

RELIABILITY INC  
Form 10-Q  
August 13, 2010

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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, 2010

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  
(Address of principal executive  
offices)

10022  
(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 shell company (as defined in Rule 12b-2 of the Exchange 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: 9,630,000 shares of Common Stock, no par value, as of August 12, 2010.

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RELIABILITY INCORPORATED  
RELIABILITY INCORPORATED, INC.  
Quarterly Report on Form 10-Q  
For the Three Months Ended June 30, 2010

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Item 1.  
Financial  
Statements

RELIABILITY INCORPORATED  
UNAUDITED CONSOLIDATED BALANCE SHEETS  
(In thousands, except share data)

| ASSETS  | June 30,<br>2010<br>(unaudited) | December<br>31,<br>2009 |
|---|---------------------------------|-------------------------|
| Current assets:   |                                 |                         |
| Cash and cash equivalents   | \$ 1                            | \$ 21                   |
| Total current assets  | 1                               | 21                      |
|   |                                 |                         |
| Total Assets  | \$ 1                            | \$ 21                   |
|   |                                 |                         |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)  |                                 |                         |
| Current liabilities:  |                                 |                         |
| Accounts payable and accrued liabilities  | \$ 1                            | \$ 6                    |
| Total current liabilities   | 1                               | 6                       |
| Stockholders' equity (deficit):   |                                 |                         |
| Common stock, without par value; 20,000,000 shares authorized; 9,984,300 and 6,690,265 shares issued respectively | 9,807                           | 9,807                   |
| Accumulated deficit   | (8,713)                         | (8,698)                 |
| Less treasury stock at cost, 354,300 shares   | (1,094)                         | (1,094)                 |
| Total stockholders' equity (deficit)  | 0                               | 15                      |
|   |                                 |                         |
|   | \$ 1                            | \$ 21                   |

The accompanying notes are an integral part of these statements.

RELIABILITY INCORPORATED  
 UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (In thousands, except per share data)

|                                  | (unaudited)<br>Three months<br>ended<br>June 30, |         |
|----------------------------------|--|---------|
|                                  | 2010   | 2009    |
| Operating expenses:              |  |         |
| General and administrative       | \$ 4   | \$ 5    |
| Total cost and expenses          | 4  | 5       |
| Operating loss                   | (4)  | (5)     |
|                                  |  |         |
| Net Loss                         | \$ (4)   | \$ (5)  |
| Basic and Diluted Loss Per Share | (0.00 )  | (0.00 ) |
| Weighted average shares:         |  |         |
| Basic                            | 9,630  | 9,630   |
| Diluted                          | 9,630  | 9,630   |

The accompanying notes are an integral part of these statements.

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|                                  | (unaudited)<br>Six months<br>ended<br>June 30, |         |
|----------------------------------|--|---------|
|                                  | 2010   | 2009    |
| Operating expenses:              |  |         |
| General and administrative       | \$ 15  | \$ 14   |
| Total cost and expenses          | 15   | 14      |
| Operating loss                   | (15)   | (14)    |
| Other income (expense)           |  |         |
| Other (expense)                  | -  | 1       |
| Total other income (expense)     | -  | 1       |
|                                  |  |         |
| Net Loss                         | \$ (15)  | \$ (15) |
| Basic and Diluted Loss Per Share | (0.00)   | (0.00)  |
| Weighted average shares:         |  |         |
| Basic                            | 9,630  | 9,630   |
| Diluted                          | 9,630  | 9,630   |

The accompanying notes are an integral part of these statements.

RELIABILITY INCORPORATED  
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands)

|  | (unaudited)<br>Six months ended June<br>30, |         |
|--|---|---------|
|  | 2010  | 2009    |
| Cash flows from operating activities:        |   |         |
| Net loss                                     | \$ (15)                                     | \$ (15) |
| Loss from continuing operations              | (15)  | (15)    |
| Changes in operating assets and liabilities: |   |         |
| Accounts payable and accrued liabilities     | (5)   | (31)    |
| Total adjustments                            | (5)   | (31)    |
| Net cash used by operating activities        | (20)  | (46)    |
| Cash flows from financing activities:        |   |         |
| Issuance of stock for cash                   | -   | 40      |
| Net cash provided by financing activities    | -   | 40      |
| Net decrease increase in cash                | (20)  | (6)     |
| Cash and cash equivalents:                   |   |         |
| Beginning of period                          | 21  | 43      |
| End of period                                | \$ 1  | \$ 37   |

The accompanying notes are an integral part of these statements.

RELIABILITY INCORPORATED  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010

1. DISCONTINUANCE OF ALL OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Discontinuance of all 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. Over a period of years, the Company sustained significant negative financial results, including substantial decreases in revenues, net income, and cash flows from operating activities. Due to the deterioration in its financial position, the Company undertook significant steps to reduce its expenses and improve the Company's liquidity, including the sale and discontinuance of all operations

On March 11, 2009, Reliability Incorporated issued 3,294,035 shares of its common stock, no par value, to five individual investors for \$0.012 per share, or \$39,500.

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.

Basis of presentation

The accompanying unaudited consolidated 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 period ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

The consolidated financial statements include the financial transactions and accounts of the Company and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation. 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, 2009.

RELIABILITY INCORPORATED  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2009

#### 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.

#### Stock Options

January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards 123(R), Share-Based Payment ("SFAS 123(R)"). SFAS 123(R) requires that the compensation cost relating to stock-based payments, including grants of employee stock options, be recognized in financial statements. That cost is measured based on the fair value of the equity instruments issued. SFAS 123(R) allows two methods for determining the effects of the transition: the modified-prospective transition method and the modified-retrospective method of transition. The Company adopted the modified-prospective method. Under this transition method, the Company recognizes the fair value of stock-based compensation awards as compensation expense in its statement of operations on a straight line basis, over the vesting period, for awards granted after January 1, 2006 and for unvested awards outstanding as of December 31, 2005.

#### Cash Equivalents

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.

#### Impairment of Long-Lived Assets; Assets Held for Sale

The Company has adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This Statement requires that long-lived assets to be disposed of by sale, including those of discontinued operations, be measured at the lower of carrying value or fair value less costs to sell.

#### Earnings Per Share

The Company determines earnings per share in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, 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 Company generated net losses in the first two quarters of 2010 and 2009, outstanding stock options would have been anti-dilutive and were not considered in these calculations.

RELIABILITY INCORPORATED  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2009

## 2. INCOME TAXES

Deferred income taxes are provided under the liability method and reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements. The Company establishes valuation allowances when the realization of specific deferred tax assets are 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.

At June 30, 2010, the Company had U.S. net operating loss carryforwards of \$15.5 million that will expire commencing in 2023 through 2027. These carryforwards may be subject to certain limitations on annual utilization in the event of a change in ownership, as defined by tax law. See Note 5 in the Company's 10-K dated December 31, 2009.

## 3. STOCK OPTION PLAN

Under the Company's Amended and Restated 1997 Stock Option Plan ("Option Plan"), stock option grants are available for officers, directors, and key employees. The objectives of the Option Plan are to promote the interest of the Company by providing an ownership incentive to officers, directors, and key employees, to reward outstanding performance, and to encourage continued employment. The Board of Directors, which acts as the Plan Administrator, determines to whom options are granted, the type of options, the number of shares covered by such options and the option vesting schedule. The Option Plan provides for the grant of stock options to purchase an aggregate of up to 1,500,000 shares of the Company's Common Stock. All options are issued at market value on the date of the grant and generally have a ten-year contractual term with graded vesting.

The fair value of each option is estimated on the date of grant using a Black-Scholes option-pricing model. Expected volatilities are based on a number of factors, including historical volatility of the Company's stock. The Company uses the "shortcut" method described in SAB Topic 14D.2 for determining the expected life used in the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. As the Company has not declared dividends since it became a public entity, no dividend yield is used in the calculation. No options were granted during the three months ended June 30, 2009.

At June 30, 2010, there were no unvested option grants, thus no further stock option expense will be recorded until such time that additional grants are made. The weighted-average remaining contractual term, as of June 30, 2010, was 6.6 years for outstanding and exercisable options. The following table summarizes option activity for the three months ended June 30, 2010:

|                                 | Number of<br>Options | Weighted<br>Average<br>Price |
|---------------------------------|----------------------|------------------------------|
| Balance as of December 31, 2009 | 370,000              | \$.21                        |
| Expired or canceled             | —                    | —                            |
| Exercised                       | —                    | —                            |
| Granted                         | —                    | —                            |
| Balance as of June 30, 2010     | 370,000              | \$.21                        |

#### 4. SUBSEQUENT EVENTS

Because the Company was out of cash, on August 9, 2010 the Board members unanimously voted to issue Mr. Jay Gottlieb, for his payment of \$10,000, 800,000 shares of Company common stock at \$.0125 per share, the approximate average of the most recent trades in the Company's common stock. The Company has evaluated subsequent events through August 12, 2010, the date on which the accompanying financial statements were available to be issued. No other material subsequent events have occurred since June 30, 2010 that require recognition or disclosure in the financial statements.

RELIABILITY INCORPORATED  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2009

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, the ability to sell its remaining real estate holdings or business line, 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, 2009.

Management's Discussion included in the Form 10-K for the year ended December 31, 2009 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 2010 operations; thus the reader of this report should read Management's Discussion included in Form 10-K for the year ended December 31, 2009.



RELIABILITY INCORPORATED  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2009

## RESULTS OF OPERATIONS

Three months ended June 30, 2010 compared to three months ended June 30, 2009.

### Revenues and Gross Profit.

Revenues and gross profit for the three months ended June 30, 2010, and June 30, 2009 were both reported as zero, since all operations have been discontinued.

### General and Administrative

General and administrative expenses increased from \$1,000 for the three months ended June 30, 2009 to \$4,000 for the three months ended June 30, 2010.

## LIQUIDITY AND CAPITAL RESOURCES

The Company has undertaken steps to reduce its expenses and improve the Company's liquidity, including the 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, 2010 was \$20,000 compared to \$46,000 in the comparable period of 2009. The principal item contributing to the difference was the payment of \$22,000 of accounts payable in 2009.

The company received \$39,500 in paid in capital in March 2009 from the sale of 3,294,035 new shares to accredited investors.

On March 30, 2009 a change of control occurred. At a March 30, 2009 Special Meeting of Shareholders, Jay A. Gottlieb, Gregory A. Schneider, Michael Pearce, Joshua Krom and Ron Gutterson were elected by a majority of the outstanding voting common stock.

The sole purpose of Meeting was the election of a Board of Directors, noting that none of the old directors stood for re-election. A total of 5,083,355 common shares (or 53% of Registrant's outstanding common) was present in person or by proxy at the Meeting and voted in favor of the election of all Board Designees. As permitted under Texas law and specific provisions of Registrant's Bylaws, the Board Designees will fill out the terms until the next election of Directors.



Concurrently, the following officerships were also assigned, effective immediately: Mr. Gottlieb (Chairman of the Board, Secretary and Treasurer) and Mr. Schneider (Chief Financial Officer).

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

Not applicable.

Item 4 and  
4T.Controls  
and  
Procedures.

After current management gained control of the Company in April 2009, the Company appointed a Chief Financial Officer so that the respective duties of the principal executive officer and principal financial officer are segregated. There now being three people involved in any Company financial transactions. Specifically, all bills are sent to the bookkeeper and the President/CEO authorizes all expenditures, checks are then drawn by the bookkeeper for payment based on such authorization and, finally, the CFO signs the check and distributes. In fact, with regard to all expenditures, the President/CEO has never signed a check, the CFO can not sign a check unless the bookkeeper has prepared and the bookkeeper has no check signing authority. With regard to revenues, since the Company has discontinued operations, its only function being to find a merger partner. Revenues are minimal and the foregoing internal process should be effective to fulfill its internal controls and financial reporting responsibilities.

a) Evaluation of Disclosure Controls and Procedures. The Chief Executive Officer and Principal Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934, as of the end of the period covered by this report. Based on that evaluation, the CEO concluded that the disclosure controls and procedures as of the end of the period covered by this report were effective.

(b) Changes in Internal Control over Financial Reporting. There were no changes in the Company's internal controls over financial reporting, known to the CEO, 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.

### 5. SUBSEQUENT EVENTS

Because the Company was out of cash, on August 9, 2010 the Board members unanimously voted to issue Mr. Jay Gottlieb, for his payment of \$10,000, 800,000 shares of Company common stock at \$.0125 per share, the approximate average of the most recent trades in the Company's common stock.

RELIABILITY INCORPORATED  
OTHER INFORMATION

PART II - OTHER INFORMATION  
June 30, 2009

Items 1 through 5 are not applicable and have been omitted.

Item 6.

Exhibits:

The following exhibits are filed as part of this report:

|      |   |
|------|---|
| 31.1 | Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as Amended                   |
| 31.2 | Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as Amended                   |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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)

August 12, 2010

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

/s/ Gregg Schneider  
Gregg Schneider  
Chief Financial Officer

