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FLEXPOINT SENSOR SYSTEMS INC

Form 10QSB/A

May 16, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB
Amendment No. 1

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

For quarterly period ended March 31, 2004

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission file number: No. 0-24368

FLEXPOINT SENSOR SYSTEMS, INC.
(Name of small business issuer in its charter)

Delaware 87-0620425
(State of incorporation) (I.R.S. Employer Identification No.)

106 West Business Park Drive, Draper, Utah 84020
(Address of principal executive offices) (Zip code)

Issuer's telephone number: 801-568-5111

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

Yes No

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

As of April 23, 2004 the Registrant had a total of 18,698,202 shares of common
stock issued and outstanding.

Transitional small business disclosure format: Yes No

THIS QUARTERLY REPORT HAS BEEN AMENDED TO RESTATE THE FINANCIAL STATEMENTS
AND RELATED DISCLOSURE FOR THE IDENTIFIED PERIOD.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

As a result of our reorganization under a court approved Chapter 11 bankruptcy plan, we are now a development stage company with a date of inception of February 24, 2004. We used fresh-start reporting (See Note 3 of the Notes to Unaudited Consolidated Financial Statements, below) and all assets of Flexpoint Sensor Systems, Inc. have been restated to reflect their reorganization value, which approximates the fair value at the date of reorganization.

We have restated our financial statements as of March 31, 2004 and for the period from February 24, 2004 through March 31, 2004. An quantitative explanation of the effect of the restatement is located in Note 1 - "Restatement of Financial Statements" in the notes to the financial statements. The following is a summary of the significant reasons for the restatement:

- . We have changed the estimated amount of a beneficial conversion option on the conversion of a note payable on March 31, 2004 in the amount of \$1,500,000 as compared to the previously estimated amount of \$42,840.
- . In February 2004 we estimated a reorganization value of \$5,634,000 based on the negotiated price at which creditors were willing to convert their claims into common stock, and allocated that value to the net assets based on their estimated fair values. As of December 31, 2004, an independent valuation determined the reorganization value at \$5,637,612, with cash of \$2,051, patents valued at \$279,147 and goodwill valued at \$5,356,414. The original allocation was restated to reflect the estimated appraised values.
- . The acquisition of equipment and proprietary technology from Flexpoint Holdings, LLC on March 31, 2004 has been reallocated based on an independent appraisal of the estimated fair value of the assets acquired.

The financial information set forth below with respect to our consolidated financial position as of March 31, 2004 and the consolidated statements of operations, stockholders' equity and cash flows for the interim period from February 24, 2004 through March 31, 2004 is unaudited. This financial information, in the opinion of management, includes all adjustments consisting of normal recurring entries necessary for the fair presentation of such data.

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MARCH 31, 2004
(UNAUDITED)

ASSETS

Current Assets		
Cash	\$	74,138

Total Current Assets		74,138
----------------------	--	--------

Property and equipment		1,248,732
Patents and proprietary technology		1,926,245
Goodwill		5,356,414

Total Assets	\$	8,605,529
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts payable	\$	81,199
Accrued liabilities		3,678
Deferred revenue		337,500
Notes payable - related party		16,000

Total Current Liabilities		438,377
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Stockholders' Equity		
Common stock - \$0.001 par value; 100,000,000 shares authorized; 18,598,718 shares issued and outstanding		18,598
Additional paid-in capital		9,893,655
Warrants outstanding		309,587
Deficit accumulated during the development stage		(2,054,688)

Total Stockholders' Equity		8,167,152
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Total Liabilities and Stockholders' Equity	\$	8,605,529
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The accompanying notes are an integral part of these unaudited consolidated financial statements.

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Sales	\$ 15,750
General and administrative expense	(513,397)
Interest expense	(1,557,041)

Net loss	\$ (2,054,688)
=====	
Basic and Diluted Loss Per Share	\$ (0.13)
=====	
Basic and Diluted Weighted-Average Shares Outstanding	16,253,758
=====	

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE PERIOD FROM FEBRUARY 24, 2004 (DATE OF EMERGENCE FROM
BANKRUPTCY) THROUGH MARCH 31, 2004
(UNAUDITED)

	Common Stock		Additional	Warrants	Deficit	Tot
	Shares	Amount	Paid-in Capital	Outstanding	Accumulated During the Development Stage	Sto Equ
	-----		-----	-----	-----	-----
Balance - February 24, 2004 (Date of Emergence from Bankruptcy - Note 3)	14,098,718	\$ 14,098	\$ 4,952,166	\$ -	\$ -	\$ -
Beneficial debt conversion option	-	-	1,500,000	-	-	-
Conversion of note payable, March 31, 2004, \$0.50 per share	2,800,000	2,800	1,397,200	-	-	-
Issuance for consulting services, March 3, 2004, \$1.15 per share	100,000	100	114,580	-	-	-
Issuance of warrants for consulting services, March 3, 2004 \$1.15 per share	-	-	-	309,587	-	-
Issuance for acquisition of equipment and proprietary technology from Flexpoint Holdings, LLC, a company controlled by a shareholder, March 31, 2004, \$1.21 per share	1,600,000	1,600	1,929,709	-	-	-

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Net loss	-	-	-	-	(2,054,688)	(

Balance - March 31, 2004	18,598,718	\$	18,598	\$	9,893,655	\$
					309,587	\$
					(2,054,688)	\$
=====						

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

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM FEBRUARY 24, 2004 (DATE OF EMERGENCE FROM
BANKRUPTCY) THROUGH MARCH 31, 2004
(UNAUDITED)

Cash Flows from Operating Activities:	
Net loss	\$ (2,054,688)
Adjustments to reconcile net loss to net cash used in operating activities:	
Issuance of stock and vesting of warrants granted for services	424,267
Expenses paid by increase in convertible note payable	60,000
Interest expense from beneficial conversion option of convertible note payable	1,500,000
Interest expense from origination fees on convertible notes payable	56,666
Changes in operating assets and liabilities:	
Accounts payable	(126,907)
Accrued liabilities	2,186
Deferred revenue	(6,250)
Net Cash Used in Operating Activities	(144,726)

Cash Flows from Investing Activities:	
Payments for patents	(1,521)
Payment for acquisition of equipment and proprietary technology from Flexpoint Holdings, LLC	(265,000)
Net Cash Used in Investing Activities	(266,521)

Cash Flows from Financing Activities:	
Proceeds from borrowings under convertible note payable	483,334
Net Cash Provided By Financing Activities	483,334

Net Change in Cash	72,087
Cash at Beginning of Period	2,051

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Cash at End of Period	\$	74,138
=====		
Supplemental Cash Flow Information		
Cash paid for interest	\$	-
=====		

Supplemental Schedule of Non Cash Investing and Financing Activities:
Short-term advances of \$102,000 were repaid from an increase in a convertible note payable.
Issuance of 1,600,000 shares of common stock valued at \$ 1,931,309, assumption of \$ 698,000 convertible note payable and cash payment of \$ 265,000 to Flexpoint Holdings LLC, a company controlled by a shareholder, in exchange for equipment and proprietary technology with fair values of \$1,248,732 and \$1,645,577, respectively. The principal balance of a \$1,400,000 convertible note payable was converted to 2,800,000 shares of common stock.

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

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Development Stage Company)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS

Nature of Operations - Flexpoint Sensor Systems, Inc. (the Company) is a development stage enterprise engaged principally in designing, engineering, and manufacturing sensor technology and equipment using flexible potentiometer technology. On February 24, 2004, the Company's plan of reorganization was confirmed by the U.S. Bankruptcy Court and the Company emerged from bankruptcy. As discussed further in Note 3, the emergence from bankruptcy was accounted for using fresh start accounting and the Company is considered a new entity for financial reporting purposes. The new entity is in the development stage as planned operations have not commenced. Development stage activities include acquiring equipment and technology, organization operations, obtaining financing and seeking manufacturing contracts.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of Flexpoint Sensor Systems, Inc. and its 90%-owned subsidiaries, Sensitron, Inc. and Flexpoint, Inc. Minority interests in subsidiaries are carried at no value based on their historical cost. Intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from these estimates.

Interim Financial Statements - The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America. In the opinion of the Company's management, the accompanying unaudited

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consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to fairly present the Company's consolidated financial position as of March 31, 2004, its consolidated results of operations and cash flows for the period from February 24, 2004 (date of emergence from bankruptcy) through March 31, 2004. The results of operations for the period from February 24, through March 31, 2004, may not be indicative of the results that may be expected for the period ending December 31, 2004.

Business Condition - The accompanying unaudited consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company is in the development stage and its efforts are primarily obtaining necessary capital to complete its production facility and re-start operations following its emergence from Chapter 11 bankruptcy proceedings. The Company incurred a loss of \$2,054,688 and used cash from operations of \$144,726 for the period from February 24, 2004 (date of emergence from bankruptcy) through March 31, 2004. Through March 31, 2004, the Company has accumulated a deficit during the development stage of \$2,054,688. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The unaudited consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, which may include the need to obtain additional financing, and ultimately to attain profitable operations. While the Company has received some customer deposits against future deliveries, the Company does not have sufficient cash flow to finance its operations on an on-going basis. To date, the Company has met its short-term cash needs through confirmation of its plan of reorganization and through proceeds from a convertible note payable as described in Note 2. Management plans to issue equity securities through a private placement offering. However, there can be no assurance that such sources of financing, if any, will be completed as planned or continue to be available, and if available, that they will be on terms favorable to the Company or in amounts sufficient to meet the Company's cash flow requirements.

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES (A Development Stage Company) NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Fair Values of Financial Instruments - The amounts reported as accounts payable, accrued liabilities and notes payable are considered to be reasonable approximations of their fair values. The fair value estimates were based on information available to management at the time of the preparation of the financial statements.

Property and Equipment - Property and equipment are stated at cost. Additions and major improvements are capitalized while maintenance and repairs are charged to operations. Upon retirement, sale or disposition, the cost and accumulated depreciation of the items sold are eliminated from the accounts, and any resulting gain or loss is recognized in operations. Depreciation is computed using the straight-line method and is recognized over the estimated useful lives of the property and equipment, which are three to seven years. No depreciation expense was recognized during the period ended March 31, 2004 because the property was acquired on March 31, 2004.

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Valuation of Long-lived Assets - The carrying values of the Company's long-lived assets will be reviewed for impairment whenever events or changes in circumstances indicate that they may not be recoverable. When projections indicate that the carrying value of the long-lived asset is not recoverable, the carrying value of the long-lived asset is reduced by the estimated excess of the carrying value over the projected discounted cash flows.

Intangible Assets - The Company currently has the rights to several patents. Patents are amortized from the date the Company is awarded the patent, over their estimated useful lives. Impairment is recognized if the carrying amount is not recoverable and the carrying amount exceeds the fair value of the intangible asset. Costs to obtain or develop patents are capitalized and amortized over a five-year period.

Revenue Recognition - Revenue from the sale of products is recorded at the time of shipment to the customers. Revenue from research and development engineering contracts is recognized as the services are provided and accepted by the customer. Revenue from contracts to license technology to others, including sales of software licenses, is deferred until all conditions under the contracts are met and then recognized as licensing royalty revenue over the remaining term of the contracts.

As of March 31, 2004, Sensitron, the Company's subsidiary, had deferred revenue of \$337,500, consisting of \$250,000 of prepaid licensing royalties to be deferred and recognized as the related licensing royalty sales are reported to the Company by the customer over the remaining term of the agreement, and \$87,500 of deferred sales related to software license rights sold to the customer that is being amortized over the six-year term of the contract.

Stock Based Compensation - The Company accounts for its stock-based compensation issued to employees and directors under Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Under APB Opinion No. 25, compensation related to stock options, if any, is recorded if an option's exercise price on the grant date is less than the fair value of the Company's common stock on the grant date, and amortized over the vesting period. Compensation expense for stock awards or purchases, if any, is recognized if the award or purchase price on the measurement date is below the fair value of the Company's common stock, and is recognized on the date of award or purchase. Employee stock options have not been granted nor have any employee stock awards occurred; therefore, no employee stock-based compensation has been recognized in the accompanying financial statements nor would there have been any employee stock-based compensation using the fair value method to value grants or awards.

The Company accounts for its stock-based compensation issued to non-employees using the fair value method in accordance with SFAS No. 123, Accounting for Stock-Based Compensation. Under SFAS No. 123, stock-based compensation is determined as the fair value of the equity instruments issued. The measurement date for these issuances is the earlier of the date at which a commitment for performance by the recipient to earn the equity instruments is reached or the date at which the recipient's performance is complete. Stock-based compensation to non-employees totaled \$424,267.

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Development Stage Company)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

At March 31, 2004, the Company has a stock-based employee compensation plan, which is described more fully in Note 7. As of March 31, 2004 no stock options

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had been granted or were outstanding.

Basic and Diluted Loss Per Share - Basic and diluted loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. At March 31, 2004, there were outstanding stock equivalents to purchase 650,000 shares of common stock that were not included in the computation of diluted net loss per share as their effect would have been anti-dilutive, thereby decreasing the net loss per common share.

Restatement of Financial Statements - The Company has restated its financial statements as of March 31, 2004 and for the period from February 24, 2004 (date of emergence from bankruptcy) through March 31, 2004 as follows:

	As Previously Reported	Effect of Restatement	As Restated

For the Period from February 24, 2004 (Date of Emergence from Bankruptcy) through March 31, 2004			
General and administrative expense	\$ 514,042	\$ (645)	\$ 513,397
Interest expense	99,881	1,457,160	1,557,041
Net loss	(598,173)	(1,456,515)	(2,054,688)
Basic and diluted loss per share	\$ (0.04)	\$ (0.09)	\$ (0.13)

As of March 31, 2004			
Property and equipment	\$ 1,698,000	\$ (449,268)	\$ 1,248,732
Patents and proprietary technology	6,736,437	(4,813,274)	1,923,163
Goodwill	-	5,356,414	5,356,414
Total assets	8,508,575	96,954	8,605,529
Additional paid-in capital	8,340,186	1,553,469	9,893,655
Deficit accumulated during the development stage	\$ (598,173)	\$ (1,456,515)	\$ (2,054,688)

The following is a summary of the significant reasons for the restatement:

The Company has changed the estimated amount of a beneficial conversion option in the amount of \$1,500,000, as compared to the previously estimated amount of \$42,840, on the conversion of a note payable on March 31, 2004.

The Company estimated a reorganization value of \$5,634,000 based on the negotiated price at which creditors were willing to convert their claims into common stock, and allocated that value to the net assets based on their estimated fair values. As of December 31, 2004, an independent valuation determined that the reorganization value consisted of patents valued at \$279,147 and goodwill valued at \$5,356,414. The original allocation was restated to reflect the estimated appraised values.

The acquisition of equipment and proprietary technology from Flexpoint Holdings, LLC on March 31, 2004 has been reallocated based on an independent appraisal of the estimated fair value of the assets acquired.

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Development Stage Company)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - CONFIRMATION OF PLAN OF REORGANIZATION

On February 24, 2004, the Bankruptcy Court confirmed the Company's plan of reorganization. The confirmed plan provided for the following:

Reverse Stock Split - The shares of common stock outstanding prior to the confirmation were reverse split on a 1-for-7 basis. All shares amounts are presented in the accompanying financial statements on a post-split basis.

Cancellation of Common Stock - The Company cancelled 714,286 shares of common stock issued to an officer during 2001, as provided for by the confirmed plan of reorganization.

Convertible Debentures Payable - Convertible debentures of \$3,681,280 were forgiven in exchange for the Company agreement not to contest the issuance of 7,142,087 shares of common stock that were issued to Aspen Capital based upon the exercise of warrants prior to the bankruptcy petition.

Convertible Promissory Note to Former Employee - The Company converted \$194,620 of claims that included accounts payable, accrued wages and a convertible promissory note to a former employee of \$20,000, into 377,682 shares of common stock at a conversion price of \$0.5153 per share.

Note Payable to Stockholder - The Company exchanged \$1,230,218 of notes payable to a stockholder for 2,387,382 shares of common stock at a conversion price of \$0.5153 per share.

Lease Obligation - A lease obligation of \$574,255 was exchanged for 1,114,410 shares of common stock at a conversion price of \$0.5153 per share.

Delphi Automotive Systems Supply Agreement - Flexpoint entered into a Purchase and Supply Agreement (the "Supply Agreement") with Delphi Automotive Systems ("Delphi") in June 1998. Under the terms of the Supply Agreement, the Company was to supply its proprietary sensor mats to Delphi for integration into a weight-based suppression system as a critical part of a smart air bag system. The Supply Agreement provided that such sensor mats were to be exclusively supplied to General Motors, through Delphi, by the Company through 2002. In May 2000, the Supply Agreement was amended, primarily providing for Delphi to make loan payments to the Company to be used directly for Delphi programs. As of December 31, 2000, the Company had received loan payments of \$1,700,000 from Delphi.

In August 2000, Delphi notified the Company of its intent to terminate the Supply Agreement. The Company believes that Delphi was not entitled to terminate the agreement or had not followed the appropriate contractual provisions for termination of the Supply Agreement. As a result of the termination, the Company was required to significantly reduce its workforce and its operating costs. In addition, the Company sought protection under the United States federal bankruptcy laws.

The Company believes it was damaged and has offsets to the loan from Delphi. Accordingly, the note payable was reduced to zero.

Litigation under the Delphi Supply Agreement remains under the jurisdiction of the bankruptcy court and the outcome of the future legal proceedings between the Company and Delphi is uncertain. However, on February 24, 2004, the Company concluded that the likelihood that this contingency will require that the Company transfer assets to Delphi is remote, and therefore, the liability

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was accounted for as extinguished with the resulting gain included in gain on forgiveness of debt in the pre-confirmation consolidated statements of operations.

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FLEXPPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES (A Development Stage Company) NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Convertible Note Payable - The plan of reorganization provided for the Company to draw upon a convertible note payable. During March 2004, the Company borrowed \$1,343,334, net of origination fees of \$56,666, from the note. The terms of the convertible note payable provide that interest accrues on outstanding balance at 10% per annum, and that all amounts become due within three years of the date of the agreement. Proceeds of \$698,000 were used for the acquisition of assets from Flexpoint Holdings, LLC, as described in Note 3, and proceeds of \$102,000 were used to repay a short-term advance from Flexpoint Holdings, LLC. The Company borrowed \$483,334 under the note and \$60,000 was borrowed from the direct payment to settle certain secured and priority claims determined in the reorganization plan and to pay operating expenses. The \$1,400,000 balance under the note payable was converted into common stock on March 31, 2004 at the rate of \$0.50 per share resulting in the issuance of 2,800,000 shares of common stock. At March 31, 2004, \$100,000 remains available for borrowing under the terms of the note payable. If borrowed, the note is convertible in to common stock at the rate of \$0.50 per share.

Although the Company received proceeds under the note of \$1,343,334 through March 31, 2004, principal due under the note was \$1,400,000, which resulted in a discount to the note of \$56,666. The terms of the convertible note payable provided that interest accrued on the outstanding balance at 10% per annum and that the principal and accrued interest were due three years from the date of the agreement. As provided for in the plan of reorganization, the \$1,500,000 total principal amount available under the note was convertible into 3,000,000 shares of common stock at \$0.50 per share. The fair value of the common stock at the date of reorganization was \$1.00 per share, based on its average market value for the three-day period before and after February 24, 2004, and resulted in the lender receiving a \$1,500,000 beneficial debt conversion option under the conversion terms of the promissory note. The original discount on the note and the discount from the beneficial conversion option were amortized and recognized as interest expense through March 31, 2004 when \$1,400,000 of the note was converted into 2,800,000 shares of common stock.

NOTE 3 - FRESH START ACCOUNTING

In accordance with the requirements of SOP 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code, the Company determined that a change in control occurred in connection with its reorganization and therefore the Company accounted for the reorganization using fresh-start reporting. Accordingly, all assets of Flexpoint Sensor Systems, Inc. have been restated to reflect their reorganization value, which approximates fair value at the date of reorganization. Management estimated a reorganization asset value of \$5,637,612 based upon the negotiated price at which certain creditors were willing to convert their claims into common stock. The Company obtained an independent valuation which determined that the reorganization value consisted of cash of \$2,051, patents valued at \$279,147 and goodwill valued at \$5,356,414. The patents have a weighted-average remaining life of 13.2 years and are amortized on a straight-line basis with an average yearly amortization of \$21,732. Goodwill is not amortized; rather the Company evaluates the carrying value of the goodwill to determine whether the carrying value should

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reflect any impairment. No impairment was noted at March 31, 2004.

The following summarizes the effect of the plan of reorganization on the Company's consolidated balance sheet, as of February 24, 2004, the date of confirmation of the plan of reorganization:

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Development Stage Company)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

As of Date of Confirmation of Plan, February 24, 2004	Pre- Confirmation	Debt Discharge	Exchange of Stock	Fresh Start	Reorganiz Balance Sheet
ASSETS					
Current Assets - Cash	\$ 2,051	\$ -	\$ -	\$ -	\$ 2,051
Patents	1,561	-	-	277,586	279,147
Goodwill	-	-	-	5,356,414	5,356,414
Total Assets	\$ 3,612	\$ -	\$ -	\$ 5,634,000	\$ 5,637,011
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
Liabilities Not Subject to Compromise - Current					
Accounts payable	\$ 244,642	\$ (36,536)	\$ -	\$ -	\$ 208,106
Accrued liabilities	1,492	-	-	-	1,492
Deferred revenue	343,750	-	-	-	343,750
Short-term advance payable	102,000	-	-	-	102,000
Notes payable - related party	16,000	-	-	-	16,000
Total Liabilities Not Subject to Compromise - Current	707,884	(36,536)	-	-	671,348
Liabilities Subject to Compromise	7,777,379	(7,777,379)	-	-	-
Stockholders' Equity (Deficit)					
Preferred stock	1,080,426	-	(1,080,426)	-	-
Common stock (old)	76,535	-	(76,535)	-	-
Common stock (new)	-	11,022	3,076	-	14,098
Additional paid-in capital	22,078,206	5,669,351	1,153,885	(23,949,276)	4,952,166
Deficit accumulated during the development stage	(31,716,818)	2,133,542	-	29,583,276	-
Total Stockholders' Equity (Deficit)	(8,481,651)	7,813,915	-	5,634,000	4,966,264
Total Liabilities and Stockholders' Equity (Deficit)	\$ 3,612	\$ -	\$ -	\$ 5,634,000	\$ 5,637,011

NOTE 4 - PROPERTY AND EQUIPMENT

On March 31, 2004, Flexpoint Sensor Systems, Inc. entered an asset purchase agreement with Flexpoint Holdings, LLC, a company controlled by a shareholder, to acquire equipment and proprietary technology with an aggregate fair value of \$4,302,643 in exchange for \$265,000, the assumption of a \$698,000 convertible note payable, and 1,600,000 shares of restricted common stock valued at \$1,931,309 or \$1.21 per share. Flexpoint Holdings, LLC is a holding company with the primary purpose to acquire and hold assets which one of the Company's creditors caused to be seized during 2001 and sold at public auction during 2002.

The acquisition of the assets of Flexpoint Holdings, LLC was not the purchase of a business as Flexpoint Holdings, LLC had no operations. Accordingly, pro forma financial information is not provided. The purchase price and the fair values of the proprietary technology and equipment were established by independent appraisals. The Company allocated the purchase price to the property and equipment acquired and to the proprietary technology based on the appraised fair values. The \$1,408,334 excess of the appraised fair values of the acquired assets over the fair value of the consideration paid was allocated pro rata to reduce the values assigned to assets acquired. At March 31, 2004, the allocated value of the assets acquired was as follows:

Property and equipment	\$	1,248,732
Proprietary technology		1,645,577
Net assets acquired	\$	2,894,309

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
 (A Development Stage Company)
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The equipment consists of manufacturing equipment to produce the Company's product, and the technology rights consist of software algorithms that interpret data provided by the Company's flexible sensor technology. The technology has an estimated weighted-average useful life of 13.2 years.

NOTE 5 - NOTE PAYABLE - RELATED PARTY

The Company carries a \$16,000 unsecured note payable to a shareholder with interest stated at 10% with repayment terms requiring payment of the principal and interest by December 31, 2004.

NOTE 6 - INCOME TAXES

There was no provision for, or benefit from, income tax during the period. The components of the net deferred tax asset as of March 31, 2004 are as follows:

Operating loss carry forwards	\$	9,327,783
Deferred license and royalty income		125,888

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Patents and proprietary technology		103,540
Goodwill		1,997,942
Total Deferred Tax Assets		11,555,153
Valuation allowance		(11,555,153)
Net Deferred Tax Asset	\$	-

As a result of the confirmation of the bankruptcy plan, \$7,813,915 in debt was discharged. For tax reporting purposes, net operating loss carry forwards were \$25,007,462 at March 31, 2004. Although net operating losses begin to expire in the year 2012 those carry forwards will be limited or unavailable, under the tax laws, due to a change of greater than 50% in ownership of the Company upon emergence from bankruptcy.

The following is a reconciliation of the amount of benefit that would result from applying the federal statutory rate to pretax loss with the provision for income taxes for the period from February 24, 2004 through March 31, 2004:

Tax at statutory rate (34%)		\$ (698,594)
Change in valuation allowance		766,399
State tax benefit, net of federal tax effect		(67,805)
Provision for Income Taxes	\$	-

NOTE 7 - STOCK OPTION PLAN

On April 1, 1995, the Board of Directors and shareholders adopted an Omnibus Stock Option Plan (the "Plan"). Under the terms of the Plan, as amended in October 1997, Flexpoint may grant options to employees, directors and consultants to purchase up to 719,643 shares of common stock. Incentive or non-qualified options may be granted under the Plan. Options granted under the Plan are exercisable over periods determined by the Board of Directors, not to exceed 10 years from the date of grant. Options generally vest from immediately to five years. Generally, the only condition for exercise of options granted under the Plan is that the employees remain employed through the date the options are exercised or vested. As of the date of the confirmation of the plan of reorganization, all previously outstanding stock options were cancelled. No stock options have been issued since the Company emerged from bankruptcy.

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Development Stage Company)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - CONSULTING AGREEMENT

On March 3, 2004, the Company entered into a twelve-month consulting agreement with Summit Resource Group ("Summit") whereby Summit agreed to provide consulting services for the Company related to investor relations, including dealing with direct investor relations, broker/dealer relations and the investing public. A 45-day written notice from either party is required to

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terminate the agreement. In consideration for the consulting services, the Company issued Summit 100,000 common shares and warrants to purchase an additional 650,000 common shares. The warrants are exercisable for five years from the date awarded at the following exercise prices: warrants to purchase 300,000 shares are exercisable at \$0.70 per share and warrants to purchase 350,000 shares are exercisable at \$0.80 per share. The Company granted Summit certain registration rights with respect to the 650,000 common shares underlying the warrants including an obligation for all related registration costs.

The Company valued the issuance of 100,000 common shares to Summit at \$114,680, or \$1.15 per share, based on the quoted market value of the stock on the date of the agreement. The Company valued the warrants at \$731,328, estimated on the grant date using the Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate of 3.06%; expected dividend yield of 0.0%; expected life of 5 years and estimated volatility of 200%. The value of the warrants is being recognized as consulting expense during the period from March 2004 through September 2004, the period over which the warrants vest and resulted in recognizing \$309,587 of consulting expense during the period ended March 31, 2004.

NOTE 9 - LEASE COMMITMENT

Effective March 31, 2004, the Company agreed to sub-lease offices and a manufacturing facility in which the Company's acquired equipment is located. The sublease expires in October 2004 with monthly lease payments of \$6,500. Total future minimum lease payments as of March 31, 2004 are \$45,500.

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In this report references to "Flexpoint Sensor," "we," "us," and "our" refer to Flexpoint Sensor Systems, Inc. and its subsidiaries.

FORWARD LOOKING STATEMENTS

This report contains certain forward-looking statements and for this purpose any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as "may," "expect," "believe," "anticipate," "estimate" or "continue" or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially depending on a variety of factors, many of which are not within Flexpoint Sensor's control. These factors include, but are not limited to, economic conditions generally and in the industries which we may participate; competition in the sensor technology market, technological innovations by our competitors within our market and failure by Flexpoint Sensor to successfully develop business relationships.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

Executive Overview

Our Chapter 11 bankruptcy reorganization plan was confirmed by the bankruptcy court on February 24, 2004 and effected on March 5, 2004. As a result, Flexpoint Sensor is considered a new entity for financial reporting purposes. We are a development stage company focused on obtaining necessary capital to complete our production facility and re-starting operations following our reorganization. The settlement of the creditor claims in the bankruptcy

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reorganization enabled Flexpoint Sensor to emerge from Chapter 11 bankruptcy with our technology intact and with financial backing to operate our business in the short term.

We are engaged principally in designing, engineering and manufacturing sensor technology and equipment using flexible potentiometer technology, which we refer to as Bend Sensor technology. While we have recorded revenues of \$15,750 for the period from February 24, 2004 through March 31, 2004, we currently do not have sufficient cash flow to finance our operations on an on-going basis. We have relied upon confirmation of our bankruptcy reorganization plan and proceeds from a convertible line of credit for our short-term cash needs.

We acquired the assets of Flexpoint Holdings, LLC on March 31, 2004, which allowed us to establish a production line in our new manufacturing facility. (See Part II, Item 5, below) We have rehired previous senior managers who have many years of experience with our products and industry. In March 2004 we resumed our agreement with Ricochet Development and started fulfilling orders for the Bend Sensor technology. We intend to commercialize and market patented automotive applications of Bend Sensor technology in the coming year.

Our primary challenge is to manage the timing of distribution and promotion of our products. Our plan is to rehabilitate our operations to the point that mass production and incorporation of our products into new model automobiles will begin within two years. However, this will be subject to our ability to market our products to customers who can exploit the potential of the patents we own. We intend to primarily market our products to original equipment manufacturers to create demand. We also intend to resume old relationships or establish new ones.

Bankruptcy Reorganization Plan

The essence of our bankruptcy reorganization plan was to restructure our equity stockholders by completing a 7-to-1 reverse stock split that was effective March 5, 2004. All share and per share amounts presented in this quarterly report reflect the reverse split. The reorganization plan resulted in discharged debt of \$7,813,915, which included the issuance of 13,822,331 shares of stock for creditor claims and conversion of \$1,400,000 of notes payable to Broad Investment Partners. The reorganization plan provided for the cancellation of 714,286 shares of common stock issued to an officer during 2001.

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The following creditors' claims were satisfied by equity transactions in the reorganization:

- . Convertible debentures of \$3,681,280 were forgiven in exchange for our agreement not to contest the issuance of 7,142,087 shares issued to Aspen Capital Resources, LLC, upon its exercise of warrants related to the convertible debenture agreement.
- . \$194,620 of claims of former employees, which included accounts payable, accrued wages and a \$20,000 convertible promissory note, were converted for 377,682 shares.
- . 2,387,382 shares were exchanged for \$1,230,218 of notes payable to a shareholder.
- . A lease obligation of \$574,255 was exchanged for 1,114,410 shares.

Options, warrants or executory contracts for acquisition of any common shares

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entered into prior to our petition for bankruptcy protection were cancelled upon confirmation of the reorganization plan. Preferred stock and super-voting preferred stock were also cancelled upon confirmation.

In the bankruptcy proceeding we objected to the \$1,700,000 claim made by Delco Electronics, Inc., related to the Delphi Automotive Systems ("Delphi") supply and purchase agreement. Flexpoint, Inc, our subsidiary, partnered with Delphi Automotive Systems, a then subsidiary of General Motors ("GM"), to mass produce a seat sensor system for a smart air bag system for GM automobiles. Delphi advanced approximately \$300,000 per month to our subsidiary, Flexpoint, Inc., to supply our sensor products to GM. In July 1999 Delphi withdrew its financial support of Flexpoint, Inc.'s operations, which was a primary factor that lead to Flexpoint Sensor's bankruptcy. We believe that Delphi is precluded by the terms of the agreement from any financial recovery due to its breach of the agreement. Any litigation related to this claim will be conducted under the supervision of the bankruptcy court. The bankruptcy court will retain jurisdiction over our bankruptcy case until the litigation with Delphi is complete and at that time we anticipate that the bankruptcy court will enter a final discharge closing the Flexpoint Sensor bankruptcy case.

Liquidity and Capital Resources

For the next twelve months, management anticipates that we will rely on revenues and private placements of our common stock to fund our on-going operations. In addition, as we enter into new technology agreements, we must ensure that those agreements provide adequate funding for any pre-production research and development and manufacturing costs. If we are successful in establishing agreements with adequate initial funding, management believes that our operations for the long term will be funded by revenues, licensing fees and royalties related to these agreements. However, we have formalized only a few additional agreements since confirmation of our bankruptcy reorganization plan and there can be no assurance that agreements will come to fruition in the future or that a desired technological application can be brought to market.

Operations. Net cash used in operating activities for the period from February 24, 2004 through March 31, 2004 was \$144,726. Net cash used in investing activities was \$266,521 with \$265,000 of that amount related to the payment for acquisition of equipment from Flexpoint Holdings LLC. We are fulfilling orders for Bend Sensor technology and anticipate that on-going negotiations with third parties may result in several technology agreements. It is critical to our continued operations that we are successful in closing these agreements.

Financing. Net cash provided by financing activities was proceeds of \$483,334 primarily from the \$1.5 million convertible line of credit. During March 2004, we drew approximately \$1,343,000, net of origination fees of approximately \$57,000, from this line of credit. Of the amount drawn from the line of credit, we used \$698,000 to acquire the assets of Flexpoint Holdings, LLC, and \$102,000 was used to repay a short-term advance from Flexpoint Holdings, LLC. We borrowed approximately \$483,000 for operations and \$60,000 was borrowed to settle certain secured and priority claims of the reorganization plan. We had approximately \$100,000 remaining available on this line of credit.

The \$1,400,000 amount drawn from the line of credit was converted into common stock at \$0.50 per share and resulted in the issuance of 2,800,000 shares to Broad Investment Partners and its assignees in March 2004 as provided by the reorganization plan. We initially placed 3,000,000 free trading shares in an escrow account as part

of our reorganization plan for conversion of the credit line and 200,000 shares remained available for future conversion of debt related to this line of credit. The terms of the line of credit provide that interest accrues on the outstanding balance at 10% per annum, and all amounts become due within three years of the date of the agreement.

Commitments and Contingencies

Our principal commitments consist of our total current liabilities, discussed in more detail below in "Results of Operations," and an operating lease. We are obligated to make monthly payments of \$6,500 per month for the sublease of office and manufacturing space in which our equipment is located. (See Part II, Item 5, below for more details about the sublease.) The total future minimum payments under this sublease as of March 31, 2004 were \$45,000.

We have extinguished our contingent liability related to the Delphi creditor's claim. We characterized the funds advanced to Flexpoint, Inc. by Delphi as a contingent liability and accrued \$1.7 million as of December 31, 2003. However, as of March 31, 2004 management concluded that the likelihood that this contingency will require us to transfer assets was remote and we extinguished the contingent liability and included it in gain on forgiveness of debt in the pre-confirmation consolidated statements of operations.

Off-balance Sheet Arrangements

None.

Results of Operations

The following discussions are based on the consolidated operations of Flexpoint Sensor and its 90% owned subsidiaries, Sensitron, Inc. and Flexpoint, Inc. The information should be read in conjunction with our unaudited consolidated financial statements included in this report at Part I, Item 1, above. The charts below present a summary of our unaudited consolidated statement of operations for the period from February 24, 2004 through March 31, 2004 and further details are presented in our unaudited consolidated financial statements and the accompanying notes.

Summary Operating Results for the Interim Period from February 24, 2004 through March 31, 2004

Sales	\$	15,750
General and administrative expenses		(513,397)
Interest expense		(1,557,041)
Net loss		(2,054,688)
Net loss per share	\$	(0.13)

Sales for the period from February 24, 2004 through March 31, 2004 were primarily from licensing fees and royalties and engineering services. General and administrative expenses consisted of professional fees and consulting expense. The consulting expense represented \$424,267 of the general and administrative expense and was related to the issuance of 100,000 shares of

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common stock and partial vesting of warrants to purchase 650,000 shares to Summit Resource Group in consideration for consulting services. (See Part II, Item 2 and 5, below.)

Interest expense was primarily related to our convertible line of credit. Although we received proceeds under the convertible note of \$1,343,334 through March 31, 2004, principal due under the note was \$1,400,000, which resulted in a discount to the note of \$56,666. As provided for in the plan of reorganization, the \$1,500,000 total

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principal amount available under the note was convertible into 3,000,000 shares of common stock at \$0.50 per share. The fair value of the common stock at the date of reorganization was \$1.00 per share, based on its average market value for the three-day period before and after February 24, 2004, and resulted in the lender receiving a \$1,500,000 beneficial debt conversion option under the conversion terms of the promissory note. The original discount on the note and the discount from the beneficial conversion option were amortized and recognized as interest expense through March 31, 2004 when \$1,400,000 of the note was converted into 2,800,000 shares of common stock.

Summary Balance Sheet Information as of March 31, 2004

Cash	\$	74,138
Total assets		8,605,529
Total current liabilities		438,377
Accumulated deficit		(2,054,688)
Total stockholders equity	\$	8,167,152

Our total assets at March 31, 2004 included property and equipment valued at \$1,248,732, patents and proprietary technology of \$1,926,245 and goodwill of \$5,356,414. Total current liabilities included accounts payable, accrued liabilities, deferred revenue and notes payable to a related party. Deferred revenue related to Sensitron's prepaid royalties and software license rights sold to customers and amortized over the 6-year term of the agreements was \$337,500, or 77.0%, of total liabilities as of March 31, 2004.

Factors Affecting Future Performance

We have recorded a net loss since inception and may be unable to attain or maintain profitability.

We are unable to fund our day-to-day operations with our revenues and must obtain additional financing. In the past we have not been successful at marketing our sensor products on the scale contemplated in the bankruptcy reorganization plan and we may be unable to attain those levels. In addition, we may not realize revenues from our subsidiaries or may be unable to increase revenues to the point that we attain and are able to maintain profitability.

Research and development may result in problems which may become

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insurmountable to full implementation of production.

Customers may request that we create prototypes and perform pre-production research and development. As a result, we are exposed to the risk that we may find problems in our designs that are insurmountable to fulfill production. However, we are currently unaware of any insurmountable problems with ongoing research and development that may prevent further development of an application.

PART II - OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND ISSUER'S PURCHASES OF EQUITIES

Sales of Unregistered Securities

On March 3, 2004 we issued 100,000 restricted common shares and warrants to purchase 650,000 common shares to Summit Resource Group in consideration for investor relations consulting services. The shares were valued at \$114,680, or \$1.15 per share, and the warrants were valued at \$731,328 based on the Black-Scholes option pricing model, or a fair value of \$1.13 per share. Warrants to purchase 150,000 shares at \$0.70 vested at the execution of

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the agreement, warrants to purchase 150,000 shares at \$0.70 per share vest on May 1, 2004, and warrants to purchase 350,000 shares at \$0.80 per share vest on September 1, 2004. The warrants have a five year term from the date they are awarded. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) of the Securities Act.

On March 5, 2004, pursuant to the bankruptcy reorganization plan, our board authorized the issuance of an aggregate of 6,679,474 shares of common stock to our creditors in satisfaction of debt valued at \$2.0 million and for conversion of a \$1.4 million line of credit. We relied upon an exemption from registration provided by Section 1145 of the Bankruptcy Code.

On March 31, 2004 we issued 1,600,000 shares valued at approximately \$1,931,309, or \$1.21 per share, as partial payment to purchase the assets of Flexpoint Holdings, LLC. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) of the Securities Act.

ITEM 5. OTHER INFORMATION

New Manufacturing Facility

As part of the asset purchase agreement with Flexpoint Holdings, LLC, we are using that company's office and manufacturing facility as our principal offices. Flexpoint Holdings, LLC, subleased approximately 11,500 square feet of office and manufacturing space. This facility has executive offices and space for research and development, manufacturing and fulfillment. The building is located in a business park in Draper, Utah consisting primarily of high tech manufacturing firms and it is located adjacent to Utah's main interstate.

Flexpoint Holdings, LLC, entered into a sublease with Ortho Development Corporation for the office and manufacturing space on September 1, 2003. The sublease has a term of one year, expiring September 30, 2004, and requires a

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monthly payment of \$6,500. We installed one full production line with the capacity to produce over 50 million Bend Sensors units per year in this facility and this property provides enough space to assemble a second production line, if needed.

Asset Acquisition

We are providing the required disclosures related to our acquisition of the assets of Flexpoint Holdings, LLC, in this report in lieu of filing a separate Current Report on Form 8-K.

On March 31, 2004 Flexpoint Sensor entered into an asset purchase agreement with Flexpoint Holdings, LLC, a company controlled by a shareholder of Flexpoint Sensor. The agreement provided that Flexpoint Sensor acquire substantially all of Flexpoint Holding's equipment and proprietary technology. Flexpoint Holdings, LLC was a Utah limited liability company formed to acquire and hold the assets which one of Flexpoint Sensor's creditor's caused to be seized during 2001 and sold at public auction during 2002. Flexpoint Holdings LLC was not a business and had no operations. Accordingly, pro forma financial information was not provided.

The acquisition has been accounted for using the purchase method of accounting. We agreed to pay \$265,000 in cash, we assumed a \$698,000 convertible note payable and issued 1,600,000 common shares valued at \$1,931,309 for assets with an aggregate value of \$4,302,643. We acquired \$1,248,732 in property and equipment and \$1,645,577 in proprietary technology. The equipment consisted of manufacturing equipment to produce our Bend Sensor products and the technology consisted of the software algorithms that interpret data provided by the sensor technology. The excess of \$1,408,334 of the appraised value was allocated pro rata to reduce the values assigned to the assets acquired.

Consulting Agreement

On March 3, 2004, Flexpoint Sensor entered into a consulting agreement with Summit Resource Group. Summit

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Resource Group agreed to provide consulting services related to investor relations, including dealing with direct investor relations and broker/dealer relations and the investing public. The term of the agreement is for a twelve month period and the agreement may be terminated after the first 90 days by a 45-day written notice from either party. We agreed to pay Summit Resource Group 100,000 restricted common shares, valued at \$114,680, and warrants to purchase 650,000 common shares, valued at \$731,328. Warrants to purchase 150,000 shares at \$0.70 vested at the execution of the agreement, warrants to purchase 150,000 shares at \$0.70 per share vest on May 1, 2004, and warrants to purchase 350,000 shares at \$0.80 per share vest on September 1, 2004. The warrants expire five years after the vesting date and have demand registrations rights. If the agreement is terminated by either party, then the warrants to purchase 350,000 shares at \$0.80 per share will vest pro rata through the date of termination, as a percentage of the days outstanding from March 3, 2004 through September 1, 2004.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Part I Exhibits

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John A. Sindt
Secretary/Treasurer
Chairman of the Board
Principal Financial and Accounting Officer

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