FLEXPOINT SENSOR SYSTEMS INC
Form 10KSB/A
June 30, 2005

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

FORM 10-KSB/A
Amendment No. 1

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

For the fiscal year ended December 31, 2004

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND 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

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock

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

Check if disclosure of delinquent filers in response to item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

State issuer's revenue for its most recent fiscal year: $345,433

As of March 24, 2005, Flexpoint Sensor Systems, Inc. had 19,998,202 shares of common stock outstanding. The market value of the shares of voting common stock held by non-affiliates on that date was approximately $19,431,739.

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 [X] No [ ]

Documents incorporated by reference: None.

Transitional Small Business Disclosure Format: Yes [ ] No [X]

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PART II

PART III

EXPLANATORY NOTE

This annual report has been amended to include all required financial statements for each of the two fiscal years preceding the date of the presented audit balance sheet.

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

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 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

EXECUTIVE OVERVIEW

We have had minimal operations since September 2000 and were forced to seek bankruptcy protection in July 2001. On February 24, 2004, our Chapter 11 bankruptcy reorganization plan was confirmed by the bankruptcy court. As a result, Flexpoint Sensor is considered a new entity for financial reporting purposes with a date of emergence from bankruptcy of February 24, 2004. We are a development stage company focused on obtaining financing and seeking manufacturing contracts for the design and engineering of our Bend Sensor technology and equipment.

As a result of the confirmation of our reorganization plan, we used fresh-start reporting from the February 24, 2004 date of emergence from bankruptcy and have included the audited financial statements for the interim period from February 24, 2004 through December 31, 2004 (the "2004 interim period"). We have also include the audited financial statements for the periods prior to the confirmation of our bankruptcy reorganization plan, including the year ended December 31, 2003 (the "2003 year"), and a short period from January 1, 2004 through February 23, 2004 (the "2004 short period").

We recorded revenue of $345,433 for the 2004 interim period, but we recorded an accumulated deficit of $4,510,726 and used cash from operations of $535,404 for that period. We have met our short-term cash needs after confirmation of our bankruptcy reorganization plan with proceeds from related party notes and from a convertible note payable. Management anticipates that the private offering we initiated in January 2005 will fund operations for the next six to nine months. However, we will require additional financing and will likely rely on debt financing, loans from related parties, and private placements of our common stock for additional funding.

During the fourth quarter of 2004 we have concentrated our efforts on our customers and increased the number of personnel to keep pace with our increased operating commitments. In late 2004 we restructured our management team and brought in an experienced group of executive level management personnel to direct the growth of our business operations.

During the fourth quarter of 2004 negotiations for potential automotive applications using our BendSensor(TM) technology increased, but we have not entered into a major contract for the sale of our products. We are also developing new products that we may sell directly into the market through a sales network that we are currently establishing.

Finalizing a major contract with a customer remains our greatest challenge. We must continue to obtain funding to operate and expand our operations so that we can deliver our product to the market. 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 revenues or that we will become profitable within the next twelve months.

LIQUIDITY AND CAPITAL RESOURCES

Our revenues are not to a level to support our operations and for the 2004 interim period we recorded net cash used in operating activities of $535,404. Net cash used in operating activities for the 2003 year was $7,351.

For the next twelve months, management anticipates that we will rely on revenues, debt financing, notes from related parties, 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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FINANCING

After confirmation of our bankruptcy reorganization plan, we relied on a $1.5 million convertible line of credit from Broad Investment Partners (executed as part of our bankruptcy reorganization) to fund our operations. During March 2004, we drew $1,443,334 from this line of credit, which resulted in a discount to the note of $56,666. Of the amount drawn from the line of credit, we assumed debt of $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 $583,334 from the credit line for operations and $60,000 was borrowed from the credit line to settle certain secured and priority claims of the reorganization plan.

Pursuant to the terms of the convertible line of credit, we initially placed 3,000,000 free trading shares in an escrow account for conversion of the credit line. In March 2004 the $1,500,000 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 3,000,000 shares of common stock to Broad Investment Partners and its assignees. The conversion right was granted on the date we emerged from bankruptcy when our common stock was trading at an average $1.00 per share. We considered the difference between the conversion right and market value of our common stock to be a beneficial conversion option for which we amortized and recognized as interest expense through March 31, 2004.

In January of 2005 we initiated a private offering pursuant to Rule 506 of Regulation D. We offered up to 3,150,000 units at $1.50 per unit. The maximum offering price of the private offering was $4,725,000, if all the units were sold. We closed the private offering on March 31, 2005, and realized net proceeds of $3,907,208 and sold 2,836,335 units to purchasers and 140,000 units were issued to the placement agent.

ASSET PURCHASE

On March 31, 2004 Flexpoint Sensor entered into an asset purchase agreement with Flexpoint Holdings, LLC, a company owned in part and controlled by a less than 5% shareholder of Flexpoint Sensor. The agreement provided that Flexpoint Sensor acquire substantially all of Flexpoint Holding's equipment and 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. Flexpoint Holdings, LLC was a Utah limited liability company formed to acquire and hold the assets that one of Flexpoint Sensor's creditors caused to be seized during 2001 and sold at public auction during 2002.

To acquire the equipment and technology, we paid $265,000 in cash, we issued 1,600,000 shares of our restricted common stock valued at $1,931,309, or $1.21 per share, and we assumed a convertible note payable of $698,000. The equipment and technology had a appraised fair value of $4,302,643, with the fair value of the property and equipment at $1,248,732 and the proprietary technology at $1,645,577.

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. The operating lease has average monthly payments of $8,718, including common area maintenance and a 2% annual increase. The total future minimum payments under this lease are $497,710 as of December 31, 2004.

During the 2004 interim period we have relied on loans from related parties to fund our operations. At December 31, 2004, we had an unsecured note payable to First Equity Holdings Corp., a more than 10% shareholder of Flexpoint Sensor, for $198,000 at 12% interest, and we also had an unsecured note payable to Persimmon LLC for $212,958. We owed Persimmon LLC $16,000 upon emergence from bankruptcy. Then we borrowed an additional $247,100 from Persimmon and repaid $50,342. The initial terms of these notes payable required payment of the principal and interest by December 31, 2004; however, the terms were amended to extend the due dates to March 31, 2005. As of March 25, 2005, we had repaid the $198,000 note to First Equity Holdings Corp., plus interest, and paid $186,768 of the note payable, plus interest, to Persimmon LLC.

OFF-BALANCE SHEET ARRANGEMENTS

None.

CRITICAL ACCOUNTING ESTIMATES

In connection with the approval of our bankruptcy reorganization plan, we estimated the fair value of the patents listed on our books as of February 24, 2004. This valuation was an estimate and subject to completion of an independent appraisal of our intangible assets consisting of patents and goodwill. During the 2004 fourth quarter the independent appraisal was completed. The independent appraisal established the fair value of intangible assets at $5,634,000 and the total fair value was allocated between the value of the patents and goodwill per the independent appraisal. Patents were allocated $277,586 and goodwill was allocated $5,356,414.

RESULTS OF OPERATIONS

The following discussions are based on the consolidated operations of Flexpoint Sensor and its subsidiaries and should be read in conjunction with our audited financial statements for the interim period from emergence from bankruptcy on February 24, 2004 through December 31, 2004, the 2004 short period from January 1, 2004 through February 23, 2004, and the year ended December 31, 2003. These financial statements are included in this report at Part II, Item 7, below.

SUMMARY OPERATING RESULTS

	Period from Feb. 24, 2004 through Dec. 31, 2004	Period from Jan. 1, 2004 through Feb. 23, 2004	Year ended Dec. 31, 2003
Revenue	$ 345,433	$ -	$ 30,220
Cost of revenue	(86,605)	-	1,883

Amortization of proprietary technology	(96,082)	-	-
Gross profit	162,746	-	28,337
Total operating expense	3,179,917	18,161	112,860
Total other income (expense)	(1,568,823)	-	(29,730)
Total reorganization items	75,268	571,951	(34,503)
Net income (loss)	(4,510,726)	553,790	(148,756)
Net income (loss) per share	$ (0.24)	$ 0.01	$ -

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.

For the 2004 interim period and the 2003 year our revenue was primarily from licensing fees and royalties, and engineering services. Licensing revenue of $225,000 recorded in the fourth quarter of 2004 resulted from the early cancellation of a licensing agreement, which accelerated recognition of the revenues previously deferred to be

recognized evenly over the six-year term of the license agreement. In October 2004 we cancelled the licensing agreement with a customer and paid the customer $100,000 of the prepayment we had previously received from the customer. The balance of $225,000 of deferred revenues that was being amortized over the six-year term were included as revenue in the 2004 fourth quarter.

For all periods operating expense primarily consisted of compensation and consulting expense. For the 2004 interim period compensation expense of $1,776,000 was related to settlement of claims by the issuance of 1,200,000 shares of restricted common stock to an officer and director of the company. Consulting expense represented $846,008 of the general and administrative expense for the 2004 interim period. This expense was related to the issuance of common shares and the vesting of warrants to purchase 650,000 shares granted to Summit Resource Group in March 2004 in consideration for public and investor relations consulting services.

Total other expense for the 2004 interim period was primarily related to the interest on loans and a $1,500,000 beneficial conversion of convertible debt into shares of common stock. The total other expense for the 2003 year was also related to interest on loans.

For the 2004 short period the total reorganization items related to forgiveness of debt related to accounts payable by our subsidiary, Flexpoint, Inc. Flexpoint, Inc. was excluded from the bankruptcy proceedings and its debts were not subject to compromise in the bankruptcy proceedings. The contractual interest on Flexpoint Inc.'s obligation was aged past the statute of limitations and the vendors had not made efforts to obtain payment. Accordingly, in 2004 debt of $75,049 was considered to be forgiven.

For the 2003 year, total reorganization expense was primarily related to professional fees related to our bankruptcy proceedings.

As a result of the above, we recorded a net loss for the 2004 interim period, while we recorded a net gain for the 2004 short period due to forgiveness of debt.

Balance Sheet

The charts below present a summary of our balance sheet at December 31, 2004. Further details are presented in our audited financial statements included in this report at Part II, Item 7, below.

SUMMARY BALANCE SHEET INFORMATION

	Period from Feb. 24, 2004 through Dec. 31, 2004
Cash	$ 54,358
Total assets	8,556,661
Total current liabilities	547,806
Deficit accumulated during the development stage	(4,510,726)
Total stockholders equity	$ 8,008,855

Cash decreased from $185,696 at September 30, 2004 to $54,358 at December 31, 2004. Our total assets at December 31, 2004 included total current assets of $55,107, property and equipment valued at $1,311,139, patents and proprietary technology of $1,827,501, goodwill of $5,356,414 and other assets of $6,500.

Total current liabilities at December 31, 2004 included accounts payable of $116,378, accrued liabilities of $20,470, and notes payable to related parties of $410,958.

Factors Affecting Future Performance

You should consider carefully the following risk factors and other information in this annual report before investing in our common stock.

We have a history of losses and may never become profitable.

We are unable to fund our day-to-day operations from revenues. We anticipate proceeds from our recent private placement to fund the development of a QS-9000 manufacturing facility. However, we anticipate that sales will not increase until late 2005 or early 2006. In addition, if we decide to expand our business activities outside the automotive market in 2005, we anticipate needing more than approximately $1,000,000 in additional funding. The lack of revenues or funding for our continued growth may cause us to delay our business plans.

If our sales do not develop as projected it will be difficult to reduce expenditures in the short term.

A significant portion of our expenses will be fixed in advance based in large part on future manufacturing and sales forecasts. If our actual sales are below expectations, any shortfall may be magnified by our inability to adjust spending to compensate for the shortfall. Therefore, a shortfall in manufacturing and sales revenues in actual as compared to estimated volumes would have an immediate adverse effect on our business, financial condition and operating results. In addition, we plan to increase operating expenses to fund additional sales and marketing, general and administrative activities and infrastructure. To the extent that these expenses are not accompanied by an increase in revenues, it may result in the discontinuance of our business due to lack of funding.

We may not have adequate experience to successfully manage anticipated growth.

We may not be equipped to successfully manage any future periods of rapid growth or expansion, which could be expected to place a significant strain on our managerial, operating, financial and other resources. Our future performance will depend, in part, on our ability to manage growth effectively, which will require us to (i) improve existing and implement new financial controls and systems, management information systems, operating, administrative, financial and accounting systems and controls, (ii) maintain close coordination among engineering, programming, accounting, finance, marketing, sales and operations, and (iii) attract and retain additional qualified technical and marketing personnel. There is intense competition for management, technical and marketing personnel in our business. The loss of the services of any of our key employees or our failure to attract and retain additional key employees could have a material adverse effect on our ability to continue as a going concern.

We may not have adequate manufacturing capacity to meet anticipated manufacturing.

We have completed installation of our first production line. Based on projected orders under the current and anticipated agreements, we will need to complete a second production line and have it installed and approved in 2006. The second manufacturing line is expected to result in increased manufacturing capacity and manufacturing efficiencies. We are currently on schedule to complete the line by the estimated date. There can be no assurance that we will successfully complete the second production line, that the production lines will produce product in the volumes required or that the production lines will satisfy the requirements of our customers.

Because we are significantly smaller than the majority of our competitors, we may lack the financial resources needed to capture increased market share.

The market for sensor devices is extremely competitive, and we expect that competition will intensify in the future. Our primary competitors in the air bag market are International Electronics and Engineering, Siemens, Robert Bosch Corporation, Denso, Breed Technologies, TRW, Delphi, Autoliv, Takata and Temic. We believe that none of our competitors have a product that is superior to our Bend Sensor technology at this time. However, many of our competitors and potential competitors have substantially greater financial, technical and marketing resources, larger customer bases, longer operating histories, greater name recognition and more established relationships than we do. These competitors may be able to undertake more extensive marketing campaigns, adopt more aggressive pricing policies and devote substantially more resources to developing new products and markets than we can. There can be no assurance that we will be able to compete successfully against current or future competitors or that competitive pressures we face will not materially adversely effect our business, operating results or financial condition.

Our success is dependent on our intellectual property rights which are difficult to protect.

Our future success depends on our ability to protect our intellectual property. We use a combination of patents and other intellectual property arrangements to protect our intellectual property. There is no assurance that the protection provided by our patents will be broad enough to prevent competitors from introducing similar products or that our patents, if challenged, will be upheld by courts of any jurisdiction. Patent infringement litigation, either to enforce our patents or defend ourselves from infringement suits, would be expensive and, if it occurs, could divert our resources from other planned uses. Patent applications filed in foreign countries and patents in these countries are subject to laws and procedures that differ from those in the U.S. and may not be as favorable to us. We also attempt to protect our confidential information through the use of confidentiality agreements and by limiting access to our facilities. There can be no assurance that our program of patents, confidentiality agreements and restricted access to our facilities will be sufficient to protect our confidential information from competitors.

Our products must satisfy governmental regulations in order to be marketable

During the past several years, the automotive industry has been subject to increased government safety regulation. Among other things, proposed regulations from the National Highway Transportation and Safety Administration would require automakers to incorporate advanced airbag technology into vehicles beginning in 2005 with the phase in to be completed by 2008. These proposals call for upgraded airbag system performance tests for passenger cars and light trucks. The new testing requirements are intended to improve the safety of infants, children and out-of-position adults, and maximize the protection of properly seated adults. The National Highway Transportation and Safety Administration tests are similar to conditions that we have already been using to test our Sensor Mat System and we believe that our Sensor Mat System will meet the standards as proposed. There can be no assurance, however, that our Sensor Mat System will meet the proposed National Highway Transportation and Safety Administration standards or the standards will not be modified. In addition, automakers may react to these proposals and the uncertainty surrounding these proposals by curtailing or deferring investments in new technology, including our Bend Sensor, until final regulatory action is taken. We cannot predict what impact, if any, these proposals or reforms might have on our financial condition and results of operations.

Research and development may result in problems which may become insurmountable to full implementation of production.

Customers 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.

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ITEM 7. FINANCIAL STATEMENTS

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors
Flexpoint Sensor Systems, Inc.

We have audited the accompanying consolidated balance sheet of Flexpoint Sensor Systems, Inc. and subsidiaries (a development stage company) (the

Company) as of December 31, 2004 and the related consolidated statement of operations, stockholders' equity, and cash flows for the period from February 24, 2004 (date of emergence from bankruptcy) through December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Flexpoint Sensor Systems, Inc. and subsidiaries as of December 31, 2004 and the results of their operations and their cash flows for the period from February 24, 2004 (date of emergence from bankruptcy) through December 31, 2004, in conformity with U.S. generally accepted accounting principles.

/s/ Hansen, Barnett & Maxwell

HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
January 11, 2005

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2004

ASSETS	
Current Assets	
Cash	$ 54,358
Accounts receivable	749
Total Current Assets	55,107
Property and equipment, net of accumulated depreciation of $47,695	1,311,139
Patents and proprietary technology, net of accumulated amortization of $112,702	1,827,501
Goodwill	5,356,414
Other assets	6,500
Total Assets	$ 8,556,661

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities	
Accounts payable	$ 116,378
Accrued liabilities	20,470
Notes payable - related party	410,958
Total Current Liabilities	547,806
Stockholders' Equity	
Preferred stock - $0.001 par value; 1,000,000 shares authorized; no shares issued or outstanding	-
Common stock - $0.001 par value; 100,000,000 shares authorized; 19,998,202 shares issued and outstanding	19,998
Additional paid-in capital	11,768,255
Warrants outstanding	731,328
Deficit accumulated during the development stage	(4,510,726)
Total Stockholders' Equity	8,008,855
Total Liabilities and Stockholders' Equity	$ 8,556,661

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

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

Revenue	$ 345,433
Cost of revenue	(86,605)
Amortization of proprietary technology	(96,082)
Gross Profit	162,746
General and administrative expense (including $2,622,008 of noncash compensation expense)	(3,179,917)
Interest expense	(1,568,823)
Forgiveness of debt	75,268
Net Loss	$ (4,510,726)
Basic and Diluted Loss Per Share	$ (0.24)

Basic and Diluted Weighted-Average Common Shares Outstanding	18,503,026

The accompanying notes are an integral these consolidated financial statements.

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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 DECEMBER 31, 2004

	Common Stock		Additional Paid-in	Warrants	Deficit Accumulated During the Development	Tota Stockho
	Shares	Amount	Capital	Outstanding	Stage	Equi
Balance - February 24, 2004 (Date of Emergence from bankruptcy-Note 3)	14,098,202	$ 14,098	$ 4,952,166	$ -	$ -	$ 4,966
Beneficial debt conversion option	-	-	1,500,000	-	-	1,500
Conversion of note payable, March 31 and May 19, 2004, $0.50 per share	3,000,000	3,000	1,497,000	-	-	1,500
Issuance for consulting services, March 3, 2004, $1.15 per share	100,000	100	114,580	-	-	114
Share-based compensation from 650,000 warrants issued on March 3, 2004 for consulting services	-	-	-	731,328	-	731
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	-	-	1,931
Issuance for compensation, November 24, 2004,						

$1.48 per share	1,200,000	1,200	1,774,800	-	-	1,776
Net loss	-	-	-	-	(4,510,726)	(4,510
Balance - December 31, 2004	19,998,202	$ 19,998	$11,768,255	$ 731,328	$ (4,510,726)	$ 8,008

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

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 DECEMBER 31, 2004

Cash Flows from Operating Activities:	
Net loss	$ (4,510,726)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	47,695
Amortization of intangible assets	112,702
Issuance of stock and warrants for services	2,622,008
Expenses paid by increase in convertible note payable	60,000
Amortization of discount on note payable	1,556,666
Changes in operating assets and liabilities:	
Accounts receivable	(749)
Accounts payable	(91,728)
Accrued liabilities	18,978
Deferred revenue	(343,750)
Other assets	(6,500)
Net Cash Used by Operating Activities	(535,404)
Cash Flows from Investing Activities:	
Payments for patents	(15,479)
Purchase of equipment	(110,102)
Payment for acquisition of equipment and proprietary technology from Flexpoint Holdings, LLC	(265,000)
Net Cash Used in Investing Activities	(390,581)
Cash Flows from Financing Activities:	
Proceeds from notes payable - related parties	445,300
Principal payments on notes payable - related parties	(50,342)
Proceeds from borrowings under convertible note payable	583,334
Net Cash Provided By Financing Activities	978,292
Net Change in Cash	52,307

Cash at Beginning of Period		2,051
Cash at End of Period	$	54,358
Supplemental Cash flow Information:		
Interest paid	$	9,657

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 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 value of $2,894,309.

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 consolidated financial statements.

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

NOTE 1 - NATURE OF BUSINESS

Nature of Operations - Flexpoint Sensor Systems, Inc. (the Company), located in Salt Lake City, Utah, is a development stage company 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 was 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 primarily include acquiring equipment and technology, organizing activities, obtaining financing and seeking manufacturing contracts.

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.

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.

Business Condition - The Company is in the development stage and its efforts are primarily focused on obtaining necessary capital to complete its production facility and re-start operations following its emergence from Chapter 11 bankruptcy proceedings. The Company has an accumulated deficit of $4,510,726 and used cash from operations of $535,404 for the period from February 24, 2004 (date of emergence from bankruptcy) through December 31, 2004.

Through December 31, 2004, the Company met its short-term cash needs through confirmation of its plan of reorganization, through proceeds from related party notes payable and from a convertible note payable. On January 20, 2005, the Company authorized a private placement offering of equity securities for estimated proceeds of up to $4,140,000 and has issued securities for proceeds of $3,554,502 (unaudited). Management may be required to issue equity securities through additional private placement offerings. 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.

Fair Values of Financial Instruments - The amounts reported as notes payable to a related party are considered to be reasonable approximations of their fair value due to their short repayment term.

Accounts Receivable - The Company regularly reviews its accounts receivable and makes provisions for potentially uncollectible balances. Management believed the Company has incurred no material impairments in the carrying values of its accounts receivable.

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 ten years. Depreciation expense was $47,695 for the period from February 24, 2004 (date of emergence from bankruptcy) through December 31, 2004.

Valuation of Long-lived Assets - The carrying values of the Company's long-lived assets are reviewed for impairment annually and 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 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 and proprietary technology. Patents and technology are amortized from the date the Company acquires or is awarded the patent or technology right, 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. Upon emergence from bankruptcy, the Company recognized patents valued at $279,147. The Company acquired proprietary technology valued at $1,645,577. The values of the Company's intangible assets were established through an independent appraisal. Costs to obtain or develop patents are capitalized and amortized over the remaining life of the patents, technology rights are amortized over their estimated useful lives. Amortization of patents and proprietary technology during the period from February 24, 2004 through December 31, 2004 was $112,702.

Goodwill - Goodwill represents the excess of the reorganization value over the fair value of net assets of the Company upon emergence from bankruptcy. Goodwill is not amortized, but is tested for impairment annually or when a triggering event occurs. If a triggering event occurs, the undiscounted net cash flows of the asset or entity to which the goodwill relates are evaluated. Impairment is indicated if undiscounted cash flows are less than the carrying value of the assets. The amount of the impairment is measured using a discounted-cash-flow model considering future revenues, operating costs, a risk-adjusted discount rate and other factors.

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.

Sensitron, Inc., the Company's subsidiary, had deferred revenue of $325,000 through September 2004, which consisted of $250,000 of prepaid licensing royalties to be deferred and recognized as the related licensing royalty sales were reported to the Company by the customer over the remaining term of the agreement, and $75,000 of deferred sales related to software license rights sold to the customer that were being amortized over the six-year term of the contract. On October 2, 2004, Sensitron cancelled the licensing agreement by refunding to the customer $100,000 of the prepayment previously received from the customer under the license agreement. The balance of $225,000 of the prepayment was recognized as licensing revenue in the fourth quarter of 2004.

Share Based Compensation - The Company accounts for its share-based compensation to employees and directors under APB 25, Accounting for Stock Issued to Employees, and related interpretations. Under APB 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. As of December 31, 2004, the Company has a share-based employee compensation plan. As of December 31, 2004 no employee stock options have been granted under the Plan. Until employee stock options are granted, pro forma disclosure of the fair value of share-based compensation to employees would not be meaningful and is not provided.

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
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The Company accounts for its share-based compensation 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. Share-based compensation to non-employees totaled $846,008 for the period from February 24, 2004 through December 31, 2004.

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 December 31, 2004, there were warrants to purchase 650,000 shares of common stock that were not included in the computation of diluted loss per share as their effect would have been anti-dilutive, thereby decreasing loss per common share.

Recent Accounting Pronouncements - In December 2004, the FASB issued Statement No. 123 (Revised 2004), Share-Based Payment ("Statement 123(R)"). Statement 123(R) revises Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. Statement 123(R) requires the recognition of the cost of employee services received in exchange for stock options and awards of equity instruments based on the grant-date fair value of such options and awards, over the period they vest. Under the modified-prospective basis alternative, which has been selected by the Company to adopt Statement 123(R), the Company is required to adopt Statement 123(R) on July 1, 2005 and the Company will the recognize employee compensation from stock options and awards equal to their unamortized grant-date fair value over their remaining vesting period. As of December 31, 2004, no employee options have been granted under the Company's Plan. Accordingly, the effect of adopting Statement 123(R) on options outstanding at December 31, 2004 will not result in the recognition of additional after-tax compensation during the year ending December 31, 2005.

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 of the plan 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 828,571 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's agreement not to contest the issuance of 7,142,087 shares of common stock that were issued to a shareholder for 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.

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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.

Convertible Note Payable - The plan provided for an investor to provide $1,500,000 and receive a note payable convertible into 3,000,000 shares of common stock at $0.50 per share. (Note 7)

Delphi Automotive Systems Supply Agreement - Flexpoint Inc. 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 Flexpoint, Inc. to be used directly for Delphi programs. As of December 31, 2000, Flexpoint, Inc. had received loan proceeds 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.

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 would require that the Company transfer assets to Delphi was remote, and therefore, the liability was accounted for as extinguished prior to confirmation of the plan of reorganization.

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

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
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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:

As of Date of Confirmation of Plan, February 24, 2004	Pre - Confirmation	Debt Discharge	Exchange of Stock	Fresh Start	Reorg Bala She
ASSETS					
Current Assets - Cash	$ 2,051	$ -	$ -	$ -	$
Patents and technology, net	1,561	-	-	277,586	27
Goodwill	-	-	-	5,356,414	5,35
Total Assets	$ 3,612	$ -	$ -	$ 5,634,000	$ 5,63
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
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 that was owned in part by and controlled by a shareholder who owned less than 2% of the Company's stock prior to the transaction. Under the terms of the agreement, the Company acquired equipment and proprietary technology with an appraised fair value of $4,302,643 in exchange for a cash payment of $265,000, the assumption of a $698,000 convertible note payable, and the issuance of 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 owners and manager of Flexpoint Holdings, LLC were not officers, directors or employees of the Company nor did they hold any controlling relationship in the Company or retain a substantial indirect interest in the assets sold as a result of stock ownership in the Company. Accordingly, the transaction was recorded at the fair value of the consideration given which was lower than the fair value of the assets acquired.

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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 fair values of the proprietary technology and equipment were established by independent appraisals. The Company allocated the consideration given pro rata to the assets acquired based on their estimated appraised values. 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

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 - GOODWILL AND INTANGIBLE ASSETS

Intangible Assets - The components of intangible assets at December 31, 2004, were as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents	$ 294,626	$ (16,620)	$ 278,006
Proprietary technology	1,645,577	(96,082)	1,549,495
Total Amortizing Intangible Assets	$ 1,940,203	$ (112,702)	$ 1,827,501

Patent amortization was $16,620 for the period from February 24, 2004 through December 31, 2004, and amortization related to proprietary technology was $96,082 for the same period. Patent amortization is charged to general and administrative expense; amortization expense for the proprietary technology is charged to cost of revenues.

Estimated aggregate amortization expense for the succeeding five years ending December 31, is as follows:

2005	$ 149,844
2006	149,844
2007	149,844
2008	149,844
2009	149,844

Goodwill - Intangible assets not subject to amortization as of December 31, 2004 consisted of goodwill with a net carrying value of $5,356,414.

During 2004, the Company engaged Houlihan Valuation Advisors, an independent valuation firm, to assess the value of the Company's goodwill and patents at the date of emergence from bankruptcy and the fair value of the proprietary technology at its purchase date. The appraisal was completed during 2005.

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
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NOTE 6 - NOTES PAYABLE - RELATED PARTY

The Company had unsecured notes payable to First Equity Holdings, a shareholder with a 31.09% interest in the Company, and Persimmons, LLC, a shareholder with a 1.74% interest in the Company. The notes bear interest at 12% per annum and have repayment terms which required payment of the principal and interest by December 31, 2004. Under amended terms of the notes, payment of the entire principal and interest is due to the shareholders by the extended due date of March 31, 2005. The principal balance of the notes was $16,000 upon emergence from bankruptcy. The Company borrowed an additional

$445,300 and repaid $50,342 on the notes leaving an aggregate remaining balance of $ 410,958 as of December 31, 2004. As of March 25, 2005 the Company had repaid the $198,000 note payable to First Equity Holdings plus related accrued interest and had paid $186,768 of the note payable to Persimmon LLC plus related accrued interest (unaudited).

NOTE 7 - 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 when the note was converted into 3,000,000 shares of common stock.

NOTE 8 - 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 December 31, 2004, including temporary differences and operating loss carryforwards that arose prior to reorganization from bankruptcy, are as follows:

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
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Operating loss carry forwards	$ 9,255,417
Goodwill	1,997,942
Property and equipment	489,055
Patents and proprietary technology	730,035
Total Deferred Tax Assets	12,472,449
Valuation allowance	(12,472,449)

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 $24,750,611 at December 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 (date emergence from bankruptcy) through December 31, 2004:

Tax at statutory rate (34%)	$	(1,533,647)
Non-deductible expenses		(612)
Change in valuation allowance		1,683,113
State tax benefit, net of federal tax effect		(148,854)
Provision for Income Taxes	$	-

NOTE 9 - COMMON STOCK ISSUED FOR COMPENSATION

The Company emerged from bankruptcy without settling a claim for compensation by John Sindt, the president and chairman of the board of directors, for services rendered during the period the Company was in bankruptcy. At the date the Company emerged from bankruptcy, the Company acknowledged that the claim existed but was unable to determine the range of potential loss under the claim and did not record a liability at that date. The board of directors determined the amount of the claim on November 24, 2004 and on that date the Company settled all amounts due under the claim, and in payment of services received after the Company emerged from bankruptcy, by issuing 1,200,000 shares of restricted common stock. The common stock issued was valued at $1,776,000, or $1.48 per share based upon the market value of the common stock. The Company recognized the issuance of the common stock during November 2004 as a charge to operations for compensation.

NOTE 10 - 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 under the Plan since the Company emerged from bankruptcy.

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES

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NOTE 11 - 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, with monthly lease payments of $5,500 plus common area maintenance fees. The lease expired in September 2004. During July 2004, the Company entered into a new five-year lease agreement with average monthly payments including common area fees of $8,718, with a 2% annual increase in lease payments. Rent expense over the term of the lease is recognized on a straight-line basis over the term of the lease. From February 24, 2004 through December 31, 2004, $78,715 was charged to operations as rent expense. Total future minimum lease payments as of December 31, 2004 are as follows:

2005	$ 101,821
2006	103,388
2007	104,988
2008	106,619
Thereafter	80,894
	$ 497,710

NOTE 12 - 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 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%. Consulting expense was charged to operations recognized during the period from March 2004 through September 2004, the period over which the warrants vested.

NOTE 13 - FORGIVENESS OF DEBT

At December 31, 2003, Flexpoint Inc, a subsidiary of the Company, had an accounts payable balance of $75,049. This balance had not been included in the bankruptcy proceedings of the Company and the debt was aged beyond the statute of limitations. There had been no efforts made on the part of the vendors to obtain payment. In 2004 the vendors were barred from collection under the

Statute of Limitations and the debt was considered forgiven.

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
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NOTE 14 - SUBSEQUENT EVENTS (UNAUDITED)

During January 2005, the Company opened a private placement offering for a maximum of 3,150,000 shares of the Company's common stock for net proceeds of $4,140,000, or $1.50 per share, in units with warrants to purchase 3,150,000 shares of the Company's common stock at an exercise price of $3.00 per share. The warrants issued as part of the unit have a two year exercise term beginning six months after the closing of the private placement offering. If the closing bid price of the Company's common stock is greater than $4.00 per share for five consecutive trading days after the initial six months from closing, the Company may call the warrants in whole or in part, forcing the investor to exercise the warrant within fifteen trading days or forfeit the warrant. Through March 15, 2005 the Company issued 2,369,668 units for proceeds of $3,554,502. Also, the investor may not exercise the warrants if the exercise of the warrant would cause the investor to own more than 4.99% of the then issued and outstanding common stock.

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

To the Stockholders and the Board of Directors
Flexpoint Sensor Systems, Inc.

We have audited the accompanying consolidated statements of operations, stockholders' deficit, and cash flows of Flexpoint Sensor Systems, Inc. and subsidiaries (a development stage, debtor-in-possession company) for the period from January 1, 2004 through February 23, 2004, for the year ended December 31, 2003, and for the period from January 5, 1995 (date of inception) through February 23, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements of Flexpoint Sensor Systems, Inc. and subsidiaries referred to above present fairly, in all material respects, the results of their operations and their cash flows for the period from January 1, 2004 through February 23, 2004, for the year ended December 31, 2003 and for the period from January 5, 1995 (date of inception) through February 23, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered losses from continuing operations and has had negative cash flows from operating activities for the period from January 1, 2004 through February 23, 2004, for the year ended December 31, 2003 and for the period from January 5, 1995 (date of inception) through February 23, 2004. In addition, the Company filed petitions for relief under Chapter 11 of the federal bankruptcy laws. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to those matters are also described in Note 1. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

/s/ Hansen, Barnett & Maxwell
HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
January 11, 2005

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Sales	$ -	$ 30,220	$ 3,850,489
Cost of Goods Sold	-	1,883	1,902,996
Gross Profit	-	28,337	1,947,493
Operating Expenses			
General and administrative expenses	18,161	112,860	13,016,605
Research and development	-	-	8,759,918
Contract and manufacturing activity exit costs	-	-	2,373,327
Total Operating Expenses	18,161	112,860	24,149,850
Loss From Operations	(18,161)	(84,523)	(22,202,357)
Other Income and (Expenses)			
Interest expense	-	(29,730)	(2,286,974)
Interest from amortization of debt discount	-	-	(6,877,033)
Interest income	-	-	82,031
Other income (expense)	-	-	(214,420)
Total Other Income and (Expense)	-	(29,730)	(9,296,396)
Loss from Continuing Operations	(18,161)	(114,253)	(31,498,753)
Reorganization Items - Income (Expense)			
Loss on disposal of assets	-	(13,145)	(720,261)
Forgiveness of liabilities	655,790	-	1,422,855
Professional fees	(83,839)	(34,503)	(236,644)
Total Reorganization Items	571,951	(34,503)	465,950
Discontinued Operations			
Loss from discontinued Tamco operations	-	-	(315,566)
Gain on disposal of Tamco	-	-	125,103
Loss from Discontinued Operations	-	-	(190,463)
Minority Interest in Loss of Consolidated Subsidiaries	-	-	200,000

Net Income (Loss)	553,790	(148,756)	(31,023,267)
Preferred Dividends	-	-	(693,551)
Income (Loss) Applicable to Common Shareholders	$ 553,790	$ (148,756)	$ (31,716,818)
Basic and Diluted Income (Loss) Per Common Share:			
Loss from Continuing Operations	$ -	$ -	
Net Income (Loss)	$ 0.01	$ -	
Weighted Average Number of Common Shares Used in Per Share Calculation	76,534,709	76,534,709	

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

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Company in the Development Stage)
(Debtor-in-Possession as of July 3, 2001)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

	Preferred Stock		Common Stock		Additional Paid-in	De Accu Dur Deve
	Shares	Amount	Shares	Amount	Capital	S
Balance January 5, 1995 (Date of Inception)	-	$ -	-	$ -	$ -	$
1995:						
Issuance for cash, $0.00 per share	-	-	3,705,000	3,705	(1,705)	
Issuance for cash, $0.46 per share	-	-	649,987	650	299,350	
Issuance for cash, $0.74 per share	-	-	852,800	853	631,147	
Contribution of patents by stock-holder, no additional shares issued	-	-	-	-	22,232	
Issuance to acquire Flexpoint, Inc., $(0.02) per share	-	-	5,395,000	5,395	(99,579)	
Issuance to acquire Tamco, $0.46 per share	-	-	130,000	130	59,870	

1996:					
Issuance for services, $0.77 per share	-	-	260,000	260	199,740
Issuance for cash, $0.77 per share	-	-	123,500	124	94,876
Issuance for cash, $0.54 per share, net of offering costs of $246,547	-	-	1,957,111	1,957	1,051,496
1997:					
Issuance for cash, $0.97 per share	-	-	143,000	143	109,857
Issuance for cash, $0.04 per share	-	-	1,820,000	1,820	78,180
Issuance for cash and a $390,000 receivable, $0.72 per share	-	-	1,116,375	1,116	802,884
Redemption from officers, $0.03 per share	-	-	(6,308,666)	(6,309)	(193,691)
Conversion of debt, $0.57 per share	-	-	100,672	100	53,852
1998:					
Issuance of 30,303 warrants for services	-	-	-	-	22,727
Issuance for cash, $4.00 per share	-	-	288,841	289	1,155,073
Conversion of notes payable, $0.80 per share	-	-	248,833	249	199,751
Conversion of debt, $0.61 per share	-	-	69,602	69	42,759
Acquisition of Nanotech Corporation, $0.50 per share	-	-	6,000,000	6,000	2,977,275
Exercise of options, $0.16 per share	-	-	14,500	15	2,296

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

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Company in the Development Stage)
(Debtor-in-Possession as of July 3, 2001)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Co
	Shares	Amount	Shares	Amount			
1998:							
Exercise of warrants, $0.00 per share	-	$ -	30,303	$ 30	$ (30)	$ -	$
Issuance for receivable from shareholder	-	-	393,438	394	1,573,356	-	
Compensation related to							

grant of stock options	-	-	-	-	45,375	-
1999:						
Issuance for cash, $4.00 per share	-	-	158,258	158	632,867	-
Issuance of convertible preferred stock and 134,000 warrants for cash	536	326,738	-	-	134,000	-
Conversion of common shares into convertible preferred stock and 559,551 warrants	2,238	1,398,886	(489,523)	(490)	(1,398,396)	-
Amortization of preferred stock discount as preferred dividend	-	693,551	-	-	-	(693,551)
Issuance of common shares and 476,600 warrants for cash, $2.00 per share, net of offering costs	-	-	476,600	477	940,723	-
Conversion of convertible preferred stock into common stock and 147,000 warrants, $2.00 per share	(336)	(294,000)	147,000	147	293,853	-
Beneficial conversion option of 8% convertible promissory notes	-	-	-	-	404,062	-
Conversion of 8% convertible promissory notes into common stock, $1.70 per share	-	-	508,825	509	864,492	-
Compensation related to grant of stock options	-	-	-	-	369,825	-
Amortization of unearned compensation	-	-	-	-	-	-
Exercise of options for cash, $0.16 to $0.47 per share	-	-	919,094	919	306,521	-
Issuance of 508,825 warrants for cash	-	-	-	-	1,265,900	-
Issuance of 45,000 warrants for interest	-	-	-	-	109,800	-
Grant of 100,000 warrants for services	-	-	-	-	185,000	-
Exercise of warrants for cash, $0.77 per share	-	-	237,510	238	182,545	-
Exercise of warrants for services, $0.77 per share	-	-	29,250	29	22,494	-
Issuance in settlement of lawsuit, $1.75 per share	-	-	100,000	100	174,900	-

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

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Company in the Development Stage)
(Debtor-in-Possession as of July 3, 2001)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (CONTINUED)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Deficit Accumulated During the Development Stage	
	Shares	Amount	Shares	Amount			
2000:							
Issuance of warrants for cash	-	$ -	-	$ -	$ 3,039,202	$ -	$
Beneficial conversion options of notes payable	-	-	-	-	1,076,218	-	
Contingent beneficial conversion option of debentures	-	-	-	-	579,851	-	
Conversion of preferred stock, $3.50 per share	(1,194)	(1,044,749)	298,500	298	1,044,451	-	
Conversion of promissory notes, $1.70 per share	-	-	120,588	121	204,879	-	
Conversion of debentures, $1.00 per share	-	-	703,555	703	702,852	-	
Conversion of debentures, $0.50 per share	-	-	606,400	606	302,594	-	
Conversion of debentures, $0.001 per share	-	-	50,000,000	50,000	-	-	
Exercise of stock options for cash, $0.16 to $4.00 per share	-	-	30,235	31	8,432	-	
Stock issued for services, $1.19 per share	-	-	450,000	450	533,925	-	
Warrants issued for services	-	-	-	-	434,400	-	
Issuance for services, $0.09 per share	-	-	85,250	85	7,911	-	
Issuance of common shares and warrants in settlement of lawsuit, $0.28 per share	-	-	7,500	9	4,193	-	
Compensation related to grant of stock options	-	-	-	-	156,137	-	
Amortization of unearned compensation	-	-	-	-	-	-	
2001:							
Issuance for services, $0.05 per share	-	-	155,371	155	7,614	-	
Issuance for services,							

$0.01 per share	-	-	5,000,000	5,000	395,000	-	
Forfeiture of stock options by terminated employees	-	-	-	-	(35,130)	-	
Cumulative net loss for the period from January 5, 1995 (date of inception) through December 31, 2002	-	-	-	-	-	(31,428,301)	
Balance - December 31, 2002	1,244	1,080,426	76,534,709	76,535	22,078,206	(32,121,852)	
Net loss	-	-	-	-	-	(148,756)	
Balance - December 31, 2003	1,244	1,080,426	76,534,709	76,535	22,078,206	(32,270,608)	
Net income	-	-	-	-	-	553,790	
Balance - February 23, 2004	1,244	$ 1,080,426	76,534,709	$ 76,535	$22,078,206	$(31,716,818)	$

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

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Company in the Development Stage)
(Debtor-in-Possession as of July 3, 2001)
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	For the Period January 1, 2004 Through February 23, 2004	For the Year Ended December 31, 2003	For the Period January 5, 1995 (Date of Inception) Through February 23, 2004
Cash Flows From Operating Activities			
Net income (loss)	$ 553,790	$ (148,756)	$ (31,023,267)
Adjustments to reconcile net loss to net cash used by operating activities:			
Loss on disposition of assets	-	-	729,623
Contract and manufacturing activity exit costs	-	-	2,373,327
Depreciation and amortization	-	2,703	1,731,489
Amortization of debt discount and loan costs	-	-	7,467,232
Amortization of unearned compensation	-	-	536,207
Stock compensation issued for services	-	-	2,103,790
Expenses paid by increase in short-term advance	102,000	-	102,000
Write off of patent expenses	-	-	101,718
Forgiveness of liabilities	(655,790)	-	(1,422,855)
Changes in operating assets and liabilities:			

Accounts receivable	-	-	130,363
Inventory	-	-	(95,000)
Other assets	-	-	(259,315)
Accounts payable	-	34,542	719,328
Accrued liabilities	-	29,160	1,106,574
Accrued liabilities subject to compromise	-	100,000	200,000
Deferred revenue	-	(25,000)	368,837
Net Cash Provided by (Used in) Operating Activities	-	(7,351)	(15,129,949)
Cash Flows From Investing Activities			
Payments to Flexpoint prior to acquisition	-	-	(268,413)
Cash paid to acquire Tamco	-	-	(25,000)
Proceeds from sale of available-for-sale securities	-	-	455,082
Net cash received in Nanotech acquisition	-	-	1,492,907
Payments to purchase equipment	-	-	(3,058,193)
Issuance of note receivable	-	-	(12,507)
Payments for patents	-	-	(146,430)
Other	-	-	207,745
Net Cash Provided by (Used in) Investing Activities	$ -	$ -	$ (1,354,809)

(Continued)

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

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Company in the Development Stage)
(Debtor-in-Possession as of July 3, 2001)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Period January 1, 2004 Through February 23, 2004	For the Year Ended December 31, 2003	For the Period January 5, 1995 (Date of Inception) Through February 23, 2004
Cash Flows From Financing Activities			
Proceeds from issuance of preferred stock	$ -	$ -	$ 460,738
Proceeds from issuance of common stock	-	-	6,040,555
Cash payments to officers to repurchase stock	-	-	(50,000)
Proceeds from issuance of warrants	-	-	1,809,202
Collection of receivables from shareholders	-	-	1,963,750
Proceeds from borrowings	-	-	6,055,460
Principal payments of debt	-	-	(874,790)

Proceeds from related party notes	-	5,000	1,600,208
Payment of capital lease obligation	-	-	(94,149)
Principal payments of related party notes	-	(4,000)	(424,165)
Net Cash Provided by (Used in) Financing Activities	-	1,000	16,486,809
Net Change In Cash	-	(6,351)	2,051
Cash at Beginning of Period	2,051	8,402	-
Cash at End of Period	$ 2,051	$ 2,051	$ 2,051

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

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Company in the Development Stage)
(Debtor-in-Possession as of July 3, 2001)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - The Company is a development stage enterprise engaged principally in designing, engineering, and manufacturing sensor technology and equipment using flexible potentiometer technology.

Through April 1998, the Company operated through Sensitron, Inc, a Utah Corporation, at which time it changed its name to Micropoint, Inc. In June 1999, the name was changed to Flexpoint Sensor Systems, Inc.

Petition for Relief Under Chapter 11 - On July 3, 2001, Flexpoint Sensor Systems, Inc. (the "Company") filed petitions for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the District of Utah. Under Chapter 11, certain claims against the Company in existence prior to the filing of the petitions for relief under the federal bankruptcy laws were stayed while the Company continued business operations as debtor-in-possession. On February 24, 2004, the Company's plan of reorganization was confirmed by the U.S. Bankruptcy Court and the Company emerged from bankruptcy. The emergence from bankruptcy was accounted for using fresh start accounting. The accompanying financial statements only reflect the Company's transactions up to the date of emergence from bankruptcy.

The Company determined that there was insufficient collateral to cover the interest portion of scheduled payments on its pre-petition debt obligations; therefore, the debtor discontinued accruing interest on these obligations. Contractual interest on those obligations as of February 23, 2004 and December 31, 2003 was $621,936, which was $592,206 in excess of reported interest expense.

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. Intercompany transactions and accounts have been eliminated in consolidation.

Nature of Operations - The Company is a development stage enterprise engaged principally in designing, engineering, and manufacturing sensor technology and equipment using flexible potentiometer technology.

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.

Business Condition - The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern. However, the Company has filed petitions for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the District of Utah and has suffered losses from operations and has had negative cash flows from operating activities during the period from January 1, 2004 through February 23, 2004 and for the year ended December 31, 2003. In addition, the Company ceased its manufacturing activities and defaulted on major debt and lease obligations.

All of these conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company's continued existence is dependent upon its ability to obtain additional financing and establish business arrangements that will enable the Company to generate profitable operations. The Company is involved in discussions with possible financing sources and business partners. However, no agreements have been reached and there is no assurance that additional financing will be realized or business relationships established.

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 February 23, 2004 and December 31, 2003, the Company had deferred revenue of $343,750, consisting of $250,000 of prepaid royalties to be deferred and recognized as royalty sales are reported to the Company by the customer over the remaining term of the agreement, and $93,750 of deferred sales related to software license rights sold to the customer that will be 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. 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.

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, and related interpretations. Under SFAS No. 123, stock-based compensation is determined as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. 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.

At February 23, 2004 and December 31, 2003, the Company has a stock-based employee compensation plan, which is described more fully in Note 4. There was no stock-based compensation recognized for the period from January 1, 2004 through February 23, 2004 or for the year ended December 31, 2003, nor would there have been any such compensation had it been determined under the fair-value method for all awards; therefore, pro forma amounts for net loss and basic and diluted loss per common share are not presented.

Basic and Diluted Income (Loss) Per Share - Basic loss per common share from continuing operations is computed by dividing loss from continuing operations by the number of common shares outstanding during the period. Basic income (loss) per common share applicable to common shareholders is calculated by dividing income (loss) applicable to common shareholders by the number of common shares outstanding during the period. Diluted income (loss) per share is calculated to give effect to stock warrants and options using the treasury stock method and convertible preferred stock using the if-converted method. Stock warrants and options, and convertible preferred stock were not included in diluted income (loss) per share during loss periods when those potentially issuable common shares would decrease the loss per share. The effects of 4,569,187 potentially issuable common shares at February 23, 2004 and December 31, 2003, were excluded from the calculation of diluted loss per share.

Recently Enacted Accounting Standards - In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51. FIN 46 provides guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIE (the "primary beneficiary"). This new model for consolidation applies to an entity in which either (1) the equity investors do not have a controlling financial interest or, (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The provisions of FIN 46 become effective for the company as of December 31, 2003. The Company does not have an interest in a variable interest entity and does not expect the provisions of FIN 46 to have a material effect on its future, interim or annual financial statements.

NOTE 2 - CONTINGENT LIABILITIES

Delphi Automotive Systems Supply Agreement - The Company 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. However, the Company believes that Delphi is not entitled to terminate the agreement or has not followed the appropriate contractual provisions for termination of the Supply Agreement. As a result, the Company significantly reduced its workforce and operating costs in order to conserve resources and sought protection under the United States Federal bankruptcy laws.

Delphi has made a claim to the bankruptcy court against the Company of $1,700,000. Litigation of the claim is estimated to begin after the confirmation date of the Company's bankruptcy reorganization.

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Company in the Development Stage)
(Debtor-in-Possession as of July 3, 2001)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - STOCKHOLDERS' EQUITY

Preferred Stock - During the year ended December 31, 1999, 4,500 shares of preferred stock were designated as Series A Convertible Preferred Stock ("Series A Preferred") with a stated value of $875. The Series A Preferred will rank, with respect to rights on liquidation, senior to all classes of common stock and each other class of capital stock or series of preferred stock established after the date designated by the Board of Directors. The Series A Preferred has no stated dividend rate and no dividends will be payable thereon unless declared by the Board of Directors. Each share of Series A Preferred outstanding is entitled to 250 votes. The Series A Preferred shares are entitled to a preference in liquidation over the common shares equal to $875 per preferred share.

Shares of Series A Preferred may be convertible at any time, in whole or in part, at the option of the holder thereof into common stock at a conversion price of $3.50 per share. The outstanding shares of Series A Preferred will automatically be converted into common stock if the closing bid price for the common stock for 15 successive trading days is equal to or greater than $12.00

per share.

Series A Preferred and Series A warrants to purchase 250 shares of common stock were issued as a unit in an offering from May through July 1999. In addition to units sold, shareholders who purchased common stock under the Company's prior private offering were given the option of converting the shares of common stock purchased into preferred units of the new offering. The offering resulted in the issuance of 536 shares of convertible preferred stock and Series A warrants to purchase 134,000 shares of common stock at $4.00 per share. The conversion resulted in the cancellation of 489,523 shares of common stock and the issuance 2,238 shares of convertible preferred stock and Series A warrants to purchase 559,551 of common stock at $4.00 per share. The warrants expired on January 1, 2001. The gross proceeds from the offering before $8,263 offering costs were $469,000. These proceeds and the conversion of the common shares were allocated on the dates received to (a) the Series A Warrants to purchase common stock based upon their fair value in the amount of $ 693,551 and (b) $1,725,624 was allocated to the convertible preferred stock. The resulting discount on the preferred stock of $693,551 was immediately amortized as a preferred stock dividend on the dates the convertible preferred stock was issued because it was fully convertible on the date of issuance.

During the year ended December 31, 2000, 1,194 shares of Series A Preferred were converted into 298,500 shares of common stock, respectively. All shares of preferred stock will be cancelled pursuant to the bankruptcy plan of reorganization, if is executed.

Super Voting Preferred Stock - On April 13, 2001, the Company authorized a class of stock designated as Series 2001 Super-Voting Preferred, with a par value of $0.001, each share of the Super-Voting Preferred having 100 votes per share, with voting rights to expire July 1, 2004. The stock will not pay dividends and will not participate in liquidation. The stock is redeemable for $0.001 per share.

NOTE 4 - STOCK OPTIONS

On April 1, 1995, the Board of Directors and shareholders adopted an Omnibus Stock Option Plan (the APlan@). Under the terms of the Plan, as amended in October 1997, Flexpoint may grant options to employees, directors and consultants to purchase up to 5,037,500 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. The exercise prices of options granted under the Plan generally have been equal to or in excess of the fair value of Flexpoint's common stock on the date of grant. 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.

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FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Company in the Development Stage)
(Debtor-in-Possession as of July 3, 2001)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the status of stock options as of February 23, 2004 and December 31, 2003 and changes during the periods ended on those dates are presented below:

	February 23, 2004		December 31, 2003	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	555,000	$ 1.28	555,000	$ -
Expired	-	-	-	-
Options outstanding at end of year	555,000	$ 1.28	555,000	$ 1.28
Options exercisable at end of year	555,000	$ 1.28	555,000	$ 1.28

The following table summarizes information about stock options outstanding at February 23, 2004 and December 31, 2003:

	Outstanding			Exercisable	
Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.77	325,000	3.67	$ 0.77	325,000	$ 0.77
$ 2.00	230,000	1.37	$ 2.00	230,000	$ 2.00
$0.77-2.00	555,000	2.72	$ 1.28	555,000	$ 1.28

NOTE 5 - STOCK PURCHASE WARRANTS

From 1995 through 1999, the Company issued warrants to equity investors in connection with equity offerings. During 2000, Series C and Series D convertible notes and other notes payable were issued for an aggregate principal balance of $405,000 together with warrants to purchase 220,588 common shares with exercise prices of $1.70 to $2.25 and expiring during 2003. The proceeds from the notes were allocated between the convertible notes and the warrants based upon their relative fair values. The estimated fair value of the warrants of $241,176 was determined using the Black-Scholes option pricing model with the following weighted-average assumptions: dividend yield of 0%; volatility of 125.7%; risk-free interest rate of 6.8%; and estimated life of 3 years. The warrants were allocated $213,785 of the net proceeds of the convertible notes payable, $110,644 was allocated to the beneficial conversion option of the convertible notes, and $80,572 was allocated to the convertible notes payable. The resulting $324,428 discount on the promissory was amortized through the date the notes were convertible and resulted in amortization expense of $324,428 during the year ended December 31, 2000.

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES

(A Company in the Development Stage)
(Debtor-in-Possession as of July 3, 2001)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During 2000, warrants were issued to a note holder for consideration for an extension of terms and also issued warrants for services to outside legal counsel, and to others for services. Warrants issued carried an exercise price equal to the estimated fair value of the underlying shares on each issuance and expired from July 2004 through August 2004. The fair value of warrants issued for services were estimated on the date of issuance using the Black-Scholes option-pricing module. The Board of Directors estimated the fair value of the underlying common shares when there was no active trading market for the Company's common shares, into which the warrants were convertible. The estimated fair value of the warrants closely approximated the estimated fair value of the underlying shares at each of the issuance dates. Pursuant to the bankruptcy plan of reorganization, if executed, warrants outstanding would be cancelled. Warrants issued for services from 1995 through 2000 were as follows:

Year	Number of Warrants	Consideration	Exercise Price	Fair Value	Expense Recognized
1995	22,750	Legal services	$ 0.77	$ 0.77	$ 17,518
1996	6,500	Legal services	0.77	0.77	5,005
1997	910,000	Director services	1.15	1.15	1,046,500
1999	100,000	Consulting services	1.85	1.85	185,000
2000	240,000	Services	2.00	1.81	434,400
2000	10,000	Litigation settlement	1.50	0.21	2,100

The following table summarizes information about warrants outstanding at February 23, 2004 and December 31, 2003:

Exercise Prices	Warrants Outstanding	Weighted-Average Remaining Contractual Life in Years
$1.50 - $1.79	389,747	0.18
$2.05 - $2.50	2,980,747	0.33
$3.15 - $3.44	335,000	0.56
$1.50 - $3.44	3,705,494	0.34

NOTE 6 - INCOME TAXES

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 January 1, 2004 to February 23, 2004	For the year ended December 31, 2003
Tax at statutory rate (34%)	$ 188,289	$ (50,577)
Non-deductible expenses	37,894	37,894
Benefit of operating loss carryforward	(255,599)	-
Increase in valuation allowance	11,141	17,592
State tax benefit, net of federal tax effect	18,275	(4,909)

Provision for Income Taxes	$ -	$ -

FLEXPOINT SENSOR SYSTEMS, INC. AND SUBSIDIARIES
(A Company in the Development Stage)
(Debtor-in-Possession as of July 3, 2001)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Capital Leases - During the year ended December 31, 2000, the Company entered into capital lease arrangement for certain equipment with an original cost of $66,852. As of February 23, 2004 and December 31, 2003, these capital lease obligations are in default and payment of the full amount was due. In January 2001, the lessor sued the Company for the accelerated lease payments of $84,950, plus accrued interest, which was $95,644 as of February 23, 2004 and December 31, 2003. No additional action has been taken by the lessor. The Company's subsidiary, Flexpoint Inc., has written off the $84,950 for these lease obligations and has reflected a gain on the forgiveness of debt as of February 23, 2004.

Rent expense for the periods ended February 23, 2004 and December 31, 2003 was $0 and $2,103, respectively.

ITEM 8A. CONTROLS AND PROCEDURES

Our Chief Executive Officer and the Chairman of the Board, who acts in the capacity of our principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, they concluded that our disclosure controls and procedures were effective.

Also, these executive officers determined that there were no significant changes made in our internal controls over financial reporting during the fourth quarter of 2004 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

PART III

ITEM 13. EXHIBITS

No.	Description

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 Inc. (Incorporated by reference to exhibit 3.3 of Form 10-QSB, filed May 3, 2004)
3.4	Restated bylaws of Flexpoint Sensor (Incorporated by reference to exhibit 3.4 of Form 10-QSB, filed May 3, 2004)
10.1	Credit Line Agreement between Flexpoint Sensor and Broad Investment Partners, LLC, dated January 14, 2004 (Incorporated by reference to exhibit 10.1 for Form 8-K filed March 5, 2004)
10.2	Lease Agreement between Flexpoint Sensor and F.G.B.P., L.L.C., dated July 12, 2004 (Incorporated by reference to exhibit 10.2 of Form 10-QSB, filed November 15, 2004, as amended)
10.3	Consulting Agreement between Flexpoint Sensor and Summit Resource Group, dated March 3, 2004 (Incorporated by reference to exhibit 10.3 of Form 10-QSB, filed May 3, 2004)
21	Subsidiaries of Flexpoint Sensor Systems, Inc. (Incorporated by reference to exhibit 21 of Form 10-KSB, filed February 18, 2004)
31.1	Chief Executive Officer Certification
31.2	Principal Financial Officer Certification
32.1	Section 1350 Certification

SIGNATURES

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

FLEXPOINT SENSOR SYSTEMS, INC.

/s/ Clark M. Mower

Date: 06/29/2005 By: ____

Clark M. Mower, President

In accordance with Section 13 or 15(d) of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Clark M. Mower

Date: 06/29/2005 ____

Clark M. Mower
President, Chief Executive Officer, Director

/s/ John A. Sindt

Date: 06/29/2005

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