outstanding at December 31, 2008	Weighted Average Remaining Contractual Life	Number Exercisable at December 31,2008
$	0.80	2,036,510	3.50	2,036,510
	1.00	2,115,385	3.50	2,115,385
		4,151,895		4,151,895

NOTE 13 COMMON STOCK OPTIONS

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

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

Expected life (years)	5.0	
Expected stock price volatility	65.79 - 66.27	%
Expected dividend yield	0.0	%
Risk-free interest rate	3.38 3.41	%

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

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

NOTE 13 COMMON STOCK OPTIONS (continued)

The Company issued options to key directors on December 31, 2007. On June 13, 2008, the Company issued 66,660 options to employees. A summary of the status of the Company s outstanding stock options as of December 31, 2008 and changes during the period then ended is presented below:

	Shares	Weighted Average Exercise Price	
Outstanding, January 1, 2007	-	$	-
Granted	5,000,000		1.32
Expired/Cancelled	-		-
Exercised	-		-
Outstanding, December 31, 2007	5,000,000		1.32
Granted	66,660		0.94
Expired/Cancelled	-		-
Exercised	-		-
Outstanding, December 31, 2008	5,066,660	$	1.31
Exercisable	5,066,660	$	1.31

Outstanding		Exercisable
Number outstanding at December 31, 2008	Weighted Average Remaining Contractual Life	Number Exercisable at December 31,2008

Range of Exercise Prices				
$	1.32	4,800,000	4.00	4,800,000
	1.20	200,000	4.00	200,000
	1.30	14,000	4.45	14,000
	0.85	52,660	4.45	52,660
		5,066,660		5,066,660

The total fair value of options vested was $29,943 and $3,353,557 for the years ended December 31, 2008 and 2007, respectively. As of December 31, 2008, there was no unrecognized compensation cost related to non-vested stock options granted under the Plan. The 66,660 granted in 2008 fully vested during the year and have been expensed.

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

NOTE 14 INTANGIBLE ASSETS

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

2007	Cost	Accumulated Amortization	Net Book Value
Trademarks	$ 135,719	$ 11,858	$ 123,861
Trade Secrets	437,875	38,680	399,195
Patents	3,516,177	319,771	3,196,406
Customer lists	1,326,977	145,626	1,181,351
Goodwill	948,223	0	948,223
Totals	$ 6,364,971	$ 515,935	$ 5,849,036

2008	Cost	Accumulated Amortization	Net Book Value
Trademarks	$ 135,719	$ 25,529	$ 110,190
Trade Secrets	437,875	82,468	355,407
Patents	3,523,967	536,054	2,987,913
Customer lists	1,326,977	278,284	1,048,693
Goodwill	970,648	0	970,648
Totals	$ 6,395,186	$ 922,335	$ 5,472,851

Amortization expense for the years ended December 31, 2008, and 2007, was $406,400 and $370,337, respectively.

NOTE 15 ROYALTIES

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 The prior shareholders of JMST 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. The amount of common stock will be exchanged at $3.00 per share for these purposes. Royalty payments are only due for years where there are valid Carver Patents.

REFLECT SCIENTIFIC, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

NOTE 15 ROYALTIES (Continued)

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. The amount of common stock will be exchanged 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.

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.

NOTE 16 - SUBSEQUENT EVENTS.

Subsequent to December 31, 2008, the Company issued 218,507 shares of its common stock for the payment of interest of $35,220.