

REFLECT SCIENTIFIC INC  
Form 8-K/A  
June 01, 2007

**United States Securities and Exchange Commission**

**Washington, D.C. 20549**

**FORM 8-K/A-2**

**CURRENT REPORT**

**Pursuant to Section 13 or 15[d] of the Securities Exchange Act of 1934**

**November 15, 2006**

**Date of Report**

**REFLECT SCIENTIFIC, INC.**

(Exact name of Registrant as specified in its Charter)

|   |                          |                                      |
|---|--------------------------|--------------------------------------|
| <u>Utah</u>                                       | <u>000-31377</u>         | <u>87-0642556</u>                    |
| (State or Other Jurisdiction of<br>Incorporation) | (Commission File Number) | (I.R.S. Employer Identification No.) |

1270 South 1380 West

Orem, Utah 84058

(Address of Principal Executive Offices)

(801) 226-4100

(Registrant's Telephone Number, including area code)

N/A

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the Registrant under any of the following provisions (see general instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14-a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 9.01 Financial Statements and Exhibits.**

(a) Financial Statements of Businesses acquired.

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**SMITHGALL & ASSOCIATES, INC.**  
**(DBA IMAGE LABS INTERNATIONAL)**

**FINANCIAL STATEMENTS**

**December 31, 2006**



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders of

Smithgall & Associates, Inc.

(DBA Image Labs International)

Bozeman, Montana

We have audited the accompanying balance sheet of Smithgall & Associates, Inc. (DBA Image Labs International) as of December 31, 2006, and the related statements of operations, shareholder's equity and cash flows for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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

financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Smithgall & Associates, Inc. (DBA Image Labs International) as of December 31, 2006, and the results of their operations and their cash flows for the years ended December 31, 2006 and 2005 in conformity with accounting principles generally accepted in the United States of America.

/s/ HJ & Associates, LLC

HJ & Associates LLC

Salt Lake City, Utah

May 10, 2007

**SMITHGALL & ASSOCIATES, INC.**  
**(DBA IMAGE LABS INTERNATIONAL)**

Balance Sheet

ASSETS

|                                   | December 31,        |
|-----------------------------------|---------------------|
|                                   | 2006                |
| <b>CURRENT ASSETS</b>             |                     |
| Accounts receivable (Note 2)      | \$ 1,118,775        |
| Inventory (Note 4)                | 80,157              |
| Unbilled contract revenue         | 141,117             |
| Total Current Assets              | 1,340,049           |
| <b>FIXED ASSETS, NET (Note 3)</b> | 30,798              |
| <b>OTHER ASSETS</b>               |                     |
| Deposits                          | 2,251               |
| <b>TOTAL ASSETS</b>               | <b>\$ 1,373,098</b> |



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

**SMITHGALL & ASSOCIATES, INC.**  
**(DBA IMAGE LABS INTERNATIONAL)**

Balance Sheet (Continued)

LIABILITIES AND SHAREHOLDER S EQUITY

|  | December 31, |
|--|--------------|
|  | 2006         |
| <b>CURRENT LIABILITIES</b>   |              |
| Cash overdraft   | \$ 56,589    |
| Accounts payable   | 199,817      |
| Accrued expenses   | 22,485       |
| Contract billing in excess   | 419,976      |
| Total Current Liabilities  | 698,867      |
| <b>LONG-TERM LIABILITIES</b>   |              |
| Total Liabilities  | 698,867      |
| <b>COMMITMENTS AND CONTINGENCIES (Note 5)</b>  |              |
| <b>SHAREHOLDER S EQUITY</b>  |              |
| Common stock, \$1.00 par value, authorized 10,000<br>shares; 100 shares issued and outstanding | 100          |
| Additional paid in capital   | 4,900        |

|  |    |           |
|--|----|-----------|
| Retained earnings                          |    | 669,231   |
| Total Shareholder's Equity                 |    | 674,231   |
| TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY | \$ | 1,373,098 |

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

**SMITHGALL & ASSOCIATES, INC.**  
**(DBA IMAGE LABS INTERNATIONAL)**

Statements of Operations

|                            | For the Years Ended |              |
|----------------------------|---------------------|--------------|
|                            | December 31,        |              |
|                            | 2006                | 2005         |
| REVENUES                   | \$ 3,756,303        | \$ 2,465,213 |
| COST OF GOODS SOLD         | 2,341,982           | 1,941,253    |
| GROSS PROFIT               | 1,414,321           | 523,960      |
| OPERATING EXPENSES         |                     |              |
| Salaries and wages         | 425,413             | 346,054      |
| Payroll taxes              | 34,823              | 25,246       |
| Rent expense               | 40,708              | 38,503       |
| General and administrative | 415,342             | 301,093      |
| Total Operating Expenses   | 916,286             | 710,896      |
| OPERATING INCOME (LOSS)    | 498,035             | (186,936)    |
| OTHER EXPENSES             |                     |              |
| Contributions              | (13,099)            | (765)        |
| Interest income            | 439                 | 135          |
| Loss on sale of asset      | (8,318)             | -            |
| Interest expense           | (12,038)            | (1,366)      |
| Total Other Expense        | (33,016)            | (1,996)      |

|  |    |         |    |           |
|--|----|---------|----|-----------|
| NET INCOME (LOSS)                                      |    | 465,019 |    | (188,932) |
| NET INCOME (LOSS) APPLICABLE TO COMMON<br>SHAREHOLDERS | \$ | 465,019 | \$ | (188,932) |
| BASIC AND FULLY DILUTED EARNINGS PER<br>SHARE          | \$ | 4,650   | \$ | (1,889)   |
| WEIGHTED AVERAGE NUMBER OF SHARES<br>OUTSTANDING       |    | 100     |    | 100       |

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

**SMITHGALL & ASSOCIATES, INC.**  
**(DBA IMAGE LABS INTERNATIONAL)**

Statements of Shareholder's Equity

|                         | Common Stock |        | Additional      | Retained  |
|-------------------------|--------------|--------|-----------------|-----------|
|                         | Shares       | Amount | Paid in Capital | Earnings  |
| Balance,                |              |        |                 |           |
| December 31, 2004       | 100          | \$ 100 | \$ 4,900        | 467,151   |
| Dividends paid          | -            | -      | -               | (26,212)  |
| Net loss for the year   | -            | -      | -               | (188,932) |
| Ended December 31, 2005 |              |        |                 |           |
| Balance,                |              |        |                 |           |
| December 31, 2005       | 100          | 100    | 4,900           | 252,007   |
| Dividends paid          | -            | -      | -               | (47,795)  |
| Net income for the year |              |        |                 |           |
| Ended December 31, 2006 | -            | -      | -               | 465,019   |
| Balance,                |              |        |                 |           |
| December 31, 2006       | 100          | \$ 100 | \$ 4,900        | 669,231   |

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





**SMITHGALL & ASSOCIATES, INC.**  
**(DBA IMAGE LABS INTERNATIONAL)**

Statements of Cash Flows

|   | For the Years Ended |                  |
|---|---------------------|------------------|
|   | December 31,        |                  |
|   | 2006                | 2005             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                     |                  |
| Net income (loss)   | \$ 465,019          | \$ (188,932)     |
| Adjustments to reconcile net income to net cash provided by operating activities: |                     |                  |
| Depreciation  | 11,127              | 16,558           |
| Loss on sale of asset   | 8,318               | -                |
| Changes in operating assets and liabilities:                                      |                     |                  |
| Increase in accounts receivable   | (522,647)           | (325,988)        |
| Decrease in inventory   | 25,127              | 75,643           |
| Increase (decrease) in unbilled contract revenue                                  | 40,877              | (175,860)        |
| Decrease in other assets  | 5,728               | 815              |
| Increase (decrease) in estimated contract losses                                  | (85,669)            | 85,669           |
| Increase in accounts payable and accrued expenses                                 | 235,554             | 323,090          |
| <b>Net Cash Provided (Used) by Operating Activities</b>                           | <b>183,434</b>      | <b>(219,975)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                     |                  |
| Cash paid for fixed assets  | (17,714)            | (16,161)         |
| <b>Net Cash Used by Investing Activities</b>                                      | <b>(17,714)</b>     | <b>(16,161)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                     |                  |
| Change in long term line of credit  | (153,499)           | 153,499          |

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|  |             |          |
|--|-------------|----------|
| Dividends (paid) received                        | (47,795)    | 4,759    |
| Net Cash Provided (Used) by Financing Activities | (201,294)   | 158,258  |
| NET DECREASE IN CASH                             | (35,574)    | (77,878) |
| CASH AT BEGINNING OF PERIOD                      | (21,015)    | 56,863   |
| CASH AT END OF PERIOD                            | \$ (56,589) | (21,015) |

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash Paid For:

|              |    |        |    |       |
|--------------|----|--------|----|-------|
| Interest     | \$ | 12,037 | \$ | 1,366 |
| Income taxes | \$ | -      | \$ | -     |

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

**SMITHGALL & ASSOCIATES, INC.**  
**(DBA IMAGE LABS INTERNATIONAL)**

Notes to the Financial Statements

December 31, 2006 and 2005

**NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS**

Smithgall & Associates, Inc. (DBA Image Labs International) established in 1993 is incorporated in the State of Georgia. The company is located in Bozeman, Montana and is a manufacturer and developer of factory automation equipment. The primary product lines focus in the areas of automated inspection, measurement and material handling.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

a. Accounting Method

The Company's financial statements are prepared using the accrual method of accounting. The Company has elected a December 31 year-end.

b. Revenue Recognition

The Company recognizes revenues from fixed-price and modified fixed-price construction contracts on the percentage-of completion method, measured by the percentage of cost incurred to date to estimated total cost for each contract. That method is used because management considers total cost to be the best available measure of progress on the contracts.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs

and income, which are recognized in the period in which the revisions are determined.

The assets, costs and estimated earnings in excess of billings on uncompleted contracts , represents revenues recognized in excess of amounts billed. The liability, Billings in excess of costs on 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. Accounts Receivable

The Company writes off trade receivables when deemed uncollectible. The Company expensed \$0 and \$0 to bad debt expense for the years ended December 31, 2006 and 2005, respectively. The allowance for doubtful accounts balance at December 31, 2006 was \$0.

**SMITHGALL & ASSOCIATES, INC.**  
**(DBA IMAGE LABS INTERNATIONAL)**

Notes to the Financial Statements

December 31, 2006 and 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Inventory

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

g. Advertising Expense

The Company follows the policy of charging the costs of advertising to expense as incurred. The Company recognized \$17,214 and \$13,213 of advertising expense during the years ended December 31, 2006, and 2005, respectively.

h. Newly Issued Accounting Pronouncements

In April 2006, the FASB issued FASB Staff Position FIN 46I-6, *Determining the Variability to be Considered in Applying FASB Interpretation No. 46I* that became effective for the third quarter of 2006. FSP FIN No. 46I-6 clarifies that the variability to be considered in applying Interpretation 46I shall be based on an analysis of the design of the variable interest entity. The adoption of this standard did not materially impact the Company's financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). FIN 47 provides guidance relating to the identification of and financial reporting for legal obligations to perform an asset retirement activity. The Interpretation requires recognition of a liability for the fair

value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 also defines when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The provision is effective no later than the end of fiscal years ending after December 15, 2005. The Company will adopt FIN 47 beginning the first quarter of fiscal year 2006 and does not believe the adoption will have a material impact on its financial position or results of operations or cash flows.

In June 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements in accordance with FASB Statement No. 109 *Accounting for Income Taxes*. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a return, as well as guidance on derecognition, classification, interest and penalties and financial statement reporting disclosures. FIN 48 is effective for the Company on January 1, 2007. Based on the Company's evaluation and analysis, FIN 48 is not expected to have a material impact on the Company's financial statements.

**SMITHGALL & ASSOCIATES, INC.**  
**(DBA IMAGE LABS INTERNATIONAL)**

Notes to the Financial Statements

December 31, 2006 and 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Newly Issued Accounting Pronouncements (Continued)

In February of 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, which is intended to simplify the accounting and improve the financial reporting of certain hybrid financial instruments (i.e., derivatives embedded in other financial instruments). The statement amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* a replacement of FASB Statement No. 125. SFAS No. 155 is effective for all financial instruments issued or acquired after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not expect the adoption of SFAS No. 155 to have an impact on its financial statements.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* ( FAS 157 ), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. FAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the requirements and impact of FAS 157 on the Company's financial statements, and will adopt the provisions on January 1, 2008. FAS 157 is not expected to have a material impact on the Company's financial statements.

Also in September 2006, the FASB issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132- R* ( FAS 158 ). FAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. FAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. This statement is effective for the Company as of December 31, 2006, but did not have an impact on the Company's financial statements as the Company does not sponsor a defined benefit pension or postretirement plan.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements* ( SAB 108 ), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The adoption of this standard did not materially impact the Company's financial statements.



**SMITHGALL & ASSOCIATES, INC.**  
**(DBA IMAGE LABS INTERNATIONAL)**

Notes to the Financial Statements

December 31, 2006 and 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Basic Earnings Per Share

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

|                         | For the Years Ended |              |
|-------------------------|---------------------|--------------|
|                         | 2006                | 2005         |
| Net Income<br>(loss)    | \$ 465,019          | \$ (188,482) |
| (Numerator)             |                     |              |
| Shares<br>(denominator) | 100                 | 100          |
| Per share<br>amount     | 4,650               | (1,889)      |

As of December 31, 2006 the Company had no shares of outstanding common stock equivalents, as such the diluted earnings per share and basic earnings per share are the same.

j. Shipping and Handling Fees and Costs

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

k. Income Taxes

The Company is an S Corporation and therefore is a pass through entity for income tax purposes.

l. 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 \$164,894 and \$49,731 in research and product development for the years ended December 31, 2006 and 2005, respectively.

**SMITHGALL & ASSOCIATES, INC.**  
**(DBA IMAGE LABS INTERNATIONAL)**

Notes to the Financial Statements

December 31, 2006 and 2005

**NOTE 3 - 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. Fixed assets and related depreciation for the period are as follows:

|                                 |    | December 31, 2006 |
|---------------------------------|----|-------------------|
| Computer equipment and software | \$ | 104,677           |
| Furniture and fixtures          |    | 19,527            |
| Tools and equipment             |    | 12,105            |
| Vehicles                        |    | 34,903            |
| Accumulated depreciation        |    | (140,414)         |
| Total Fixed Assets              | \$ | 30,798            |

Depreciation expense for the years ended December 31, 2006, and 2005, was \$11,127 and \$16,558, respectively.

**NOTE 4 - INVENTORIES**

Inventory consisted of the following at December 31, 2006:

|                    |    |         |
|--------------------|----|---------|
| Raw materials      | \$ | 46,360  |
| Finished goods     |    | 40,569  |
| Obsolete inventory |    | (6,772) |
| Total Inventory    | \$ | 80,157  |

NOTE 5 - 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 \$100,000.

**SMITHGALL & ASSOCIATES, INC.**  
**(DBA IMAGE LABS INTERNATIONAL)**

Notes to the Financial Statements

December 31, 2006 and 2005

NOTE 5 - CONCENTRATIONS OF RISK (continued)

Revenues and Accounts Receivable

The Company has three significant customers that account for \$1,654,596 or 42%, of sales for the year ended December 31, 2006, and one significant customer for the year ended December 31, 2005 that accounts for \$503,746 or 20% of that years sales. Those same customers account for \$558,413 or 50% of the total accounts receivable at December 31, 2006 and \$265,765 or 45% at December 31, 2005.

NOTE 6 - CONTRACTS IN PROCESS

Information with respect to contracts in process for the year ended December 31, 2006 are as follows:

|   |    |             |
|---|----|-------------|
| Costs incurred on uncompleted contracts | \$ | 395,370     |
| Estimated earnings                      |    | 371,249     |
| Total                                   |    | 766,619     |
| Billings to date                        |    | (1,045,478) |
| Total                                   | \$ | (278,859)   |

Included in the accompanying balance sheet

under the following captions:

|   |    |           |
|---|----|-----------|
| Costs and estimated earnings in excess    | \$ | 141,117   |
| of billings on uncompleted contracts      |    |           |
| Billings in excess of costs and estimated |    |           |
| earnings on uncompleted contracts         | \$ | (419,976) |
| Total                                     | \$ | (278,859) |

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**SMITHGALL & ASSOCIATES, INC.**  
**(DBA IMAGE LABS INTERNATIONAL)**

Notes to the Financial Statements

December 31, 2006 and 2005

NOTE 7 - SUBSEQUENT EVENT

NOTE 7 - SUBSEQUENT EVENT

Subsequent to year end, the shareholder of Smithgall & Associates, Inc. (DBA Image Labs International), voted upon, and approved a merger agreement by and among Reflect Scientific, Inc. ( Reflect ) and Smithgall & Associates, Inc. (DBA Image Labs International) ( Image Labs ). The merger agreement provided for the merger of Image Labs with and into Reflect. As a result of the merger, the shareholder of the Company was issued 525,000 shares of Reflect s common stock that are restricted securities, as well as paid \$200,000. Reflect also agreed to pay the shareholder a 2.5 percent Running Earnout Purchase Price. An employment agreement was also executed and delivered

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<br>December 31,<br>2006 | Image Labs As<br>of December 31,<br>2006 | Combined<br>Historical<br>Reflect & Image<br>Labs | Pro Forma<br>Adjustments | Pro Forma<br>Combined Reflect<br>& Image Labs<br>December 31,<br>2006 |     |
|----------------------|---------------------------------------|--|---|--------------------------|---|-----|
| <b>ASSETS</b>        |                                       |  |   |                          |   |     |
| <b>C u r r e n t</b> |                                       |  |   |                          |   |     |
| <b>Assets:</b>       |                                       |  |   |                          |   |     |
| 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   |     |

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|                            |              |              |              |              |              |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| P r e p a i d<br>assets    | 13,852       | 141,117      | 154,969      | -            | 154,969      |
| Total<br>Current<br>Assets | 1,039,277    | 1,340,049    | 2,379,326    | (164,981)    | 2,214,345    |
| Fixed<br>Assets, (net)     | 211,021      | 30,798       | 241,819      | -            | 241,819      |
| O t h e r<br>Assets:       |              |              |              |              |              |
| Deposits                   | 13,400       | 2,251        | 15,651       | -            | 15,651       |
| Income Tax<br>receivable   | 25,948       | -            | 25,948       | -            | 25,948       |
| Deferred tax<br>asset      | 316,000      | -            | 316,000      | -            | 316,000      |
| Intangibles<br>(net)       | 4,736,827    | -            | 4,736,827    | -            | 4,736,827    |
| Total Other<br>Assets      | 5,092,175    | 2,251        | 5,094,426    | -            | 5,094,426    |
| T O T A L<br>ASSETS        | \$ 6,342,473 | \$ 1,373,098 | \$ 7,715,571 | \$ (164,981) | \$ 7,550,590 |

(1)





## SMITHGALL &amp; ASSOCIATES, INC.

**(DBA IMAGE LABS INTERNATIONAL)**

## Notes to the Financial Statements

December 31, 2006 and 2005

## NOTE 7 - SUBSEQUENT EVENT (continued)

|  | Reflect As of<br>December 31, 2006 | Image<br>Labs As of<br>December<br>31, 2006 | Combined<br>Historical<br>Reflect &<br>Image Labs | Pro Forma<br>Adjustments | Pro Forma<br>Combined<br>Reflect &<br>Image Labs<br>December 31,<br>2006 |
|--|------------------------------------|---|---|--------------------------|--|
| <b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b> |                                    |   |   |                          |  |
| <b>Current Liabilities:</b>                          |                                    |   |   |                          |  |
| 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  |
| <b>Non-current liabilities:</b>                      |                                    |   |   |                          |  |
| 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   |
| <b>Stockholders Equity:</b>                          |                                    |   |   |                          |  |
| Preferred Stock                                      | -                                  | -   | -   | -                        | -  |

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|   |              |              |              |              |              |     |
|---|--------------|--------------|--------------|--------------|--------------|-----|
| 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 |     |

**SMITHGALL & ASSOCIATES, INC.**  
**(DBA IMAGE LABS INTERNATIONAL)**

Notes to the Financial Statements

December 31, 2006 and 2005

NOTE 7 - SUBSEQUENT EVENT (continued)

|                               | Reflect As<br>of December<br>31, 2006 | Image Labs as of<br>December 31,<br>2006 | Combined<br>Historical Reflect<br>& Image Labs | Pro Forma<br>Adjustment | Pro Forma<br>Combined Reflect<br>& Image Labs<br>December 31,<br>2006 |
|-------------------------------|---------------------------------------|--|--|-------------------------|---|
| Sales                         | \$ 2,572,955                          | \$ 3,756,303                             | \$ 6,329,258                                   | -                       | \$ 6,329,258  |
| Cost of Sales                 | 1,519,547                             | 2,341,982                                | 3,861,529                                      | -                       | 3,861,529   |
| 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)                           | 498,035                                  | (630,407)                                      | -                       | (630,407)   |
| Other income (expense)        | (192,911)                             | (20,979)                                 | (213,890)                                      | -                       | (213,890)   |
| Interest expense              | (25)                                  | (12,037)                                 | (12,062)                                       | -                       | (12,062)  |
| Total other income (expense)  |                                       |  |  |                         |   |

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|  |              |            |              |      |           |
|--|--------------|------------|--------------|------|-----------|
|  | (192,936)    | (33,016)   | (225,952)    | -    | (225,952) |
| Income tax expense<br>(benefit)        | (342,748)    | -          | (342,748)    | -    | (342,748) |
| Net Income (loss) \$                   | (976,630) \$ | 465,019 \$ | (511,611) \$ | - \$ | (511,611) |
| Basic loss per share                   | (0.03)       | 4,650      | (0.02)       | -    | (0.02)    |
| Weighted average<br>shares Outstanding | 28,432,024   | 100        | 28,432,124   | -    | 28,42,124 |

Description of Adjustments and Other Notes

(1) To record the acquisition of Image Labs as of the beginning of the period.

**SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this Current Report to be signed on its behalf by the undersigned hereunto duly authorized.

**REFLECT SCIENTIFIC, INC.**

*Date: 06/1/2007*

*By: /s/ Kim Boyce  
Kim Boyce  
President and Director*