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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 June 30, 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 August 4, 2004, Flexpoint Sensor Systems, Inc. had a total of 18,798,202
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.

We have restated our financial statements as of June 30, 2004 and for the period from February 24, 2004 through June 30, 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.
- . Amortization of patents and proprietary technology and depreciation of equipment has also changed in the restatement in order to reflect the reallocated values.

The financial information set forth below with respect to our consolidated financial position as of June 30, 2004 and the consolidated statements of operations, stockholders' equity and cash flows for the interim period from February 24, 2004 through June 30, 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.

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Company in the Development Stage)
UNAUDITED CONSOLIDATED BALANCE SHEET
JUNE 30, 2004

ASSETS

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Current Assets	
Cash	\$ 68,155
Accounts receivable	33,500
Prepaid expenses	3,292

Total Current Assets	104,947

Property and equipment, net of \$15,899 of accumulated depreciation	1,238,697
Patents and proprietary technology, net of \$32,348 accumulated amortization	1,908,069
Goodwill	5,356,414

Total Assets	\$ 8,608,127
=====	
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities	
Accounts payable	\$ 212,864
Accrued liabilities	74,233
Deferred revenue	331,250
Notes payable - related party	3,000

Total Current Liabilities	621,347

Stockholders' Equity	
Common stock - \$0.001 par value; 100,000,000 shares authorized; 18,798,718 shares issued and outstanding	18,798
Additional paid-in capital	9,993,455
Warrants outstanding	595,100
Deficit accumulated during the development stage	(2,620,573)

Total Stockholders' Equity	7,986,780

Total Liabilities and Stockholders' Equity	\$ 8,608,127
=====	

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

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Company in the Development Stage)
UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS

	For the Three	For the Period From
	Months Ended	February 24, 2004
	June 30,	(date of emergence)
	2004	from bankruptcy)
		through June 30, 2004

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Sales	\$	39,750	\$	55,500
Cost of Revenue		(47,405)		(47,405)

Gross profit		(7,655)		8,095
General and administrative expense		(556,853)		(1,070,250)
Interest expense		(1,377)		(1,558,418)

Net loss	\$	(565,885)	\$	(2,620,573)
=====				
Basic and Diluted Loss Per Share	\$	(0.03)	\$	(0.15)
=====				
Basic and Diluted Weighted-Average Shares Outstanding		18,691,026		18,026,460
=====				

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

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Company in the Development Stage)
UNAUDITED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE PERIOD FEBRUARY 24, 2004 (DATE OF EMERGENCE FROM
BANKRUPTCY) THROUGH JUNE 30, 2004

	Common Stock		Additional	Warrants	Deficit	Total
	Shares	Amount	Paid-in Capital	Outstanding	Accumulated During the Development Stage	Stockholders' Equity

Balance - February 24, 2004 (Date of Emergence from Bankruptcy-Note 3)	14,098,718	\$ 14,098	\$ 4,952,166	\$ -	\$ -	\$ 4,966,264
Beneficial debt conversion option	-	-	1,500,000	-	-	1,500,000
Issuance for consulting services, March 3, 2004, \$1.15 per share	100,000	100	114,580	-	-	114,680
Stock based compensation from 650,000 warrants issued on March 3, 2004 for consulting services	-	-	-	595,100	-	595,100
Issuance for acquisition of equipment and						

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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	-	-	1,9
Conversion of note payable, March 31, and May 19, 2004, \$050 per share	3,000,000	3,000	1,497,000	-	-	1,5
Net loss	-	-	-	-	(2,620,573)	(2,6

Balance - June 30, 2004	18,798,718 \$	18,798 \$	9,993,455 \$	595,100 \$	(2,620,573) \$	7,9
=====						

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

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Company in the Development Stage)
UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FEBRUARY 24, 2004 (DATE OF EMERGENCE FROM
BANKRUPTCY) THROUGH JUNE 30, 2004

Cash Flows from Operating Activities:	
Net loss	\$ (2,620,
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	15,
Amortization of intangible assets	32,
Issuance of stock and warrants for services	709,
Expenses paid by increase in convertible note payable	60,
Interest expense from beneficial conversion option of convertible note payable	1,500,
Interest expense from origination fees on convertible notes payable	56,
Changes in operating assets and liabilities:	
Accounts receivable	(33,
Prepaid expense	(3,
Accounts payable	4,
Accrued liabilities	72,
Deferred revenue	(12,

Net Cash Used by Operating Activities	(217,

Cash Flows from Investing Activities:	
Payments for patents	(15,
Purchase of equipment	(5,
Payment for acquisition of equipment and proprietary technology from Flexpoint Holdings, LLC	(265,

Net Cash Used in Investing Activities	(286,

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Cash Flows from Financing Activities:		
Principal payments on related party debt		(13,
Proceeds from borrowings under convertible note payable		583,

Net Cash Provided By Financing Activities		570,

Net Change in Cash		66,
Cash at Beginning of Period		2,

Cash at End of Period	\$	68,
=====		

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, issuance of a \$698,000 convertible note payable and a cash payment of \$265,000 to Flexpoint Holdings, LLC, a company controlled by a shareholder, in exchange for equipment and proprietary technology with a fair value of \$ 1,248,732 and \$ 1,645,577 respectively. The principal balance of a \$1,500,000 convertible note payable was converted into 3,000,000 shares of common stock.

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

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Company in the Development Stage)
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

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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 consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to fairly present the Company's consolidated financial position as of June 30, 2004, its consolidated results of operations and cash flows for the period from February 24, 2004 (date of inception of the development stage) through June 30, 2004. The results of operations for the period from February 24, 2004 through June 30, 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 \$2,620,573 and used cash from operations of \$217,673 for the period from February 24, 2004 (date of inception of development stage) through June 30, 2004. Through June 30, 2004, the Company has accumulated a deficit during the development stage of \$2,620,573. 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 Company in the Development Stage)
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.

Accounts Receivable - The Company regularly reviews its accounts receivable and makes provisions for potentially uncollectible balances. At June 30, 2004, management believed the Company had incurred no material impairments in the carrying values of its accounts receivable.

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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. Depreciation expense was \$982 for the period from February 24, 2004 (date of inception of development stage) through June 30, 2004.

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 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 June 30, 2004, Sensitron, the Company's subsidiary, had deferred revenue of \$331,250, 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 \$81,250 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.

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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.

At June 30, 2004, the Company has a stock-based employee compensation plan, which is described more fully in Note 7. As of June 30, 2004 no stock options 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 June 30, 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 June 30, 2004 and for the period from February 24, 2004 (date of emergence from bankruptcy) through June 30, 2004 as follows:

	As Previously Reported	Effect of Restatement	As Restated

For the Period from February 24, 2004 (Date of Emergence from Bankruptcy) through June 30, 2004			
Cost of Revenue	\$ 18,871	\$ 28,534	\$ 47,405
General and Administrative Expense	1,052,525	17,725	1,070,250
Interest Expense	101,258	1,457,160	1,558,418
Net Loss	(1,117,154)	(1,503,419)	(2,620,573)
Basic and Diluted Loss Per Share	\$ (0.06)	\$ (0.09)	\$ (0.15)

As of June 30, 2004			
Property and Equipment, net	\$ 1,702,882	\$ (464,185)	\$ 1,238,697
Patents and Proprietary Technology	5,668,252	(3,760,183)	1,908,069
Goodwill	-	5,356,414	5,356,414
Total Assets	8,558,077	50,050	8,608,127
Additional Paid-in Capital	8,439,986	1,553,469	9,993,455
Deficit Accumulated During the Development Stage	\$ (1,117,154)	\$ (1,503,419)	\$ (2,620,573)

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 in 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 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

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the estimated appraised values.

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

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

Amortization of patents and proprietary technology and depreciation of equipment has also changed in the restatement in order to reflect the reallocated values.

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 share 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

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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.

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

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

Convertible Note Payable - Under the plan of reorganization, Broad Investment Partners, LLC (the "lender") agreed to provide financing to Company under the terms of a \$1,500,000 convertible promissory note. Under the terms of the note, the lender advanced \$698,000 to Flexpoint Holdings, LLC, which debt was assumed by the Company as an increase to the promissory note upon the acquisition of assets from Flexpoint Holdings, LLC in March 2004, and the note was increased in March 2004 by \$102,000 that was used to repay a short-term advance from Flexpoint Holdings, LLC. The Company borrowed \$583,334 under the note and the note was increased by \$60,000 through direct payments by the lender to settle certain secured and priority claims determined in the reorganization plan and other operating expenses.

Although the Company received proceeds under the note of \$1,443,334 through March 31, 2004, principal due under the note was \$1,500,000, which resulted in a discount to the note of \$56,666. The terms of the convertible note payable provided that interest accrued on the \$1,500,000 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 principal balance 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 and May 19, 2004 when the note was converted into 2,800,000 shares and 200,000 shares of common stock, respectively.

NOTE 3 - FRESH START ACCOUNTING

In accordance with the fresh start requirements of SOP 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code, the Company

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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 value of \$5,634,000 based upon the negotiated price at which certain creditors were willing to convert their claims into common stock. 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 Company in the Development Stage)
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,
Patent, net	1,561	-	-	277,586	279,
Goodwill	-	-	-	5,356,414	5,356,
Total Assets	\$ 3,612	\$ -	\$ -	\$ 5,634,000	\$ 5,637,
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
Liabilities Not Subject to Compromise - Current					
Accounts payable	\$ 244,642	\$ (36,536)	\$ -	\$ -	\$ 208,
Accrued liabilities	1,492	-	-	-	1,
Deferred revenue	343,750	-	-	-	343,
Short-term advance payable	102,000	-	-	-	102,
Notes payable - related party	16,000	-	-	-	16,
Total Liabilities Not Subject to Compromise - Current	707,884	(36,536)	-	-	671,
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,
Additional paid-in capital	22,078,206	5,669,351	1,153,885	(23,949,276)	4,952,
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,

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Total Liabilities and						
Stockholders' Equity (Deficit) \$	3,612	\$	-	\$	-	\$ 5,634,000 \$ 5,637,

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 Company in the Development Stage)
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 had \$16,000 of unsecured notes payable to a shareholder with interest stated at 10% with repayment terms requiring payment of the principal and interest by December 31, 2004. The Company paid \$13,000 of payments on the notes during April and May 2004, leaving a remaining balance of \$3,000 as of June 30, 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 June 30, 2004 are as follows:

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Operating loss carry forwards	\$	9,541,189
Deferred license and royalty income		123,556
Patents and proprietary technology		103,540
Goodwill		1,997,942

Total Deferred Tax Assets		11,766,227
Valuation allowance		(11,766,227)

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 reduced to \$25,580,000 at June 30, 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 June 30, 2004:

Tax at statutory rate (34%)	\$	(890,995)
Change in valuation allowance		977,474
State tax benefit, net of federal tax effect		(86,479)

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 Company in the Development Stage)
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - CONSULTING AGREEMENT

On March 3, 2004, the Company entered into a twelve-month consulting agreement

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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 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 approximately \$1.15 per share, based on the estimated market value of the stock issued on the date of the agreement, with the related expense charged to operations. The Company valued the warrants granted to Summit at \$731,328, estimated on the date granted 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 expected 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 \$595,100 of consulting expense during the period from February 24, 2004 through June 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 \$5,500. Total future minimum lease payments as of June 30, 2004 are \$22,000.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission ("SEC") encourages companies to disclose forward-looking information so that investors can better understand future prospects and make informed investment decisions. This report contains these types of statements. Words such as "may," "will," "expect," "believe," "anticipate," "estimate," "project," or "continue" or comparable terminology used in connection with any discussion of future operating results or financial performance identify forward-looking statements. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this report. All forward-looking statements reflect our present expectation of future events and are subject to a number of important factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

Executive Overview

We are engaged principally in designing, engineering and manufacturing sensor

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technology and equipment using flexible potentiometer technology, which we refer to as Bend Sensor technology. On February 24, 2004 our Chapter 11 bankruptcy reorganization plan was confirmed by the bankruptcy court 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 re-start operations following our reorganization.

While we recorded sales of \$39,750 for the three month period ended June 30, 2004 (the "2004 second quarter"); we recorded a net loss of \$565,885 for the 2004 second quarter and a net loss of \$2,620,573 from inception on February 24, 2004 through June 30, 2004. Our auditors have expressed doubt that we can continue as a going concern because we do not have sufficient cash flow to finance our operations on an on-going basis. We will require additional financing to fund our short-term cash needs and we will likely rely on debt financing and private placements of our common stock for additional funding.

During the second quarter of 2004 we have focused our efforts on renewing contacts with old customers and developing new applications for our Bend Sensor technology. Management believes these projects will provide the quickest and best return on our investment with the least amount of risk involved. While these new development projects are related to industrial controls and medical applications, there has been a strong interest in our sensor technology from the auto industry. Management is excited that we are receiving contact from many companies that believe in our sensor technology as a viable product for their industry.

During the second quarter of 2004 we established an operating production line in our new manufacturing facility located in Draper, Utah. Management believes that even though we are making positive strides forward with our business plan, it is likely that significant progress may not occur for the next six months to one year. Accordingly, we cannot guarantee that we will realize significant progress or that the progress will result in profitability.

Our primary challenge is to manage the timing of distribution and promotion of our products. Our plan is to rehabilitate our operations within the next two years to the point that we can offer mass production and incorporation of our products into new applications. 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 will continue to reestablish old relationships and establish new ones.

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Liquidity and Capital Resources

For the next twelve months, management anticipates that we will rely on revenues, debt financing 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.

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Net cash used in operating activities for the period from February 24, 2004 through June 30, 2004 was \$217,673. Net cash used in investing activities for that interim period was \$286,557, with \$265,000 of that amount related to the payment for acquisition of equipment from Flexpoint Holdings LLC in March 2004. We are fulfilling orders for Bend Sensor technology and it is critical to our continued operations that we are successful in closing more orders.

Financing. We have relied on a \$1.5 million convertible line of credit which was part of our bankruptcy reorganization plan. Through March 2004, we drew approximately \$1,443,000 from the line of credit, which resulted in a discount of the note of \$56,666. 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 \$583,000 for operations and \$60,000 was borrowed to settle certain secured and priority claims of the reorganization plan.

We initially placed 3,000,000 free trading shares in an escrow account for conversion of the credit line as part of our reorganization plan. In March 2004 the \$1,400,000 amount drawn from the line of credit was converted into common stock at a rate of \$0.50 per share. This conversion resulted in the issuance of 2,800,000 shares of common stock to Broad Investment Partners and its assignees. During May 2004 we borrowed the remaining \$100,000 on the convertible line of credit and the balance was immediately converted into 200,000 shares of common stock at a rate of \$0.50 per share.

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. We also recognized interest expense through May 19, 2004 when \$100,000 of the note was converted into 200,000 shares of common stock.

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. Effective March 31, 2004 we were obligated to make monthly payments of \$5,500 per month for the sublease of office and manufacturing space in which our equipment is located. The total future minimum payments under this sublease as of June 30, 2004 were \$22,000.

Off-balance Sheet Arrangements - None.

Results of Operations

The following discussions are based on the consolidated operations of Flexpoint Sensor, 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

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summary of our unaudited consolidated statement of operations for the three month period ended June 30, 2004 and further details are presented in our unaudited consolidated financial statements and the accompanying notes.

Summary Operating Results for the Three Months Ended June 30, 2004

	Three months ended June 30, 2004 -----
Sales	\$ 39,750
Cost of Revenue	(47,405)
Gross profit (loss)	(7,655)
General and administrative expenses	(556,853)
Interest expense	(1,377)
Net loss	(565,885)
Net loss per share	\$ (0.03)

Revenue from the sale of a product is recorded at the time of shipment to the customer. 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 is deferred until all conditions under the contract are met and then the sale is recognized as licensing royalty revenue over the remaining term of the contract.

Sales for the 2004 second quarter were primarily from licensing fees and royalties and engineering services. General and administrative expenses consisted of professional fees and consulting expense. Consulting expense represented \$285,513 of the general and administrative expense and was related to the partial vesting of warrants to purchase 650,000 shares granted to Summit Resource Group in consideration for public and investor relations consulting services. Interest expense was primarily related to our \$1.5 million convertible line of credit.

Summary Balance Sheet Information as of June 30, 2004

Cash	\$ 68,155
Total assets	8,608,127
Total current liabilities	621,347
Accumulated deficit	(2,620,573)
Total stockholders equity	\$ 7,986,780

Our total assets at June 30, 2004 included total current assets of \$104,947, property and equipment valued at \$1,238,697, patents and proprietary technology of \$1,908,069, and goodwill of \$5,356,414.

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Total current liabilities included accounts payable, accrued liabilities, deferred revenue and notes payable to a related party. Accounts payable of \$212,864 and deferred revenue of \$331,250 represented the majority of total current liabilities. Deferred revenues consisted of \$250,000 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 \$81,250 of deferred sales related to software license rights sold to the customer that are being amortized over the six-year term of the contract.

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 insurmountable to fulfill 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 6. EXHIBITS AND REPORTS ON FORM 8-K

Part I Exhibits

- 31.1 Chief Executive Officer Certification
- 31.2 Principal Financial Officer Certification
- 32.1 Section 1350 Certification

Part II Exhibits

- 2.1 Order Confirming Plan, dated February 24, 2004 (Incorporated by reference to exhibit 2.1 for Form 8-K filed March 5, 2004)
- 2.2 Debtor's Plan of Reorganization, dated January 14, 2004 (Incorporated by reference to exhibit 2.2 for Form 8-K filed March 5, 2004)
- 2.3 Asset Purchase Agreement between Flexpoint Sensor and Flexpoint Holdings, LLC, dated March 31, 2004 (Incorporated by reference to exhibit 2.3 of Form 10-QSB, filed May 3, 2004)
- 3.1 Certificate of Incorporation of Nanotech Corporation (Incorporated by reference to exhibit 3.1 of Form 10-SB registration statement, filed June 17, 1994.)
- 3.2 Certificate of Amendment to Certificate of Incorporation of Nanotech Corporation (Incorporated by reference to exhibit 3.1 of Form 8-K, filed April 9, 1998)
- 3.3 Certificate of Amendment to Certificate of Incorporation of Micropoint

