

RELIABILITY INC  
Form 10-Q  
August 01, 2013

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

FORM 10-Q

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

For the quarterly period ended June 30, 2013

TRANSITION REPORT UNDER SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 0-7092

RELIABILITY INCORPORATED  
(Name of registrant in its charter)

TEXAS  
(State or other jurisdiction of incorporation or organization)

75-0868913  
(I.R.S. Employer Identification Number)

410 Park Avenue - 15th Floor, New York, NY 91362  
(Address of principal executive offices) (Zip Code)

(212) 231-8359  
(Issuer's telephone number, including area code)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past twelve 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 ninety days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange

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Act.): Yes  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date 13,513,333 shares of Common Stock, no par value, as of July 31, 2013.

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RELIABILITY INCORPORATED

Quarterly Report on Form 10-Q  
For the Three Months Ended June 30, 2013

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## Item 1. Financial Statements

RELIABILITY INCORPORATED  
UNAUDITED BALANCE SHEETS

|   | June 30,<br>2013 | December 31,<br>2012 |
|---|------------------|----------------------|
| <b>ASSETS</b>   |                  |                      |
| Current assets:   |                  |                      |
| Cash and cash equivalents   | \$ 2,413         | \$ 486               |
| Accounts receivable   | 1,500            | 0                    |
| Total current assets  | 3,913            | 486                  |
| <b>Total Assets</b>   | <b>\$ 3,913</b>  | <b>\$ 486</b>        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>   |                  |                      |
| Current liabilities:  |                  |                      |
| Accounts payable and accrued liabilities  | \$ 3,117         | \$ 10,372            |
| Loans from officers   | 7,500            | 3,000                |
| Total current liabilities   | 10,617           | 13,372               |
| Stockholders' equity (deficit):   |                  |                      |
| Preferred stock, without par value; 1,000,000 shares<br>authorized, none issued and outstanding |                  |                      |
| Common stock, without par value; 300,000,000<br>shares authorized; 13,867,633 shares issued     | 9,862,150        | 9,862,150            |
| Accumulated deficit   | (8,774,337)      | (8,780,519)          |
| Less treasury stock at cost, 354,300 shares   | (1,094,517)      | (1,094,517)          |
| Total stockholders' equity (deficit)  | (6,704)          | (12,886)             |
| <b>Total liabilities and stockholders' equity (deficit)</b>                                     | <b>\$ 3,913</b>  | <b>\$ 486</b>        |

The accompanying notes are an integral part of these statements.

RELIABILITY INCORPORATED

UNAUDITED STATEMENTS OF OPERATIONS

|   | Three months ended<br>June 30, |            |
|---|--------------------------------|------------|
|   | 2013                           | 2012       |
| Revenues                                  | \$-                            | \$-        |
| Operating expenses:                       |                                |            |
| General and administrative                | \$4,491                        | \$4,281    |
| Total expenses                            | 4,491                          | 4,281      |
| Other income                              | 15,000                         | 0          |
| Net Income (Loss)                         | \$10,509                       | \$(4,281 ) |
| Basic and Diluted Income (Loss) Per Share | (0.00 )                        | (0.00 )    |
| Weighted average shares:                  |                                |            |
| Basic                                     | 13,513,333                     | 13,533,000 |
| Diluted                                   | 13,513,333                     | 13,533,000 |

The accompanying notes are an integral part of these statements.

RELIABILITY INCORPORATED  
 UNAUDITED STATEMENTS OF OPERATIONS

|   | Six months ended<br>June 30, |            |
|---|------------------------------|------------|
|   | 2013                         | 2012       |
| Revenues                                  | \$-                          | \$-        |
| Operating expenses:                       |                              |            |
| General and administrative                | 8,818                        | 8,563      |
| Total expenses                            | 8,818                        | 8,563      |
| Other income                              | 15,000                       | 0          |
| Net Income (Loss)                         | \$6,182                      | \$(8,563 ) |
| Basic and Diluted Income (Loss) Per Share | (0.00 )                      | (0.00 )    |
| Weighted average shares:                  |                              |            |
| Basic                                     | 13,513,333                   | 13,371,000 |
| Diluted                                   | 13,513,333                   | 13,371,000 |

The accompanying notes are an integral part of these statements.

RELIABILITY INCORPORATED  
UNAUDITED STATEMENTS OF CASH FLOWS

|  | Six months ended<br>June 30, |            |
|--|------------------------------|------------|
|  | 2013                         | 2012       |
| Cash flows from operating activities:  |                              |            |
| Net income (loss)  | \$ 6,182                     | \$ (8,563) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: |                              |            |
| Changes in operating assets and liabilities:   |                              |            |
| Accounts receivable  | (1,500)                      | 0          |
| Accounts payable and accrued liabilities   | (7,255)                      | (6,669)    |
| Net cash used in operating activities  | (2,573)                      | (15,232)   |
| Cash flows from financing activities:  |                              |            |
| Issuance of stock for cash   | 0                            | 19,000     |
| Loans from officers  | 4,500                        | 0          |
| Net cash provided by financing activities  | 4,500                        | 19,000     |
| Net increase in cash and cash equivalents  | 1,927                        | 3,768      |
| Cash and cash equivalents:   |                              |            |
| Beginning of period  | 486                          | 4,393      |
| End of period  | \$ 2,413                     | \$ 8,161   |
| Supplemental disclosure of cash flow information:                                    |                              |            |
| Cash paid during the period for:   |                              |            |
| Interest   | \$ -                         | \$ -       |
| Income taxes   | \$ -                         | \$ -       |
| Supplemental disclosure of non-cash financing activity:                              |                              |            |
| Repayment of loans from officers through the issuance of common stock                | \$ 0                         | \$ 5,000   |

The accompanying notes are an integral part of these statements.

RELIABILITY INCORPORATED

NOTES TO UNAUDITED FINANCIAL STATEMENTS

June 30, 2013

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations and Liquidity

The Company was incorporated under the laws of the State of Texas in 1953, but the principal business of the Company, as described in this report, started in 1971, but was closed down in 2007. The Company had two wholly owned subsidiaries, Reliability Singapore, Pte Ltd. and Reliability Contractors of Florida, neither of which is now operating. The Company has no further operating activities and is now a shell company.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. However, the Company has no further operating activities. There can be no assurances that the Company will be able to successfully complete a merger or acquisition or be able to maintain sufficient liquidity to continue to seek a merger or acquisition, in which case the Company might be forced to liquidate or seek protection under the Federal bankruptcy statutes, or both.

The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern. Effective at the open of business on June 21, 2013, the stock symbol for the Company has changed from "REAL" to "RLBY". This change was made pursuant to an OTC voluntary symbol request change made by the Company to FINRA. The Company's common stock is quoted on the OTCQB of the OTC Marketplace. Pursuant to an agreement dated as of June 14, 2013, the Company had agreed with an unrelated third party to change its ticker symbol from "REAL" to another symbol for consideration of \$15,000.

Basis of presentation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim periods ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2012.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Cash Equivalents



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For the purposes of the statements of cash flows, the Company considers all highly liquid cash investments that mature in three months or less when purchased, to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value.

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RELIABILITY INCORPORATED  
NOTES TO UNAUDITED FINANCIAL STATEMENTS  
June 30, 2013

### Income Taxes

Income taxes are provided under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company establishes valuation allowances when the realization of specific deferred tax assets is subject to significant uncertainty. The Company has recorded no tax benefits on its operating losses, as the losses will have to be carried forward and realization of any benefit is uncertain.

### Earnings Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Since the exercise price of the Company's outstanding stock options exceeded the average market price of its common shares during the periods presented, the options would have been anti-dilutive and were not considered in these calculations.

## 2. INCOME TAXES

The Company has substantial U.S. net operating loss carryforwards that will expire in 2023 through 2030. These carryforwards are subject to certain limitations on annual utilization and in the event of a change in ownership, as defined by tax law. See Note 2 to the Company's financial statements in its Form 10-K for the year ended December 31, 2012.

The Company's income tax returns remain subject to examination for the years 2009 through 2012 for federal and state purposes.

## 3. STOCK OPTION PLAN

Under the Company's Amended and Restated 1997 Stock Option Plan (Option Plan), no further option grants are allowed after February 26, 2007, but options theretofore granted remain in effect until satisfied or terminated pursuant to the Option Plan.

At December 31, 2006, all options were fully vested; thus no further stock option expense has been recorded related to the Option Plan. The weighted-average remaining contractual term, as of December 31, 2012, was 3.80 years for outstanding and exercisable options. There were no options exercised and none that expired or were canceled during the years ended December 31, 2012 and 2011 or during the quarter ended June 30, 2013. As of June 30, 2013 and December 31, 2012, there were 370,000 options outstanding under the Company's Stock Option Plan which are exercisable at a weighted average price of \$.21 until July 18, 2016, when they expire.



RELIABILITY INCORPORATED  
NOTES TO UNAUDITED FINANCIAL STATEMENTS  
June 30, 2013

4. STOCKHOLDERS' EQUITY

In January 2012, the Company issued 1,500,000 shares of common stock to its officers, Jay Gottlieb and Gregg Schneider, at \$0.016 per share, for a total of \$24,000. The issuance provided cash of \$19,000 and the repayment of \$5,000 of Loans from officers.

5. SUBSEQUENT EVENTS

No material subsequent events have occurred since June, 2013, that require recognition or disclosure in the financial statements.

RELIABILITY INCORPORATED  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013

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

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis and other parts of this report contain forward-looking statements that involve risks and uncertainties, as well as current expectations and assumptions. From time to time, the Company may publish forward-looking statements, including those that are contained in this report, relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of the Company's business include, but are not limited to, its ability maintain sufficient working capital, adverse changes in the economy, the ability to attract and maintain key personnel, its ability to identify and complete mergers or acquisitions, and future results related to acquisitions, mergers or investment activities. The Company's actual results could differ materially from those anticipated in these forward-looking statements, including those set forth elsewhere in this report. The Company assumes no obligation to update any such forward-looking statements.

CRITICAL ACCOUNTING POLICIES AND COMMENTS RELATED TO OPERATIONS

The Company has defined a critical accounting policy as one that is both important to the portrayal of the Company's financial condition and results of operations and requires the management of the Company to make difficult, subjective or complex judgments. Estimates and assumptions about future events and their effects cannot be perceived with certainty. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes. There have been no material changes or developments in the Company's evaluation of the accounting estimates and the underlying assumptions or methodologies that it believes to be Critical Accounting Policies and Estimates as disclosed in its Form 10-K for the year ended December 31, 2012.

Management's Discussion included in the Form 10-K for the year ended December 31, 2012 includes discussion of various factors related to the decline in the Company's revenues and items related to the Company's results of operations and liquidity. There have been no other significant changes in most of the factors discussed in the Form 10-K and many of the items discussed in the Form 10-K are relevant to 2013 operations; thus the reader of this report should read Management's Discussion included in Form 10-K for the year ended December 31, 2012.

RESULTS OF OPERATIONS

Revenues and Gross Profit.

Revenues for the three months and six months ended June 30, 2013 were zero, since all operations have been discontinued. However, the Company received \$15,000 of other income during the three months ended June 30, 2013 in connection with the agreement to relinquish the right to its stock ticker symbol.

General and Administrative

General and administrative expenses for the three months and six months ended June 30, 2013 were \$4,491 and \$8,818, respectively, and were \$4,281 and \$8,563, respectively, for the comparable periods in 2012.

RELIABILITY INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

LIQUIDITY AND CAPITAL RESOURCES

The Company has undertaken steps to reduce its expenses and improve the Company's liquidity, including the previous sale and discontinuance of all operations.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. However, the Company has currently has no operating activities. There can be no assurances that the Company will be able to successfully complete a merger or acquisition or be able to maintain sufficient liquidity to continue to seek a merger or acquisition, in which case the Company might be forced to liquidate or seek protection under the Federal bankruptcy statutes, or both.

Net cash used by operating activities during the six months ended June 30, 2013 was \$2,573 compared to \$15,232 in the comparable period of 2012.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

The Principal Executive Officer and Principal Financial Officer evaluated the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of June 30, 2013, these disclosure controls and procedures were effective to ensure that all information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 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 the Principal Executive Officer and Principal Financial Officer 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.

There were no changes in the Company's internal controls over financial reporting, known to the Principal Executive Officer and Principal Financial Officer, that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

RELIABILITY INCORPORATED  
OTHER INFORMATION

PART II - OTHER INFORMATION  
June 30, 2013

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be involved in various disputes and litigation matters arising in the normal course of business. We are not involved in any legal proceedings that are expected to have a material adverse effect on our financial position, results of operations or cash flows. However, litigation is subject to inherent uncertainties. Were an unfavorable ruling to occur, given the size of our Company, there exists the possibility of a material adverse impact on our results of operations of the period in which the ruling occurs. Our estimate of the potential impact on our financial position or overall results of operations for new legal proceedings could change in the future.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Quarterly Report, stockholders should carefully consider the factors discussed in Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

None



ITEM 6. EXHIBITS:

The following exhibits are filed as part of this report:

31.1 CEO Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as Amended

31.2 CFO Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as Amended

32.1 CEO Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 CFO Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS \*\* XBRL Instance Document

101.SCH \*\* XBRL Taxonomy Extension Schema Document

101.CAL \*\* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF \*\* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB \*\* XBRL Taxonomy Extension Label Linkbase Document

101.PRE \*\* XBRL Taxonomy Extension Presentation Linkbase Document

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\*\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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.

RELIABILITY INCORPORATED  
(Registrant)

Dated: July 31, 2013

By: /s/ Jay Gottlieb  
Jay Gottlieb  
President and Chief Executive Officer

/s/ Gregg Schneider  
Gregg Schneider  
Chief Financial Officer