

NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND

Form N-2/A

March 10, 2010

As filed with the Securities and Exchange Commission on March 10, 2010

1933 Act File No. 333-164409

1940 Act File No. 811-09297

## U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### Form N-2

(Check appropriate box or boxes)

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Pre-Effective Amendment No. 1

Post-Effective Amendment No.

and

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

Amendment No. 8

## Nuveen Dividend Advantage Municipal Fund

Exact Name of Registrant as Specified in Declaration of Trust

333 West Wacker Drive, Chicago, Illinois 60606

Address of Principal Executive Offices (Number, Street, City, State, Zip Code)

Edgar Filing: NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND - Form N-2/A

(800) 257-8787

Registrant's Telephone Number, including Area Code

Kevin J. McCarthy

Vice President and Secretary

333 West Wacker Drive

Chicago, Illinois 60606

Name and Address (Number, Street, City, State, Zip Code) of Agent for Service

*Copies of Communications to:*

Stacy H. Winick  
K&L Gates LLP  
1601 K Street, N.W.  
Washington, DC 20006

Eric F. Fess  
Chapman and Cutler LLP  
111 W. Monroe  
Chicago, IL 60603

Sarah E. Cogan  
Simpson Thacher & Bartlett LLP  
425 Lexington Avenue  
New York, NY 10017

Approximate Date of Proposed Public Offering:

As soon as practicable after the effective date of this Registration Statement

If any of the securities being registered on this form are offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. "

It is proposed that this filing will become effective (check appropriate box)

" when declared effective pursuant to section 8(c)

Edgar Filing: NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND - Form N-2/A

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

<b>Title of Securities Being Registered</b>	<b>Amount Being Registered</b>	<b>Proposed Maximum Offering Price  Per Unit(2)</b>	<b>Proposed Maximum Aggregate Offering Price(2)</b>	<b>Amount of Registration  Fee(3)</b>
MuniFund Term Preferred Shares, Series 2015	14,663,000 Shares <sup>(1)</sup>	\$ 10	\$ 146,630,000	\$ 10,454.72

(1) The Fund will offer up to 14,663,000 MuniFund Term Preferred Shares, % Series 2015, at an offering price of \$10 per share.

(2) Estimated solely for the purpose of calculating the registration fee.

(3) \$0.72 of which has been previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

**PROSPECTUS (Subject to Completion)**

Issued March 10, 2010

\$

## *Nuveen Dividend Advantage Municipal Fund*

### *MUNIFUND TERM PREFERRED SHARES*

Shares, % Series 2015

Liquidation Preference \$10 Per Share

---

**The Offering.** Nuveen Dividend Advantage Municipal Fund is offering MuniFund Term Preferred Shares, % Series 2015 ( Series 2015 MTP Shares ), with a liquidation preference of \$10 per share ( MTP Shares ). The Fund intends to use the net proceeds from the sale of MTP Shares to refinance and redeem a portion of the Fund's outstanding Municipal Auction Rate Cumulative Preferred Shares ( MuniPreferred Shares ), and to maintain the Fund's leveraged capital structure. Certain of the underwriters and their affiliates or their customers own or are obligated to repurchase in the future MuniPreferred shares and, as a result, may benefit from any such redemption. See Prospectus Summary The Offering.

---

**The Fund.** The Fund is a diversified, closed-end management investment company. The Fund's investment objectives are to provide current income exempt from regular federal income tax and to enhance portfolio value relative to the municipal bond market by investing in tax-exempt municipal bonds that the Fund's investment adviser believes are underrated or undervalued or that represent municipal market sectors that are undervalued.

---

**Listing.** Application has been made to list the MTP Shares on the New York Stock Exchange so that trading on such exchange will begin within 30 days after the date of this prospectus, subject to notice of issuance. Prior to the expected commencement of trading on the New York

Edgar Filing: NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND - Form N-2/A

Stock Exchange, the underwriters do not intend to make a market in the MTP Shares. Consequently, it is anticipated that, prior to the commencement of trading on the New York Stock Exchange, an investment in the MTP Shares will be illiquid and holders of MTP Shares may not be able to sell such shares as it is unlikely that a secondary market for the MTP Shares will develop. If a secondary market does develop prior to the commencement of trading on the New York Stock Exchange, holders of MTP Shares may be able to sell such shares only at substantial discounts from their liquidation preference. The trading or ticker symbol is NAD Pr C.

---

**Investing in MuniFund Term Preferred Shares involves risks. See Risks beginning on page 46.**

---

PRICE \$10 A SHARE

---

	<u>Price to Public</u>	<u>Underwriting Discounts and Commissions<sup>1,2</sup></u>	<u>Proceeds to the Fund<sup>3</sup></u>
Per Share	\$10.00	\$0.15	\$9.85
Total	\$	\$	\$

<sup>1</sup> Nuveen Asset Management, the Fund's investment adviser (and not the Fund), has agreed to pay from its own assets a development fee to Morgan Stanley & Co. Incorporated. See Underwriters on page 63 of this prospectus.

<sup>2</sup> Total expenses of issuance and distribution, excluding underwriting discounts and commissions, are estimated to be \$395,000.

<sup>3</sup> The Fund has granted the underwriters the right to purchase up to additional MTP Shares at the public offering price, less underwriting discounts and commissions, within 30 days of the date of this prospectus solely to cover over-allotments, if any. If such option is exercised in full, the Price to Public, Underwriting Discounts and Commissions and Proceeds to the Fund will be \$ , \$ and \$ , respectively. See Underwriters on page 62 of this prospectus.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

**Book-Entry Only.** It is expected that the MTP Shares will be delivered to the underwriters in book-entry form only, through the facilities of the Depository Trust Company, on or about March , 2010.

CUSIP No. 67066V 507

Sole Structuring Coordinator

**MORGAN STANLEY BofA MERRILL LYNCH CITI UBS INVESTMENT BANK WELLS FARGO SECURITIES**

Joint Book Runners

Co-Managers

*NUVEEN INVESTMENTS, LLC JEFFERIES & COMPANY*

*OPPENHEIMER & CO. RAYMOND JAMES RBC CAPITAL MARKETS STIFEL NICOLAUS*

, 2010

(continued from previous page)

**Investment Strategies.** Under normal circumstances, the Fund will invest at least 80% of its Managed Assets (as defined below) in municipal securities and other related investments the income from which is exempt from regular federal income taxes. Under normal circumstances, the Fund will invest at least 80% of its Managed Assets in investment grade securities that, at the time of investment, are rated within the four highest grades (Baa or BBB or better) by at least one nationally recognized statistical rating organization ( NRSRO ) or are unrated but judged to be of comparable quality by Nuveen Asset Management ( NAM ). The Fund may invest up to 20% of its Managed Assets in municipal securities that at the time of investment are rated below investment grade or are unrated but judged to be of comparable quality by NAM. No more than 10% of the Fund's Managed Assets may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by NAM. Securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to the issuer's capacity to pay interest and repay principal, and are commonly referred to as junk bonds. Managed Assets are net assets, including assets attributable to any principal amount of any borrowings (including the issuance of commercial paper or notes) and any Preferred Stock (as defined herein) outstanding. There is no assurance that the Fund will achieve its investment objectives. See The Fund's Investments.

**Ratings.** MTP Shares will have upon issuance a long-term credit rating of Aaa from Moody's Investors Service, Inc. ( Moody's ), a long-term credit rating of AAA from Standard & Poor's Financial Services, LLC, a subsidiary of The McGraw-Hill Companies, Inc. ( S&P ) and a long-term credit rating of AAA from Fitch Ratings, Inc. ( Fitch ). See Description of MTP Shares Rating Agencies.

---

Fixed Dividend Rate:	Series 2015 MTP Shares	% per annum
----------------------	------------------------	-------------

The Fixed Dividend Rate may be adjusted in the event of a change in the credit rating of the MTP Shares, as described herein. See Description of MTP Shares Dividends and Dividend Periods.

**Dividends.** Dividends on the MTP Shares will be payable monthly. The first dividend period for the MTP Shares will commence on the first date of original issuance of MTP Shares and end on April 30, 2010 and each subsequent dividend period will be a calendar month (or the portion thereof occurring prior to the redemption of such MTP Shares). Dividends will be paid on the first business day of the month next following a dividend period and upon redemption of the MTP Shares, except that dividends paid with respect to any dividend period consisting of the month of December in any year will be paid on the last business day of December. Except for the first dividend period, dividends with respect to any monthly dividend period will be declared and paid to holders of record of MTP Shares as their names shall appear on the registration books of the Fund at the close of business on the 15th day of such monthly dividend period (or if such day is not a business day, the next preceding business day). Dividends with respect to the first dividend period for the MTP Shares will be declared and paid to holders of record of such MTP Shares as their names appear on the registration books of the Fund at the close of business on April 29, 2010.

**Redemption.** The Fund is required to redeem the MTP Shares on April 1, 2015 unless earlier redeemed or repurchased by the Fund. In addition, MTP Shares are subject to optional and mandatory redemption in certain circumstances. As of April 1, 2011, the Series 2015 MTP Shares will be subject to redemption at the option of the Fund, subject to payment of a premium through March 31, 2012, and at par thereafter. The Series 2015 MTP Shares also will be subject to redemption, at the option of the Fund, at par in the event of certain changes in the credit rating of the MTP Shares, as described herein. See Description of MTP Shares Redemption.

**Tax Exemption.** The dividend rate for MTP Shares assumes that each month's distribution is comprised solely of dividends exempt from regular federal income taxes, although a portion of those dividends may be subject to the federal alternative minimum tax. From time to time, the Fund may be required to allocate capital gains and/or ordinary income to a given month's distribution on MTP Shares. To the extent that it

## Edgar Filing: NUVEEN DIVIDEND ADVANTAGE MUNICIPAL FUND - Form N-2/A

*does so, the Fund will contemporaneously make a separate, supplemental distribution of an amount that, when combined with the total amount of regular tax-exempt income, capital gains and ordinary income in the monthly distribution, is intended to make the two distributions equal on an after-tax basis (determined based upon the maximum marginal federal income tax rates in effect at the time of such payment) to the amount of the monthly distribution if it had been entirely comprised of dividends exempt from regular federal income taxes. Alternatively (particularly in cases where the amount of capital gains or ordinary income to be allocated to the MTP Shares is small), the Fund will satisfy the requirement to allocate capital gains or ordinary income to*



(continued from previous page)

MTP Shares by making a supplemental distribution of such gains or income to holders of MTP Shares, over and above the monthly dividend that is fully exempt from regular federal income taxes. If, in connection with a redemption of MTP Shares, the Fund allocates capital gains or ordinary income to a distribution on MTP Shares without having made either a contemporaneous supplemental distribution of an additional amount or an alternative supplemental distribution of capital gains and/or ordinary income, it will cause an additional amount to be distributed to holders of MTP Shares whose interests are redeemed, which amount, when combined with the total amount of regular tax-exempt income, capital gains and ordinary income allocated in the distribution, is intended to make the distribution and the additional amount equal on an after-tax basis (determined based upon the maximum marginal federal income tax rates in effect at the time of such payment) to the amount of the distribution if it had been entirely comprised of dividends exempt from regular federal income tax. Investors should consult with their own tax advisors before making an investment in the MTP Shares. See *Tax Matters* and *Description of MTP Shares Dividends and Dividend Periods Distribution with respect to Taxable Allocations*.

**Priority of Payment.** MTP Shares will be senior securities that represent stock of the Fund and are senior, with priority in all respects, to the Fund's common shares as to payments of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund. MTP Shares will have equal priority as to payments of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund with other preferred shares currently outstanding. The Fund may issue additional preferred shares on parity with MTP Shares, subject to certain limitations. The Fund may not issue additional classes of shares that are senior to MTP Shares and other outstanding preferred shares of the Fund as to payments of dividends or as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund. See *Description of MTP Shares*. The Fund, as a fundamental policy, may not issue debt securities that rank senior to MTP Shares. In addition, as a fundamental policy, the Fund may not borrow money, except from banks for temporary or emergency purposes, or for repurchase of its shares, subject to certain restrictions. See *Investment Restrictions* in the *Statement of Additional Information*.

**Redemption and Paying Agent.** The redemption and paying agent for MTP Shares will be State Street Bank and Trust Company, Canton, Massachusetts.

**Adviser.** NAM, the Fund's investment adviser, is responsible for determining the Fund's overall investment strategies and their implementation.

---

You should read this prospectus, which contains important information about the Fund, before deciding whether to invest in MTP Shares and retain it for future reference. A *Statement of Additional Information*, dated March 1, 2010, and as it may be supplemented, containing additional information about the Fund has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this prospectus. You may request a free copy of the *Statement of Additional Information*, the table of contents of which is on page 66 of this prospectus, annual and semi-annual reports to shareholders, when available, and other information about the Fund, and make shareholder inquiries by calling (800) 257-8787 or by writing to the Fund, or from the Fund's website (<http://www.nuveen.com>). The information contained in, or that can be accessed through, the Fund's website is not part of this prospectus. You also may obtain a copy of the *Statement of Additional Information* (and other information regarding the Fund) from the Securities and Exchange Commission's website (<http://www.sec.gov>).

---

**MTP Shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government**

*agency.*

---

**TABLE OF CONTENTS**

	<b>Page</b>
<u>Prospectus Summary</u>	1
<u>Financial Highlights</u>	16
<u>The Fund</u>	20
<u>Use of Proceeds</u>	20
<u>Capitalization</u>	21
<u>Description of MTP Shares</u>	24
<u>The Fund's Investments</u>	38
<u>Portfolio Composition</u>	40
<u>Risks</u>	46
<u>How the Fund Manages Risk</u>	52
<u>Management of the Fund</u>	52
<u>Net Asset Value</u>	55
<u>Description of Borrowings</u>	55
<u>Description of Outstanding Shares</u>	55
	<b>Page</b>
	<hr/>
<u>Certain Provisions in the Declaration of Trust and By-Laws</u>	56
<u>Repurchase of Fund Shares: Conversion to Open-End Fund</u>	58
<u>Tax Matters</u>	58
<u>Underwriters</u>	62
<u>Custodian, Transfer Agent, Dividend Disbursing Agent and Redemption and Paying Agent</u>	64
<u>Legal Opinions</u>	65
<u>Independent Registered Public Accounting Firm</u>	65
<u>Miscellaneous</u>	65
<u>Available Information</u>	65
<u>Table of Contents for the Statement of Additional Information</u>	66

---

You should rely only on the information contained in or incorporated by reference to this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell MTP Shares and seeking offers to buy MTP Shares, only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of MTP Shares.

---

**PROSPECTUS SUMMARY**

*This is only a summary. You should review the more detailed information contained elsewhere in this prospectus and in the Statement of Additional Information (the SAI), including the form of the Fund's Statement Establishing and Fixing the Rights and Preferences of MuniFund Term Preferred Shares (the Statement), attached as Appendix A to the SAI, prior to making an investment in the Fund, especially the information set forth under the heading Risks. Capitalized terms used but not defined in this prospectus shall have the meanings given to such terms in the Statement.*

**The Fund**

Nuveen Dividend Advantage Municipal Fund (the Fund) is a diversified, closed-end management investment company. The Fund's common shares, \$0.01 par value, are traded on the New York Stock Exchange under the symbol NAD. See Description of Outstanding Shares Common Shares. The Fund commenced investment operations on May 26, 1999. As of February 28, 2010, the Fund had 39,287,298 common shares outstanding and 10,472 preferred shares outstanding. Preferred shares previously offered by the Fund are referred to as MuniPreferred shares. MTP Shares, as defined below, and any other preferred shares, including MuniPreferred shares, that may then be outstanding are collectively referred to as Preferred Stock.

**The Offering**

The Fund is offering MuniFund Term Preferred Shares, % Series 2015 ( Series 2015 MTP Shares or MTP Shares ), at a purchase price of \$10 per share. MTP Shares are being offered by the underwriters listed under Underwriters. The Fund has granted the underwriters the right to purchase up to additional MTP Shares to cover over-allotments. Unless otherwise specifically stated, the information throughout this prospectus does not take into account the possible issuance to the underwriters of additional MTP Shares pursuant to their right to purchase additional MTP Shares to cover over-allotments. The Fund intends to use the net proceeds from the sale of MTP Shares to refinance and redeem a portion of the outstanding MuniPreferred shares, and to maintain the Fund's leveraged capital structure. Certain underwriters and their affiliates, including Morgan Stanley & Co. Incorporated, Banc of America Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc., UBS Securities LLC, Wells Fargo Securities, LLC, RBC Capital Markets Corporation and Stifel, Nicolaus & Company, Incorporated, currently own or are obligated to repurchase in the future outstanding MuniPreferred shares. In addition, customers of certain underwriters and their affiliates currently own outstanding MuniPreferred shares. Upon the successful completion of this offering, these outstanding MuniPreferred shares may be redeemed or purchased by the Fund with the net proceeds of the offering as set forth in Use of Proceeds. Although such a redemption or purchase would be done in accordance with the Investment Company Act of 1940, as amended (the 1940 Act ) in a manner that did not favor these underwriters, affiliates or customers, the underwriters or their affiliates may nonetheless be deemed to obtain a material benefit from the offering of the MTP Shares due to such redemption or purchase including, for certain of the

underwriters and their affiliates, potentially substantial financial relief and/or relief related to legal and regulatory matters associated with currently illiquid MuniPreferred shares.

The first issuance date of the MTP Shares upon the closing of this offering is referred to herein as the Date of Original Issue. MTP Shares will be senior securities that constitute stock of the Fund and are senior, with priority in all respects, to the Fund's common shares as to payments of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund. MTP Shares will have equal priority as to payments of dividends and as to distributions of assets upon dissolution, liquidation or winding up of the affairs of the Fund and will be in parity in all respects with MuniPreferred shares outstanding. The Fund may not issue additional classes of shares that are senior to Preferred Stock as to payments of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund.

### Who May Want to Invest

You should consider your investment goals, time horizons and risk tolerance before investing in MTP Shares. An investment in MTP Shares is not appropriate for all investors and is not intended to be a complete investment program. MTP Shares are designed as an intermediate-term investment to help achieve the after-tax income and capital preservation goals of investors, and not as a trading vehicle. MTP Shares may be an appropriate investment for you if you are seeking:

- Current income exempt from regular federal income taxes;
- Consistent monthly dividends;
- Return of your capital investment after a limited term of 5 years;
- A highly rated security that benefits from significant over-collateralization and related protective provisions;
- Municipal market exposure through the Fund (rather than a single municipal issuer) that diversifies credit risk by investing in many securities and various essential-service sectors;
- Potential for daily liquidity and transparency afforded by New York Stock Exchange listing, once the MTP Shares begin trading on such exchange as anticipated; and
- An intermediate-term fixed income investment with potentially less price volatility than longer-dated fixed income securities.

However, keep in mind that you will need to assume the risks associated with an investment in MTP Shares and the Fund. See Risks.

### Fixed Dividend Rate

MTP Shares pay a dividend at a fixed rate of % per annum of the \$10 liquidation preference per share (the Fixed Dividend Rate). The Fixed Dividend Rate is subject to adjustment in certain circumstances (but will not in any event be lower than the % Fixed Dividend



Rate). See Description of MTP Shares Dividends and Dividend Periods Fixed Dividend Rate, Description of MTP Shares Dividends and Dividend Periods Adjustments to Fixed Dividend Rate Ratings and Description of MTP Shares Dividends and Dividend Periods Adjustments to Fixed Dividend Rate Default Period.

#### **Dividend Payments**

The holders of MTP Shares will be entitled to receive cumulative cash dividends and distributions on each such share, when, as and if declared by, or under authority granted by, the Board of Trustees, out of funds legally available for payment. Dividends on the MTP Shares will be payable monthly. The first dividend period for the MTP Shares will commence on the Date of Original Issue of MTP Shares and end on April 30, 2010 and each subsequent dividend period will be a calendar month (or the portion thereof occurring prior to the redemption of such MTP Shares) (each dividend period a Dividend Period). Dividends will be paid on the first Business Day of the month next following a Dividend Period and upon redemption of the MTP Shares, except that dividends paid with respect to any Dividend Period consisting of the month of December in any year will be paid on the last Business Day of December (each payment date a Dividend Payment Date). Except for the first Dividend Period, dividends with respect to any monthly Dividend Period will be declared and paid to holders of record of MTP Shares as their names shall appear on the registration books of the Fund at the close of business on the 15th day of such monthly Dividend Period (or if such day is not a Business Day, the next preceding Business Day). Dividends with respect to the first Dividend Period of the Series 2015 MTP Shares will be declared and paid to holders of record of such MTP Shares as their names appear on the registration books of the Fund at the close of business on April 29, 2010. See Description of MTP Shares Dividends and Dividend Periods.

Business Day means any calendar day on which the New York Stock Exchange is open for trading.

On account of the foregoing provisions, only the holders of MTP Shares on the record date for a Dividend Period will be entitled to receive dividends and distributions payable with respect to such Dividend Period, and holders of MTP Shares who sell shares before such a record date and purchasers of MTP Shares who purchase shares after such a record date should take the effect of the foregoing provisions into account in evaluating the price to be received or paid for such MTP Shares.

#### **Term Redemption**

The Fund is required to provide for the mandatory redemption of all outstanding Series 2015 MTP Shares on April 1, 2015 at a redemption price equal to \$10 per share plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared but excluding interest thereon) to (but excluding) the redemption date (the Term Redemption Price). No amendment, alteration or repeal of the

obligations of the Fund to redeem all of the Series 2015 MTP Shares on April 1, 2015 can be effected without the prior unanimous vote or consent of the holders of Series 2015 MTP Shares. See Description of MTP Shares Redemption.

**Mandatory Redemption for**

**Asset Coverage and Effective**

**Leverage Ratio**

*Asset Coverage.* If the Fund fails to have Asset Coverage (as defined below) of at least 225% as of the close of business on any Business Day on which such Asset Coverage is required to be calculated and such failure is not cured as of the close of business on the date that is 30 calendar days following such Business Day (the Asset Coverage Cure Date), the Fund will redeem within 30 calendar days of the Asset Coverage Cure Date shares of Preferred Stock equal to the lesser of (i) the minimum number of shares of Preferred Stock that will result in the Fund having Asset Coverage of at least 230% and (ii) the maximum number of shares of Preferred Stock that can be redeemed out of monies expected to be legally available; and, at the Fund's sole option, the Fund may redeem a number of shares of Preferred Stock (including shares of Preferred Stock required to be redeemed) that will result in the Fund having Asset Coverage of up to and including 285%. The Preferred Stock to be redeemed may include at the Fund's sole option any number or proportion of MTP Shares. If MTP Shares are to be redeemed in such an event, they will be redeemed at a redemption price equal to their \$10 liquidation preference per share plus accumulated but unpaid dividends thereon (whether or not declared, but excluding interest thereon) to (but excluding) the date fixed for such redemption (the Mandatory Redemption Price).

*Effective Leverage Ratio.* If the Effective Leverage Ratio (as defined below) of the Fund exceeds 50% as of the close of business on any Business Day on which such ratio is required to be calculated and such failure is not cured as of the close of business on the date that is 30 calendar days following such Business Day (the Effective Leverage Ratio Cure Date), the Fund will within 30 calendar days following the Effective Leverage Ratio Cure Date cause the Fund to have an Effective Leverage Ratio that does not exceed 50% by (A) engaging in transactions involving or relating to the floating rate securities not owned by the Fund and/or the inverse floating rate securities owned by the Fund, including the purchase, sale or retirement thereof, (B) redeeming a sufficient number of shares of Preferred Stock, which at the Fund's sole option may include any number or proportion of MTP Shares, in accordance with the terms of such Preferred Stock, or (C) engaging in any combination of the actions contemplated by (A) and (B) above. Any MTP Shares so redeemed will be redeemed at a price per share equal to the Mandatory Redemption Price. See Portfolio Composition Municipal Securities Inverse Floating Rate Securities and Floating Rate Securities.



**Optional Redemption**

As of April 1, 2011, Series 2015 MTP Shares will be subject to optional redemption (in whole or from time to time, in part) at the sole option of the Fund out of monies legally available therefor, at the redemption price per share equal to the sum of the \$10 liquidation preference per share plus (i) an initial premium of 1.00% of the liquidation preference (with such premium declining by 0.5% every six months so that by April 1, 2012 there will cease to be a premium) and (ii) an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared but excluding interest thereon) to (but excluding) the date fixed for such redemption. See Description of MTP Shares Redemption Optional Redemption. The period from the Date of Original Issue to the date that the MTP Shares are subject to such optional redemption is referred to herein as the Non-Call Period. In addition to the optional redemption described above, the MTP Shares will also be subject to optional redemption on any Business Day during a Rating Downgrade Period with respect to such MTP Shares at the redemption price per share equal to the sum of the \$10 liquidation preference per share (without any additional premium) plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared, but excluding interest thereon) to (but excluding) the date fixed for redemption. A Rating Downgrade Period means any period during which the MTP Shares are rated A+ or lower by S&P, A1 or lower by Moody's and A+ or lower by Fitch. See Description of MTP Shares Redemption.

**Federal Income Taxes**

Because under normal circumstances the Fund will invest substantially all of its assets in municipal securities that pay interest exempt from regular federal income taxes, the dividends designated by the Fund as exempt-interest dividends received by a holder of MTP Shares will be similarly exempt. The dividends received by a holder of MTP Shares may be subject to other state and local taxes. All or a portion of the income from the Fund's portfolio securities, and in turn the exempt-interest dividends paid to holders of MTP Shares, may be subject to the federal alternative minimum tax, so MTP Shares may not be a suitable investment if you are subject to this tax. Taxable income or gain earned by the Fund will be allocated proportionately to holders of Preferred Stock and common shares, based on the percentage of total Preferred Stock dividends relative to common share dividends.

The Fund has elected to be treated, and intends to continue to qualify each year, as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code), and generally does not expect to be subject to federal income tax.

**Ratings**

It is a condition of the underwriters' obligation to purchase MTP Shares that MTP Shares will be rated Aaa, AAA and AAA by Moody's, S&P and Fitch, respectively, as of the Date of Original

Issue. There can be no assurance that such ratings will be maintained at the level originally assigned through the term of the MTP Shares. The ratings are based on current information furnished to Moody's, S&P and Fitch by the Fund and its investment adviser. The ratings may be changed, suspended or withdrawn in the rating agencies' discretion. The Fund, however, will use commercially reasonable efforts to cause at least one rating agency (Moody's, S&P or Fitch, each a Rating Agency) to publish a credit rating with respect to MTP Shares for so long as MTP Shares are outstanding. The Fixed Dividend Rate will be subject to an increase in the event that the ratings of the MTP Shares by Moody's, S&P and Fitch are each downgraded below Aaa, AAA and AAA, respectively or if no Rating Agency is then rating the shares. See Description of MTP Shares Dividends and Dividend Periods Adjustment to Fixed Dividend Rate Ratings. The Board of Trustees of the Fund has the right to terminate the designation of any of S&P, Moody's and Fitch as a Rating Agency for purposes of the MTP Shares, provided that at least one Rating Agency continues to maintain a rating with respect to the MTP Shares. In such event, any rating of such terminated Rating Agency, to the extent it would have been taken into account in any of the provisions of the MTP Shares which are described in this prospectus or included in the Statement, will be disregarded, and only the ratings of the then-designated Rating Agencies will be taken into account.

#### Asset Coverage

If the Fund fails to maintain at least 225% asset coverage as of the close of business on each Business Day, the MTP Shares may become subject to mandatory redemption as provided above. Asset coverage for Preferred Stock is calculated pursuant to Section 18(h) of the 1940 Act, as in effect on the date of the Statement, and is determined on the basis of values calculated as of a time within 48 hours (only including Business Days) preceding each daily determination (Asset Coverage). See Description of MTP Shares Asset Coverage.

The Fund estimates that on the Date of Original Issue, the Asset Coverage, based on the composition of its portfolio as of October 31, 2009, and after giving effect to (i) the issuance of MTP Shares offered hereby (assuming the offering of \$133,300,000 aggregate liquidation preference of MTP Shares), and (ii) \$2,394,500 of underwriting discounts and commissions and estimated offering costs for such MTP Shares, and assuming the redemption of \$130,900,000 liquidation preference of MuniPreferred shares, will be 306%. The Fund's net investment income coverage calculated by dividing the Fund's net investment income by the distributions from net investment income to preferred shareholders has averaged approximately 917% from November 1, 1999 through October 31, 2009. Net investment income coverage has varied significantly year over year since the Fund's inception, and there is no assurance that historical coverage levels can be maintained.

**Effective Leverage Ratio**

If the Fund's Effective Leverage Ratio exceeds 50% as of the close of business on any Business Day, the MTP Shares may become subject to mandatory redemption as provided above.

The Effective Leverage Ratio on any date means the quotient of the sum of (A) the aggregate liquidation preference of the Fund's senior securities (as that term is defined in the 1940 Act) that are stock, excluding, without duplication, (1) any such senior securities for which the Fund has issued a notice of redemption and either has delivered Deposit Securities to the paying agent for such Preferred Stock or otherwise has adequate Deposit Securities on hand for the purpose of such redemption and (2) the Fund's outstanding Preferred Stock that is to be redeemed with net proceeds from the sale of the MTP Shares, for which the Fund has delivered Deposit Securities to the paying agent for such Preferred Stock or otherwise has adequate Deposit Securities on hand for the purpose of such redemption; (B) the aggregate principal amount of the Fund's senior securities representing indebtedness (as that term is defined in the 1940 Act); and (C) the aggregate principal amount of floating rate securities not owned by the Fund that correspond to the associated inverse floating rate securities owned by the Fund; divided by the sum of (A) the market value (determined in accordance with the Fund's valuation procedures) of the Fund's total assets (including amounts attributable to senior securities), less the amount of the Fund's accrued liabilities (other than liabilities for the aggregate principal amount of senior securities representing indebtedness, including floating rate securities); and (B) the aggregate principal amount of floating rate securities not owned by the Fund that correspond to the associated inverse floating rate securities owned by the Fund.

**Voting Rights**

Except as otherwise provided in the Fund's Declaration of Trust or as otherwise required by law, (i) each holder of MTP Shares shall be entitled to one vote for each MTP Share held by such holder on each matter submitted to a vote of shareholders of the Fund and (ii) the holders of outstanding Preferred Stock and of common shares shall vote together as a single class; provided that holders of Preferred Stock, voting separately as a class, shall elect at least two of the Fund's trustees and will elect a majority of the Fund's trustees to the extent the Fund fails to pay dividends on any Preferred Stock in an amount equal to two full years of dividends on that stock. See Description of MTP Shares Voting Rights.

**Liquidation Preference**

The liquidation preference of MTP Shares will be \$10 per share (the Liquidation Preference). In the event of any liquidation, dissolution or winding up of the affairs of the Fund, whether voluntary or involuntary, the holders of MTP Shares will be entitled to receive a liquidation distribution per share equal to the Liquidation Preference plus an amount equal to all unpaid dividends and distributions accumulated to (but excluding) the date fixed for distribution or payment (whether or not earned or declared by the Fund, but

excluding interest thereon). See Description of MTP Shares Liquidation Rights.

**Investment Objectives and Policies**

The Fund's investment objectives are to provide current income exempt from regular federal income tax and to enhance portfolio value relative to the municipal bond market by investing in tax-exempt municipal bonds that NAM believes are underrated or undervalued or that represent municipal market sectors that are undervalued.

Under normal circumstances, the Fund will invest at least 80% of its Managed Assets (as defined below) in municipal securities and other related investments the income from which is exempt from regular federal income taxes. Under normal circumstances, the Fund will invest at least 80% of its Managed Assets in investment grade securities that, at the time of investment, are rated within the four highest grades (Baa or BBB or better) by at least one NRSRO or are unrated but judged to be comparable quality by NAM. The Fund may invest up to 20% of its Managed Assets in municipal securities that at the time of investment are rated below investment grade or are unrated but judged to be of comparable quality by NAM. No more than 10% of the Fund's Managed Assets may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by NAM. Municipal securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to capacity to pay interest and repay principal, and are commonly referred to as junk bonds. See Risks Credit and Below Investment Grade Risk. Managed Assets are net assets, including assets attributable to any principal amount of any borrowings (including the issuance of commercial paper or notes) and any Preferred Stock outstanding. During temporary defensive periods and in order to keep the Fund's cash fully invested, the Fund may invest up to 100% of its net assets in short-term investments including high quality, short-term securities that may be either tax-exempt or taxable. A portion of the dividends from MTP Shares may be subject to the federal alternative minimum tax. There is no assurance that the Fund will achieve its investment objectives. See The Fund's Investments.

**Investment Adviser**

NAM is the Fund's investment adviser, responsible for determining the Fund's overall investment strategy and its implementation. See Management of the Fund Investment Adviser and Portfolio Managers.

Nuveen Investments, LLC, a registered broker-dealer affiliate of NAM that is involved in the offering of the Fund's MTP Shares, has received notice of certain charges that may be brought against it by the Financial Industry Regulatory Authority (FINRA) in connection with the marketing of MuniPreferred shares. See Underwriters.

**Listing**

Application has been made to list the MTP Shares on the New York Stock Exchange so that trading on such exchange will begin within 30 days after the date of this prospectus, subject to notice of issuance. Prior to the expected commencement of trading on the New York Stock Exchange, the underwriters do not intend to make a market in the MTP Shares. Consequently, it is anticipated that, prior to the commencement of trading on the New York Stock Exchange, an investment in the MTP Shares will be illiquid and holders of MTP Shares may not be able to sell such shares as it is unlikely that a secondary market for the MTP Shares will develop. If a secondary market does develop prior to the commencement of trading on the New York Stock Exchange, holders of MTP Shares may be able to sell such shares only at substantial discounts from their liquidation preference. The trading or ticker symbol is NAD Pr C.

**Redemption and Paying Agent**

The Fund has entered into an amendment to its Transfer Agency and Service Agreement with State Street Bank and Trust Company, Canton, Massachusetts (the Redemption and Paying Agent ) for the purpose of causing the Fund's transfer agent and registrar to serve as transfer agent and registrar, dividend disbursing agent, and redemption and paying agent with respect to MTP Shares.

**Risks**

Risk is inherent in all investing. Therefore, before investing in MTP Shares you should consider certain risks carefully. The primary risks of investing in the Fund, and in MTP Shares in particular, are:

**Risks of Investing in MTP Shares**

- *Interest Rate Risk MTP Shares.* MTP Shares pay dividends at a fixed dividend rate. Prices of fixed income investments vary inversely with changes in market yields. The market yields on intermediate term securities comparable to MTP Shares may increase, which would likely result in a decline in the secondary market price of MTP Shares prior to its term redemption. See also Secondary Market and Delayed Listing Risk.
- *Secondary Market and Delayed Listing Risk.* Because the Fund has no prior trading history for exchange-listed preferred shares, it is difficult to predict the trading patterns of MTP Shares, including the effective costs of trading MTP Shares. Moreover, MTP Shares will not be listed on a stock exchange until up to 30 days after the date of this prospectus and during this time period an investment in MTP Shares will be illiquid. Even after the MTP Shares are listed on the New York Stock Exchange as anticipated, there is a risk that the market for MTP Shares may be thinly traded and relatively illiquid compared to the market for other types of securities, with the spread between the bid and asked prices considerably greater than the spreads of other securities with comparable terms, credit ratings and tax-advantaged income features.

- *Ratings Risk.* The Fund expects that, at issuance, the MTP Shares will be rated Aaa, AAA and AAA by Moody's, S&P and Fitch, respectively, and that such ratings will be a requirement of issuance of such shares by the underwriters pursuant to an underwriting agreement. There can be no assurance that such ratings will be maintained at the level originally assigned through the term of MTP Shares. Ratings do not eliminate or mitigate the risks of investing in MTP Shares. A rating issued by a Rating Agency is only the opinion of the entity issuing the rating at that time, and is not a guarantee as to quality, or an assurance of the future performance, of the rated security (in this case, MTP Shares). In addition, the manner in which the Rating Agency obtains and processes information about a particular security may affect the Rating Agency's ability to timely react to changes in an issuer's circumstances (in this case, the Fund) that could influence a particular rating. A Rating Agency could downgrade MTP Shares, which may make MTP Shares less liquid in the secondary market and reduce market prices, though with higher resulting dividend rates than the Fixed Dividend Rate. If all of the Rating Agencies designated by the Board of Trustees at the time in question downgrade MTP Shares, the Fund is required to pay a higher dividend rate on such shares.
- *Early Redemption Risk.* The Fund may voluntarily redeem MTP Shares or may be forced to redeem MTP Shares to meet regulatory requirements and the asset coverage requirements of the MTP Shares. Such redemptions may be at a time that is unfavorable to holders of MTP Shares. The Fund expects to voluntarily redeem MTP Shares before the Term Redemption Date to the extent that market conditions allow the Fund to issue other preferred shares or debt securities at a rate that is lower than the Fixed Dividend Rate on MTP Shares. For further information, see [Description of MTP Shares Redemption](#) and [Description of MTP Shares Asset Coverage](#).
- *Tax Risk.* To qualify for the favorable U.S. federal income tax treatment generally accorded to regulated investment companies, among other things, the Fund must derive in each taxable year at least 90% of its gross income from certain prescribed sources. If for any taxable year the Fund does not qualify as a regulated investment company, all of its taxable income (including its net capital gain) would be subject to tax at regular corporate rates without any deduction for distributions to stockholders, and such distributions would be taxable as ordinary dividends to the extent of the Fund's current and accumulated earnings and profits. The value of MTP Shares may be adversely affected by changes in tax rates and policies. Because dividends from MTP Shares are generally not expected to be subject to regular federal income taxation, the attractiveness of such shares in relation to other investment alternatives is affected by changes in federal income tax rates or changes in the tax-exempt treatment of dividends on

MTP Shares. A portion of the dividends from MTP Shares may be subject to the federal alternative minimum tax. See Tax Matters. See also the form of opinion of counsel included as Appendix C to the SAI.

- *Credit Crisis and Liquidity Risk.* General market uncertainty and extraordinary conditions in the credit markets, including the municipal market, may impact the liquidity of the Fund's investment portfolio, which in turn, during extraordinary circumstances, could impact the Fund's distributions and/or the liquidity of the Term Redemption Liquidity Account (as described under Description of MTP Shares). Further, there may be market imbalances of sellers and buyers of MTP Shares during periods of extreme illiquidity and volatility. Such market conditions may lead to periods of thin trading in any secondary market for MTP Shares and may make valuation of MTP Shares uncertain. As a result, the spread between bid and asked prices is likely to increase significantly such that an MTP Shares investor may have greater difficulty selling his or her MTP Shares. Less liquid and more volatile trading environments could result in sudden and significant valuation increases or declines in MTP Shares.
- *Inflation Risk.* Inflation is the reduction in the purchasing power of money resulting from the increase in the price of goods and services. Inflation risk is the risk that the inflation-adjusted (or real) value of an investment in MTP Shares or the income from that investment will be worth less in the future. As inflation occurs, the real value of MTP Shares and dividends on MTP Shares declines.
- *Reinvestment Risk MTP Shares.* Given the five-year term and potential for early redemption of MTP Shares, holders of MTP Shares may face an increased reinvestment risk, which is the risk that the return on an investment purchased with proceeds from the sale or redemption of MTP Shares may be lower than the return previously obtained from an investment in MTP Shares.

#### **General Risks of Investing in the Fund**

- *Credit and Below Investment Grade Risk.* Credit risk is the risk that one or more municipal securities in the Fund's portfolio will decline in price, or the issuer thereof will fail to pay interest or principal when due, because the issuer experiences a decline in its financial status. Credit risk is increased when a portfolio security is downgraded or the perceived creditworthiness of the issuer deteriorates. The Fund may invest up to 20% (measured at the time of investment) of its net assets in municipal securities that are rated below investment grade or that are unrated but judged to be of comparable quality by NAM. If a municipal security satisfies the rating requirements described above at the time of investment and is subsequently downgraded below that rating, the Fund will not be required to dispose of the security. If a downgrade occurs, NAM

will consider what action, including the sale of the security, is in the best interests of the Fund and its shareholders. Municipal securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to the issuer's capacity to pay interest and repay principal when due, and are more susceptible to default or decline in market value due to adverse economic and business developments than investment grade municipal securities. Also, to the extent that the rating assigned to a municipal security in the Fund's portfolio is downgraded by any NRSRO, the market price and liquidity of such security may be adversely affected. The market values for municipal securities of below investment grade quality tend to be volatile, and these securities are less liquid than investment grade municipal securities. For these reasons, an investment in the Fund, compared with a portfolio consisting solely of investment grade securities, may experience the following:

increased price sensitivity resulting from a deteriorating economic environment and changing interest rates;

greater risk of loss due to default or declining credit quality;

adverse issuer specific events that are more likely to render the issuer unable to make interest and/or principal payments; and

the possibility that a negative perception of the below investment grade market develops, resulting in the price and liquidity of below investment grade securities becoming depressed, and this negative perception could last for a significant period of time.

*Municipal Securities Market Risk.* Investing in the municipal securities market involves certain risks. The municipal securities market is one in which dealer firms make markets in bonds on a principal basis using their proprietary capital, and during the recent market turmoil these firms' capital became severely constrained. As a result, some firms were unwilling to commit their capital to purchase and to serve as a dealer for municipal securities. The amount of public information available about the municipal securities in the Fund's portfolio is generally less than that for corporate equities or bonds, and the Fund's investment performance may therefore be more dependent on NAM's analytical abilities than if the Fund were to invest in stocks or taxable bonds. As noted above, the secondary market for municipal securities also tends to be less well-developed or liquid than many other securities markets, which may adversely affect the Fund's ability to sell its municipal securities at attractive prices or at prices approximating those at which the Fund currently values them.



- *Interest Rate Risk The Fund.* Generally, when market interest rates rise, bond prices fall, and vice versa. Interest rate risk is the risk that the municipal securities in the Fund's portfolio will decline in value because of increases in market interest rates. In typical market interest rate environments, the prices of longer-term municipal securities generally fluctuate more than prices of shorter-term municipal securities as interest rates change.
- *Inverse Floating Rate Securities Risk.* The Fund may invest up to 15% of its net assets in inverse floating rate securities. Typically, inverse floating rate securities represent beneficial interests in a special purpose trust (sometimes called a tender option bond trust) formed by a third party sponsor for the purpose of holding municipal securities. See Portfolio Composition Municipal Securities Inverse Floating Rate Securities. In general, income on inverse floating rate securities will decrease when interest rates increase and increase when interest rates decrease. Investments in inverse floating rate securities may subject the Fund to the risks of reduced or eliminated interest payments and losses of principal. In addition, inverse floating rate securities may increase or decrease in value at a greater rate than the underlying interest rate, which effectively leverages the Fund's investment. As a result, the market value of such securities generally will be more volatile than that of fixed rate securities.

The Fund may invest in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund. In NAM's discretion, the Fund may enter into a separate shortfall and forbearance agreement with the third party sponsor of a special purpose trust. The Fund may enter into such recourse agreements (i) when the liquidity provider to the special purpose trust requires such an agreement because the level of leverage in the special purpose trust exceeds the level that the liquidity provider is willing to support absent such an agreement; and/or (ii) to seek to prevent the liquidity provider from collapsing the special purpose trust in the event thaINE-HEIGHT: 13pt; FONT-FAMILY: Times New Roman" align=center>September 30, 2008

#### NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to accounting principles generally accepted in the United States of America. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in accordance with rules and regulations of the Securities and Exchange Commission. The information furnished in the interim condensed consolidated financial statements include normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although

management believes the disclosures and information presented are adequate to make the information not misleading, it is suggested that these interim condensed consolidated financial statements be read in conjunction with the Company's most recent audited consolidated financial statements and notes thereto included in its December 31, 2007 financial statements. Operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

#### NOTE 2 - ORGANIZATION AND DESCRIPTION OF BUSINESS

Cole, Inc. (the Company) was incorporated under the laws of the State of Utah on November 3, 1999. The Company was organized to engage in any lawful activity for which corporations may be organized under the Utah Revised Business Corporation Act. On December 30, 2003 the Company changed its name to Reflect Scientific, Inc.

Reflect Scientific, Inc. a California corporation, was incorporated on September 14, 1993, under the laws of California to engage in the manufacture of test kits for use in scientific studies.

On December 30, 2003, pursuant to an Agreement and Plan of Reorganization, the Company completed a reverse merger with the shareholders of Reflect Scientific, Inc. in which it acquired 100% of Reflect Scientific, Inc., a California corporation in exchange for 22,914,949 common shares of the Company. The terms of the acquisition are detailed in an 8-K filing dated December 31, 2003.

Under the terms of the agreement, the President of Reflect Scientific, Inc. became the President of the Company and was elected to the Board of Directors. The acquisition was accounted for as a recapitalization of Reflect Scientific, Inc. because the members of Reflect Scientific, Inc. controlled the Company after the acquisition.

Reflect Scientific, Inc. was treated as the acquiring entity for accounting purposes and Cole, Inc. was the surviving entity for legal purposes. There was no adjustment to the carrying values of the assets or liabilities of Reflect Scientific, Inc. and no goodwill was recorded. The operations for the year ended December 31, 2007 and 2006 are those of Reflect Scientific, Inc. Effective January 19, 2007 the Company finalized an Agreement and Plan of Merger agreement with All Temp Engineering, Inc. Effective March 6, 2007, the Company finalized an Agreement and Plan of Merger agreement with

Image Labs, International. The terms of the agreements are detailed in a 10-QSB filing dated September 30, 2007. The Company entered into these mergers after considering All Temp's and Image Lab's business history, financial condition, and intellectual property. The Company has a desire to expand its services, attract and retain talented technical personnel, and the Company believed there were strategic and financial advantages to combining the businesses.

**REFLECT SCIENTIFIC, INC.**

Notes to the Condensed Consolidated Financial Statements

September 30, 2008

**NOTE 3 CONVERTIBLE DEBENTURES AND WARRANTS**

On June 29, 2007, the Company entered into an agreement to sell \$2,500,000 in 12% senior convertible debentures with a maturity date of June 29, 2009, with interest due quarterly. At the closing, the Company prepaid the first quarterly interest payment out of the proceeds of the offering from escrow and placed in escrow the second quarterly interest payment for a total of \$150,000. The agreement allows for the Company to pay the interest in cash or in duly authorized, validly issued, fully paid and non-assessable shares of common stock at the interest conversion rate, or a combination thereof.

The debentures have a conversion price of \$0.65. If the Company, at any time while the debenture is outstanding, pays stock dividends, subdivides outstanding shares, sells or grants any option to purchase or dispose of common stock at an effective price lower than the conversion price, issue rights, options or warrants at a price lower than the conversion price, etc., the Company shall promptly deliver to each Holder a notice setting forth the conversion price after such adjustment and provide a brief statement of facts requiring such adjustment. In addition, if the volume weighted average price for each of any 20 consecutive trading days exceeds 250% of the conversion price, the Company may, within one trading day deliver a written notice to the holder and force the holder to convert a principal amount of the debenture equal to all or part of the holder's portion of the forced conversion amount.

The agreement also provides for the issuance of 1,923,077 A warrants and 1,923,077 B warrants. The warrants are exercisable at a price of \$0.80 per share for the A warrant and \$1.00 per share for the B warrant and expire September 29, 2012. The Company valued the warrants using the Black-Scholes option pricing model. For the purpose of the valuation of the warrants, the Company calculated a volatility of 66.48% on its common stock and used the U. S. Treasury bill rate of 4.94% for its risk free rate. Then the Company allocated a portion of the proceeds to the warrants, based on the relative fair

value basis, in the amount of \$1,639,029 which is recognized as a contra liability account and will be amortized as interest expense over the 2 year term of the agreement. The intrinsic value of beneficial conversion of the debentures was valued at \$5,677,491, which exceeds the effective value of the debentures of \$860,971. Therefore, the discount assigned to the beneficial conversion feature is limited to \$860,971 and is recognized as a contra liability account and will be amortized as interest expense over the 2 year term of the agreement.

As payment for services provided, the Company also issued 192,308 A warrants and 192,308 B warrants which were valued at \$475,925 using the Black-Scholes option pricing model and expensed in the current period.

**REFLECT SCIENTIFIC, INC.**

Notes to the Condensed Consolidated Financial Statements

September 30, 2008

**NOTE 3 CONVERTIBLE DEBENTURES AND WARRANTS**  
(continued)

The debentures and warrants have anti-dilution protections, and the Company has agreed to certain registration rights for the resale of the shares of common stock underlying the debentures and warrants.

A summary of the status of the Company's outstanding stock warrants as of September 30, 2008 and changes during the period then ended is presented below:

		2008	Weighted Average Exercise Price
	Shares		
Outstanding, beginning of year	4,230,770	\$	.90
Granted	-		-
Expired/Cancelled	-		-
Exercised	-		-
Outstanding September 30, 2008	4,230,770	\$	.90
Exercisable	4,230,770	\$	.90

		<b>Outstanding</b>	<b>Exercisable</b>	
<b>Range of Exercise Prices</b>	<b>Number outstanding at September 30, 2008</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Number Exercisable at September 30, 2008</b>	
\$ 0.80	2,115,385	4.00	2,115,385	
1.00	2,115,385	4.00	2,115,385	
	<b>4,230,770</b>		<b>4,230,770</b>	

**NOTE 4 EQUITY TRANSACTIONS**

During the nine month period ended September 30, 2008, the Company issued 212,307 shares of its common stock for the conversion of \$138,000 debt pursuant to the convertible debenture agreement dated September 29, 2007.

During the nine month period ended September 30, 2008, the Company issued 110,957 shares of its common stock for interest payable.

NOTE 5 COMMON STOCK OPTIONS

On December 31, 2007, the Company's board of directors approved an equity plan. The equity plan known as the 2007 Equity Incentive Plan (the Plan) reserves up to 6,000,000 shares of the Company's authorized common stock for issuance to officers, directors, employees and consultants under the terms of the Plan. The Plan permits the board of directors to issue stock options and restricted stock.

In conjunction with its employee stock option plan, the company issued 66,660 options to employees. These options had a fair value of \$29,930 and were expensed when issued. The options were issued in September 2008.

The fair value of each option granted under the Plan is estimated on the date of grant, using the Black-Scholes option pricing model, based on the following weighted average assumptions:

	September 30, 2008
Expected life (years)	5.0
Expected stock price volatility	65.74 - 66.27 %
Expected dividend yield	0.0 %
Risk-free interest rate	3.38 - 3.41 %

The risk-free interest rate is based upon the U.S. Treasury yield curve at the time of grant for the respective expected life of the option. The expected life (estimated period of time outstanding) of options was estimated. The expected volatility of the Company's options was calculated using historical data. Expected dividend yield was not considered in the option pricing formula since the Company does not pay dividends and has no current plans to do so in the future. If actual periods of time outstanding and rate of forfeitures differs from the expected rates, the Company may be required to make additional adjustments to compensation expense in future periods.

A summary of the status of the Company's outstanding stock options as of September 30, 2008 and changes during the period then ended is



presented below:

2008

	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	5,000,000	\$ 1.32
Granted	66,660	.94
Expired/Cancelled	-	-
Exercised	-	-
Outstanding at September 30, 2008	5,066,660	\$ 1.31
Exercisable	5,066,660	\$ 1.31

10

	Outstanding		Exercisable
		Weighted Average Remaining Contractual Life	Number Exercisable at September 30, 2008
Range of Exercise Prices	Number outstanding at September 30, 2008		
\$ 1.32	4,800,000	4.50	4,800,000
1.20	200,000	4.50	200,000
0.85	52,660	5.00	52,660
1.30	14,000	5.00	14,000
	5,066,660		5,066,660

The total fair value of options vested was \$3,383,487 as of September 30, 2008. As of September 30, 2008, there was no unrecognized compensation cost related to non-vested stock options granted under the Plan

#### NOTE 6 RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. SFAS No. 141(R) changes the accounting for and reporting of business combination transactions in the following way: Recognition with certain exceptions, of 100% of the fair values of assets acquired, liabilities assumed, and non controlling interests of acquired businesses; measurement of all acquirer shares issued in consideration for a business combination at fair value on the acquisition date; recognition of contingent consideration arrangements at their acquisition date fair values, with subsequent changes in fair value generally reflected in earnings; recognition of pre-acquisition gain and loss contingencies at their acquisition date fair value; capitalization of in-process research and development (IPR&D) assets acquired at acquisition date fair value; recognition of acquisition-related transaction costs as expense when incurred; recognition of acquisition-related restructuring cost accruals in acquisition accounting only if the criteria in Statement No. 146 are

met as of the acquisition date; and recognition of changes in the acquirer's income tax valuation allowance resulting from the business combination separately from the business combination as adjustments to income tax expense. SFAS No. 141(R) is effective for the first annual reporting period beginning on or after December 15, 2008 with earlier adoption prohibited. The adoption of SFAS No. 141(R) will affect valuation of business acquisitions made in 2009 and forward.

In December 2007, the FASB issued SFAS No. 160 "Noncontrolling Interest in Consolidated Financial Statements - an Amendment of ARB 51" (SFAS 160). SFAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. It also requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest, and requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We do not anticipate a material impact upon adoption.

In March 2008, the FASB issued FASS No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We do not anticipate a material impact upon adoption.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles ("GAAP") in the United States (the "GAAP hierarchy"). This statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles". The Company does not expect this statement to have any effect on our financial position or results of operations.

In May 2008, FASB issued SFAS 163, Accounting for Financial Guarantee Insurance Contracts - an interpretation of FASB Statement No. 60. SFAS 163 clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement of premium revenue and claim liabilities. This Statement also requires expanded disclosures about financial guarantee insurance contracts. SFAS 163 is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. The Company does not expect that the adoption of SFAS 163 will have a material impact on its consolidated financial statements.



## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### Special Note Regarding Forward-Looking Statements

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

### Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the unaudited Financial Statements and accompanying notes. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions. The Company believes there have been no significant changes during the nine month periods ended September 30, 2008 and 2007, to the items disclosed as significant accounting policies in management's Notes to the Financial Statements in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2007.

### Plan of Operation and Business Growth

Over the next twelve months our focus will be on the commercialization of products acquired and developed over the last several years. Included in this focus will be the continued development and commercialization of our ultra low temperature refrigerator line. Additionally, we will continue to develop and expand our focus on solutions and services to retrofit server and computer rooms to help reduce the cost of cooling such rooms as well

as provide a more reliable way to cool such rooms. We also will continue to focus on the expansion of our detector line and contract manufacturing operations.

Management focus over the last several years was on the acquisition and development of our product lines. Management now feels they have the core product lines in place to now refocus its efforts on the commercialization of the product lines. As such much of the focus over the next twelve months will be on marketing our products and expanding our customer base.

### Results of Operations

#### September 30, 2008 and 2007

Our revenues increased from the quarter ended September 30, 2007, of \$1,383,614 to \$2,548,942 for the quarter ended September 30, 2008. as our products gain more commercial acceptance.

Our cost of goods sold decreased in the quarter ending September 30, 2008, as compared to September 30, 2007 to \$916,374 from \$940,710 . Overall, as a percentage of sales, our cost of goods sold was approximately 36% for the three months ended September 30, 2008 compared to 68% for the quarter ended September 30, 2007. This gives us gross profit percentages of 64% and 32%, respectively. We anticipate the cost of goods sold percentage and gross profit percentage to vary by quarter depending on which products make up the largest percentage of sales during the quarter. We anticipate these percentages to become more stable as our sales for all products continue to increase.

---

Although sales increased for the nine month period, the increase was not sufficient to offset additional expenses as we again expanded our operations during the quarter ended September 30, 2008. Salaries and wages increased to \$589,956 during the quarter ended September 30, 2008, compared to \$571,880 for the quarter ended September 30, 2007. This increase reflects the closing of all of our acquisitions and the hiring of additional personnel. We felt it was necessary to retain additional personnel in an effort to effectively market our products and take advantage of business opportunities. Rent expense also increased as we began covering the expenses of businesses acquired in the first quarter of 2007.

With the increase in operating expenses from \$1,165,019 for the quarter ended September 30, 2007 to \$1,427,948 for the quarter ended September 30, 2008, our net loss decreased to \$169,543 from \$1,102,777 for the comparable period in 2007. We expect that as sales continue to increase, we will be able to continue to reduce our net loss this year.

Interest expense was \$376,236 for the quarter ended September 30, 2008. This interest expense primarily related to interest on our debentures of \$73,833 for the quarter and \$302,403 related to the amortization of the discounts on the debenture.

#### Seasonality and Cyclicity

We do not believe our business is cyclical.

#### Liquidity and Capital Resources

Our cash resources at September 30, 2008, were \$600,834, with accounts receivable of \$1,199,623 and inventory of \$1,646,284. We have relied on revenues and sales of equity and debt securities for cash resources. Our working capital on September 30, 2008, was \$1,237,228 compared to \$2,534,426 on December 31, 2007. This decrease is due to our convertible debenture now becoming due in less than twelve months and being classified as a current asset. In June 2009, the debenture will be due and the total amount owed will be \$2,337,000, less any future conversions. If the debentures are not



converted, we would probably have to seek some additional debt or equity financing to help repay the debenture. The amount of debt or equity financing required will be dependent on how our operations perform over the next nine months. If sales continue to increase, we may be able to repay part of the debentures with operating profits. We anticipate devoting some of the available cash to marketing programs that will increase sales over the next twelve months.

Historically, we have financed our working capital requirements through capital funding which have generated sufficient funds to offset shortfalls and cover losses. As we continue to expand our operations, we anticipate seeking additional capital through the sale of equity securities. It is highly likely, we will again seek additional capital in the equity markets. At this time we do not know the extent of the overall financing will need in the future. Financing will depend on how well our products are received in the marketplace.

Our long term liabilities were \$ 23,670 on September 30, 2008 down from \$658,897 on December 31, 2007. This decrease is due to the change to the current liability classification for the debenture..

For the quarter ended September 30, 2008, our net cash used by operating activities was \$465,227 which was down from \$1,883,746 for the quarter ended September 30, 2007. We were pleased with this reduction as it reflects our business operations are starting to cover our cash needs.

We anticipate losses to continue as we expand our sales efforts. Since the products are new to the marketplace, we cannot predict with certainty how sales will be in upcoming quarters but we expect they will continue to increase and should start covering our expenses.

#### **Off-Balance Sheet Arrangements**

We have no off balance sheet arrangements as of September 30, 2008.



### **Forward-looking Statements**

The Private Securities Litigation Reform Act of 1995 (the Act ) provides a safe harbor for forward-looking statements made by or on behalf of our Company. Our Company and our representatives may from time to time make written or oral statements that are forward-looking, including statements contained in this Annual Report and other filings with the Securities and Exchange Commission and in reports to our Company's stockholders. Management believes that all statements that express expectations and projections with respect to future matters, as well as from developments beyond our Company's control including changes in global economic conditions are forward-looking statements within the meaning of the Act. These statements are made on the basis of management's views and assumptions, as of the time the statements are made, regarding future events and business performance. There can be no assurance, however, that management's expectations will necessarily come to pass. Factors that may affect forward-looking statements include a wide range of factors that could materially affect future developments and performance, including the following:

Changes in Company-wide strategies, which may result in changes in the types or mix of businesses in which our Company is involved or chooses to invest; changes in U.S., global or regional economic conditions, changes in U.S. and global financial and equity markets, including significant interest rate fluctuations, which may impede our Company's access to, or increase the cost of, external financing for our operations and investments; increased competitive pressures, both domestically and internationally, legal and regulatory developments, such as regulatory actions affecting environmental activities, the imposition by foreign countries of trade restrictions and changes in international tax laws or currency controls; adverse weather conditions or natural disasters, such as hurricanes and earthquakes, labor disputes, which may lead to increased costs or disruption of operations.

This list of factors that may affect future performance and the accuracy of forward-looking statements are illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

This item is not required for Small Reporting Companies.

**Item 4T. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our President and CFO, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our President and CFO concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective such that the information required to be disclosed by us in reports filed under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our President and CFO, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes of accounting principles generally accepted in the United States.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Our management, with the participation of the President and CFO, evaluated the effectiveness of our internal control over financial reporting as of September 30, 2008. Based on this evaluation, our management, with the participation of the President and CFO, concluded that, as of September 30, 2008, our internal control over financial reporting was effective.

**Changes in internal control over financial reporting**

There have been no changes in internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **ITEM 1. Legal Proceedings**

None

### **ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

#### **Recent Sales of Unregistered Securities**

We have not sold any restricted securities during the nine months ended September 30, 2008.

#### **Use of Proceeds of Registered Securities**

None; not applicable.

#### **Purchases of Equity Securities by Us and Affiliated Purchasers**

During the nine months ended September 30, 2008, we have not purchased any equity securities nor have any officers or directors of the Company.

### **ITEM 3. Defaults Upon Senior Securities**

We are not aware of any defaults upon senior securities.

**ITEM 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of security holders during the quarter ended September 30, 2008.

**ITEM 5. Other Information.**

None

---

**ITEM 6. Exhibits**

(a) Exhibits.

Exhibit No.	Title of Document	Location if other than attached hereto
3.1	Articles of Incorporation	10-SB Registration Statement*
3.2	Articles of Amendment to Articles of Incorporation	10-SB Registration Statement*
3.3	By-Laws	10-SB Registration Statement*
3.4	Articles of Amendment to Articles of Incorporation	8-K Current Report dated December 31, 2003*
3.5	Articles of Amendment to Articles of Incorporation	8-K Current Report dated December 31, 2003*
3.6	Articles of Amendment	September 30, 2004 10-QSB Quarterly Report*
3.7	By-Laws Amendment	September 30, 2004 10-QSB Quarterly Report*
4.1	Debenture	8-K Current Report dated September 29, 2007*
4.2	Form of Purchasers Warrant	8-K Current Report dated September 29, 2007*
4.3	Registration Rights Agreement	8-K Current Report dated September 29, 2007*
4.4	Form of Placement Agreement	8-K Current Report dated September 29, 2007*
10.1	Securities Purchase Agreement	8-K Current Report dated September 29, 2007*
10.2	Placement Agent Agreement	8-K Current Report dated September 29, 2007*
14	Code of Ethics	December 31, 2003 10-KSB Annual Report*
21	Subsidiaries of the Company	December 31, 2004 10-KSB Annual Report*
31.1	302 Certification of Kim Boyce	
31.2	302 Certification of David Strate	
32	906 Certification	

**Exhibits**



**Additional Exhibits Incorporated by Reference**

*	Reflect California Reorganization	8-K Current Report dated December 31, 2003
*	JMST Acquisition	8-K Current Report dated April 4, 2006
*	Cryomastor Reorganization	8-K Current Report dated September 27, 2006
*	Image Labs Merger Agreement Signing	8-K Current Report dated November 15, 2006
*	All Temp Merger Agreement Signing	8-K Current Report dated November 17, 2006
*	All Temp Merger Agreement Closing	8-KA Current Report dated November 17, 2006
*	Image Labs Merger Agreement Closing	8-KA Current Report dated November 15, 2006

\* Previously filed and incorporated by reference.

---

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Reflect Scientific, Inc.

(Registrant)

Date:

November 17, 2008

By: /s/ Kim Boyce

Kim Boyce, CEO, President and Director

Date:

November 17, 2008

By: /s/ Tom Tait

Tom Tait, Vice President and Director

Date:

November 17, 2008

By: /s/ David Strate

David Strate, CFO