

REFLECT SCIENTIFIC INC
Form 10-K
April 03, 2019

U. S. Securities and Exchange Commission

Washington, D. C. 20549

FORM 10-K

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

ACT OF 1934

For the fiscal year ended December 31, 2018

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 Registrant in its Charter)

Utah
(State or Other Jurisdiction of
incorporation or organization)

87-0642556
(I.R.S. Employer Identification No.)

1266 South 1380 West

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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

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

Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not

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be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

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

Large accelerated filer []

Accelerated filer []

Non-accelerated filer []

(Do not check if a smaller reporting company)

Smaller reporting company [X]

Emerging Growth company [X]

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

Indicate by check mark whether the 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, 2018 - \$1,551,985.

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

There are approximately 36,087,753 shares of common voting stock of the Registrant held by non-affiliates, and based upon the average bid and asked prices of our common stock on June 30, 2018 of \$0.05, as reported by the OTC Bulletin Board of the National Association of Securities Dealers, Inc., the aggregate market value of our common stock held by non-affiliates was approximately \$1,804,388.

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

None; not applicable.

Outstanding Shares

As of March 28, 2019, the Registrant had 79,108,086 shares of common stock outstanding.

Documents Incorporated by Reference

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

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PART IV

Forward-Looking Statements

When used in this Annual Report on Form 10-K, the words or phrases would be, will allow, intends to, will like result, are expected to, will continue, is anticipated, estimate, project or similar expressions are intended to forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements specifically include, but are not limited to, our expectations regarding strategic business initiatives, our intentions to defend our intellectual property rights, continue our research and development, seek regulatory approvals and plans regarding sales and marketing.

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

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

PART I

Item 1. Description of Business

Business Development

History

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

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

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

Effective as of April 4, 2006, we entered into a Purchase Agreement (the JMST Agreement) with JM SciTech, LLC, a limited liability company organized under the laws of the State of Colorado, and doing business as JMST Systems (JMST); David Carver, an individual (Carver); and Julie Martin, an individual (Martin) (JMST, Carver and Martin are sometimes hereinafter referred to collectively as Sellers). Pursuant to the JMST Agreement, we purchased and JMST sold all right, title and interest in and to the JMST Technology (the JMST Technology), as described in the JMST Agreement; and Carver conveyed and assigned any rights he had in and to certain patents (the Carver Patents) and related intellectual assets as described in the JMST Agreement (collectively, including the Carver Patents, referred to herein as the Carver Technology). JMST had created a line of chemical detection instruments that are used in the pharmaceutical, biotechnology and homeland security markets. The patented technology allows researchers to accurately analyze chemical formulations for their composition and identity. See our 8-K Current Report dated April 4, 2006, which was filed with the Securities and Exchange Commission on April 7, 2006, and is incorporated herein by reference. See Part IV, Item 15.

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

2006, which was filed with the Securities and Exchange Commission on June 30, 2006, and is incorporated herein by reference. See Part IV, Item 15.

Business

Emerging Growth Company Status

As part of the Jumpstart Startups Act of 2012 (**JOBS ACT**), companies with less than \$1.0 billion in gross revenue can qualify as an emerging growth company. We will qualify as an emerging growth company as defined in the **JOBS Act**, and, as such, we are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, (i) not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, (ii) reduced disclosure obligations regarding executive compensation in our periodic and annual reports, (iii) not being required to comply with certain new requirements adopted by the Public Company Accounting Oversight Board, or the PCAOB, and (iv) not being required to obtain stockholder approval of any golden parachute payments not previously approved. We intend to take advantage of the reduced disclosure obligations. Additionally, we qualify as a **Smaller Reporting Company** and also have the advantage of not being required to provide the same level of disclosure as larger companies. Section 107 of the **JOBS Act** also provides that an emerging growth company can take advantage of the extended transition period provided in the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to use the extended transition period for complying with new or revised accounting standards under Section 102(b)(2) of the **Jobs Act**, that allows us to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies. As a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates.

We could remain an emerging growth company for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our annual gross revenues exceed one billion dollars, (ii) the date that we become a **large accelerated filer** as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, which would occur if the market value of our common units that are held by non-affiliates exceeds \$700.0 million as of the last business day of our most recently completed second fiscal quarter, and (iii) the date on which we have issued more than \$1.0 billion in non-convertible debt during the preceding three-year period. At this time, we expect to remain both a **Smaller Reporting Company** and **Emerging Growth Company** for the foreseeable future.

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, cold

chain management, universities, government and private sector research facilities, and chemical and industrial companies.

Our goal is to provide our customers with the best solution for their needs. This philosophy extends into our business strategies and acquisition plans. Through a series of strategic acquisitions, we acquired technology that has enabled us to expand our line of products that take advantage of market needs. Our growing product portfolio includes ultra low temperature freezers, blast freezers and refrigerated transportation in addition to supplying OEM products to the life science industry.

Our Visacon brand chemical detector product line has been discontinued. We launched our next generation detector in late 2013 and expected that, due to price and features advantages, detector sales would grow significantly. While sales have been steady, we did not experience the growth that had been anticipated at the time of the product introduction into the marketplace. In addition patent positions have expired on the core technology. In November 2018, management made the decision to remove the detectors from its product line due to declining demand for the product. This will allow us to focus in on the more lucrative Cryometrix brand of low temperature freezers and blast freezers for the Bio/Pharma market.

Our Cryometrix brand ultra low temperature and blast freezers innovative design enables our customers to save substantially on energy costs related to cryogenic storage. Ultra low temperature freezers are used worldwide 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. Our Cryometrix freezers are targeted to this growing market and we have had tremendous success in blood storage and pharmaceutical manufacturing applications. The application of this technology for use in refrigerated trailers (commonly called reefers) used to transport goods which need to be maintained in a cold environment significantly broadens the market for this technology. The utilization

of this technology in reefers eliminates the current method of cooling, which utilize engines run on hydrocarbon fuels. The Cryometrix technology is pollutant free and is more cost effective and efficient than the technologies currently used.

Products

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

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

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

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

Cryometrix Freezers

Our Cryometrix ultra low temperature and blast 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 and blast freezers are used in multiple industries for the storage and fast freezing profiles of

everything from blood to cancer vaccines. These types of freezers are used by hospitals and biotechnology research facilities.

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

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

*

High energy usage a growing problem with rising energy costs

*

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

*

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

*

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

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

*

Low energy requirements

*

Flexible temperature control wide range of usable temperatures

*

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

*

Uniform temperatures throughout freezer more usable storage volume

*

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

*

Reliable and essentially maintenance free, further lowering cost of ownership

*

Environmental issues related to pollution using the current refrigerated trailer (reefer) technology

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

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

Competition

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

Given our relative size versus our competitors, we are often required to seek niche markets for our products or focus on selling consumable components to be used in our competitors larger detection units. We believe, however, that our technology and experience in the ultra low freezers allows us to be competitive in those markets. As our ultra low freezer 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

While we will continue to evaluate acquisitions of businesses and technologies to enhance our revenues in the Life Science and green technology markets, our primary focus is on growing our own product lines through increasing market share and the addition of new products to our current offerings.

We seek to expand the applications for our products and equipment into additional markets as we develop brand recognition. We hope to be able to obtain market leverage from our existing products and name recognition as we use our existing offerings and product strengths to position us as a key supplier of cryogenic storage, blast freezing and cold chain management solutions. This strategic plan will also enable us to further diversify our customer base.

Manufacturing, Supplies, and Quality Control

Many of our products are manufactured by carefully selected third party manufacturers. By outsourcing our manufacturing we are able to reduce the overall cost of our products. We our lower volume products that 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 primary vendors in place and have identified secondary vendors.

Dependence on One or a Few Major Customers

We have four major customers who represented 44% and 54% of our sales volume in 2018 and 2017, respectively. The company has strong relationships with each of these customers and does not believe this concentration poses a significant risk due to those long-term relationships and the uniqueness of the products they purchase from us.

Need for any Governmental Approval of Principal Products or Services

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

Effect of Existing or Probable Governmental Regulations on the Business

We are subject to the Sarbanes-Oxley Act of 2002. This Act creates a strong and independent accounting oversight board to oversee the conduct of auditors of public companies and strengthens auditor independence. It also requires steps to enhance the direct responsibility of senior members of management for financial reporting and for the quality of financial disclosures made by public companies; establishes clear statutory rules to limit, and to expose to public view, possible conflicts of interest affecting securities analysts; creates guidelines for audit committee members appointment, compensation and oversight of the work of public companies' auditors; prohibits certain insider trading during pension fund blackout periods; and establishes a federal crime of securities fraud, among other provisions.

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

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

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

All patents and trademarks relating to acquired technologies 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 registered trademarks used in connection with our products.

Patents have been issued and current cover the following products:

Cryometrix Ultra Low Temperature and Blast freezers 15 patents

PATENT INFORMATION

Patent number	Appl No	Title	Issue	Filing	Expiration
10,188,098	15/296,009	Extremely fast freezing, low-temperature blast freezer	1/29/2019	10/17/2016	1/29/2037
10,088,227	14/613,702	Systems and methods for a wide range cryo-processor	10/2/2018	2/4/2015	10/2/2036
10,065,196	15/708,131	Low fat food processor	9/4/2018	9/19/2017	9/4/2036
10,047,978	15/708,143	ULT freezer with heater	8/14/2018	9/19/2017	8/14/2036
9,951,907	15/054,267	Self-generating power generator for cryogenic systems	4/24/2018	2/26/2016	4/24/2036
9,857,120	14/512,107	System and methods for improvements to a ultra-low temperature bio-sample storage system	1/2/2018	1/8/2015	1/2/2036
9,388,944	13/872,038	Controlled environment expander	7/12/2016	4/26/2013	7/12/2034
9,303,905	14/279,288	Self-generating power generator for cryogenic systems	4/5/2016	5/15/2014	4/5/2034
9,134,061	13/357,617	Flow Control of a Cryogenic Element to Remove Heat	9/15/2015	1/25/2012	9/15/2033
8,534,078	12/431,756	Self-generating power generator for cryogenic systems	9/17/2013	4/29/2009	9/17/2031
8,448,454	12/574,670	Cryogenic cooling system with vaporized cryogen sparging cooling enhancement	5/28/2013	10/6/2009	5/28/2031

Patent number	Appl No	Title	Issue	Filing	Expiration
8,424,317	12/894,206	Thermal insulation technique for ultra-low temperature cryogenic processor	4/23/2013	11/2/2007	4/23/2031
7,823,394	11/934,696	Thermal insulation technique for ultra-low temperature cryogenic processor	11/2/2010	11/2/2007	11/2/2028
7,621,148	11/890451	Ultra-low temperature bio-sample storage system	11/24/2009	8/7/2007	11/24/2027

6,804,976	10/734509	High reliability multi-tube thermal exchange structure	10/19/2004	12/12/2003	12/12/2023
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Royalty agreements were executed with JMST and Cryometrix as a condition of the companies' acquisition of the patents and technology related to the detectors. Under the terms of the royalty agreements:

JMST David Carver will receive a royalty payment on gross revenues related to revenues derived from the Carver Patents or Carver Technology. Such payments are due on revenue in excess of \$500,000 derived from products under the Carver Patents or Carver Technology. The royalty payment is 2.5% on the revenue in excess of \$500,000 and is payable quarterly. Payments are to be made in the common stock of Reflect Scientific, not to exceed 500,000 shares in total. New products developed from the Carver Technology are subject to a royalty of 3% of gross revenues in excess of \$100,000, with an additional 2% if gross revenues exceed \$600,000. Royalties will also be paid in our common stock annually. Common stock will be valued at \$3.00 per share for these purposes. Royalty payments are only due for years where there are valid Carver Patents. To date no royalties have been earned or paid under this agreement. In December 2018, management made the decision to remove the detectors from its product line due to low demand.

Research and Development Costs During the Last Two Fiscal Years

During the year ended December 31, 2018, we expended \$104,046 for research and development. During the year ended December 31, 2017, we expended \$46,696 for research and development. The majority of the research and development on our products is performed by independent contractors who have been enhancing technologies, primarily on the reefer unit and the detectors. We expect research and development cost to increase in the future with the development work required to commercialize our Cryometrix freezers.

Employees

As of April 1, 2019, subsequent to the balance sheet date, we had 7 full-time and 5 part-time employees. None of our employees are represented under a collective bargaining agreement. We believe our relations with our employees to be good.

Reports to Security Holders

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

www.sec.gov.

Item 1A. Risk Factors

Not applicable for Registrant.

Item 1B. Unresolved Staff Comments

None. Not applicable.

Item 2. Description of Property

Reflect Scientific conducts all of its business operations from one facility, located in Orem, UT. This is a combination warehouse, manufacturing and office facility with 6,000 square feet of space; we lease this facility at \$3,584 per month to the end of the lease term on November 30, 2020.

Item 3. Legal Proceedings

None.

Item 4. Mine Safety Disclosure

Not applicable.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters and Registrant 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.

As of April 1, 2019, there were 79,108,086 shares of our common stock outstanding. On March 28, 2019, the high and low bid price for our common stock was \$0.05 and \$0.05, respectively.

Holders

The number of record holders of our common stock as of March 28, 2019, was approximately 149; 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	-	-	12,000,000
Equity compensation plans not approved by security holders	-	-	None
Total	-	-	12,000,000

Recent Sales of Unregistered Securities

None.

Use of Proceeds of Registered Securities

There were no proceeds received during the calendar year ended December 31, 2018 and 2017, from the sale of registered securities.

Issuance of Equity Securities by Us

In December 2018, the board approved the issuance of 1,000,000 shares of restricted stock to its President/CEO, 200,000 shares of restricted common stock to directors, 81,000 shares of restricted stock to its CFO, 325,000 shares of restricted common stock to employees, and 990,000 shares of restricted common stock to consultants.

Item 6. Select Financial Data

We are not required to provide information under this item.

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

This periodic report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the Plan of Operations provided below, including information regarding the Company's financial condition, results of operations, business strategies, operating efficiencies or synergies, competitive positions, growth opportunities, and the plans and objectives of management. The statements made as part of the Plan of Operations that are not historical facts are hereby identified as "forward-looking statements."

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

Critical Accounting Policies

Reflect Scientific's accounting policies are more fully described in Note 2 of the consolidated financial statements. As discussed in Note 2, the preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about the future events that affect the amounts reported in the consolidated financial statements and the accompanying notes. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions. Reflect Scientific believes that the following addresses Reflect Scientific's most critical accounting policies. There have been no significant changes during the year ended December 31, 2018.

REVENUE RECOGNITION: In January 1, 2018, we adopted the new accounting standard ASC 606, *Revenue from Contracts with Customers*, and all of the related amendments (new revenue standard). We recorded the change, which was immaterial, related to adopting the new revenue standard using the modified retrospective method. Under this method, we recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. This results in no restatement of prior periods, which continue to be reported under the accounting standards in effect for those periods. We expect the impact of the adoption of the new revenue standard to continue to be immaterial on an ongoing basis.

We sell our specialty science and environmental lab supplies through direct sales and through distributor relationships. We sell our ultra-low temperature freezers through consultants and commission-only sales personnel. Revenue is recognized when a customer obtains control of promised goods based on the consideration we expect to receive in exchange for these goods. This core principle is achieved through the following steps:

Identify the contract with the customer. A contract with a customer exists when (i) we enter into an enforceable contract with a customer that defines each party's rights regarding the goods to be transferred and identifies the payment terms related to these goods, (ii) the contract has commercial substance and, (iii) we determine that collection of substantially all consideration for services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. We do not have significant costs to obtain contracts with customers.

Identify the performance obligations in the contract. Generally, our contracts with our laboratory supply customers do not include multiple performance obligations to be completed over a period of time. Our performance obligations generally relate to delivering specialty laboratory products to a customer, subject to the shipping terms of the contract. Limited warranties are provided, under which we typically accept returns and provide either replacement parts or refunds. We do not have significant returns. We do not typically offer extended warranty or service plans. For ultra-low temperature freezers sold to customers which are built to order, generally, 50% of the value of the contract is paid by the customer prior to work beginning on manufacturing the freezer. Upon completion of manufacturing and testing the customer will accept the unit and make payment of the remaining balance on the contract, at which time control passes to

the customer and we have satisfied our performance obligation and recognize revenues. The customer may either arrange to transport the unit with a carrier uses or ask the Company to arrange such shipment, the charges of which are the responsibility of the customer. In some instances, a customer may, after accepting the unit, request that it be upgraded with additional hardware or software options, which is a new contract and performance obligation.

Determine the transaction price. Payment by the customer is due under customary fixed payment terms, and we evaluate if collectability is reasonably assured. None of our contracts as of December 31, 2018 contained a significant financing component.

Allocate the transaction price to performance obligations in the contract. We typically do not have multiple performance obligations in our laboratory supply contracts with customers. As such, we generally recognize revenue upon transfer of the product to the customer's control at contractually stated pricing. The freezers likewise do not have milestone or percentage of completion clauses in the contract, so revenue is only recognized when the work has been completed.

Recognize revenue when or as we satisfy a performance obligation. We generally satisfy performance obligations at a point in time upon shipment of goods, or, with our freezers, upon final acceptance of the unit by the customer, in accordance with the terms of each contract with the customer. We do not have significant service revenue.

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.

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

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

The Company charged \$0 and \$236 to bad debt expense for the years ended December 31, 2018 and 2017, respectively. The Company has historically experienced minimal bad debts. The allowance for doubtful accounts balance of \$4,000 at December 31, 2017 was reviewed and it was deemed that no adjustment to the provision was

required at December 31, 2018. Management feels this to be an adequate reserve based on the experience seen over multiple years.

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

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

INVENTORY: Inventories are stated at the lower of cost or market value based upon the average cost inventory method. The Company's inventory consists of parts for scientific vial kits, refrigerant gases, components for the imaging and inspection systems which it builds, and other scientific items.

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

STOCK BASED COMPENSATION: The Company, in accordance with ASC 718, *Compensation - Stock Compensation*, records all share-based payments to employees at the grant-date fair value of the equity instruments issued. In accordance with ASC 718-10-30-9, *Measurement Objective - Fair Value at Grant Date*, the Company uses the closing price of the stock, as quoted by NASDAQ, on the

date of the grant. The Company believes this pricing method provides the best estimate of fair the fair value of the consideration given. Compensation cost is recognized over the requisite service period.

The Company, in accordance with ASC 505, *Compensation – Stock Compensation*, establishes the value of equity instruments issued to non-employees for goods and services by using the closing price of the stock, as quoted by NASDAQ, on the date of the grant. The Company believes this method fairly establishes the value of the goods and/or services received.

Overview

During the year ended December 31, 2018 revenue increased by 45.6% compared to the year ended December 31, 2017. The revenue growth resulted from a \$298,642 increase in the sale of our ultra-cold freezers, combined with the increased sales of some of a number of our specialty lab products. While there can be no assurance that freezer sales will increase in future periods, it is encouraging that the marketplace has embraced our disruptive technology, and our installed operating base continues to increase. Historically, the core business of the company has been the sale of specialty laboratory supplies. Orders of those supplies increased as a group nearly \$100,000 in 2018 as compared to 2017. We are working to attract new distributors to build sales of these specialty items to historical levels.

The Company focused its resources during 2018 to the marketing of our ultra-cold freezers. Increasing sales of the ultra-low temperature freezers and commercialization of the refrigerated trailer will provide opportunity for the Company to expand sales in the higher margin technology markets.

The Company has been proactive in making those business decisions which it believes will enable it to carry out its business plan. Significant cost reduction measures have been implemented, unprofitable subsidiaries divested, facilities consolidated and personnel reductions made. However, we are still generating operating losses and we cannot assure that financing will be made available at acceptable rates to allow the execution of our business plan. If we are unable to secure adequate financing, our ability to proceed with and implement our business plan will be negatively impacted.

Financial Position

The table below presents a summary of our consolidated balance sheets at December 31, 2018 and 2017:

SUMMARY OF BALANCE SHEET INFORMATION

Year ended	Year ended	Increase
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	Dec. 31, 2018	Dec 31, 2017	(Decrease)
Cash	\$ 220,427	\$ 235,858	\$ (15,431)
Total current assets	521,805	516,745	5,060
Total assets	592,671	579,845	12,826
Total current liabilities	74,928	124,419	(49,491)
Accumulated deficit	(20,300,707)	(20,051,184)	(249,523)
Total stockholders equity (deficit)	\$ 517,743	\$ 579,845	\$ (62,102)

We had \$220,427 in cash as of December 31, 2018, a decrease of \$15,431 from December 31, 2017. We had working capital of \$446,877 at December 31, 2018, compared to working capital of \$392,326 at December 31, 2017.

Contractual Obligations

The Company leases office/warehouse space in Utah. In addition, it has a lease on a vehicle. The following summarizes future minimum lease payments under the operating leases at December 31, 2018:

Year Ending <u>December</u> <u>31,</u>	Minimum Lease Payments		
	<u>Building</u>	<u>Automobile</u>	<u>Total</u>
2019	\$ 43,121	\$ 7,548	\$ 50,669
2020	40,612	7,548	48,160
2021	=	3,774	3,774
Total	\$ 83,732	\$ 18,870	\$102,602

Results of OperationsDecember 31, 2018 and 2017

The following table summarizes revenue, cost of goods sold, and operating expenses for the years ended December 31, 2018 and 2017:

	Year Ended December 31, 2018	Year Ended December 31, 2017	Increase (Decrease)
Revenue	\$ 1,551,985	\$ 1,065,777	\$ 486,206
Cost of Goods Sold	487,185	405,935	81,250
Gross Profit	1,064,880	659,842	404,956
Salaries and wages	585,346	656,959	(71,613)
Rent expense	39,285	29,892	9,393
Research and development expense	104,046	46,696	57,350
General and administrative expense	584,985	328,484	256,501
Total operating expenses	1,313,662	1,062,031	