RELIABILITY INC
Form 10-Q
November 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT UNDER SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2018

o **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	**75-0868913**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
53 Forest Avenue, First Floor, Old Greenwich, Connecticut	**06870**
(Address of principal executive offices)	(Zip Code)

(203) 489-9500
(Issuer's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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. **x**

YES o NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **x** 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 smaller reporting company)	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): **x** YES o NO

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 16,914,693 shares of Common Stock, no par value, as of November 13, 2018.

RELIABILITY INCORPORATED
Quarterly Report on Form 10-Q
As of and For the Three and Nine Months Ended September 30, 2018

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

RELIABILITY INCORPORATED

UNAUDITED BALANCE SHEETS

As of September 30, 2018 and December 31, 2017

	September 30, 2018	**December 31, 2017**
ASSETS		
Current assets:		
Cash and cash equivalents	$8,148	$8,043
Total current assets	8,148	8,043
Total Assets	$8,148	$8,043
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	$3,395	$7,670
Total current liabilities	3,395	7,670
Long term liabilities:		
Accrued interest on loans	30,436	23,524
Loans from shareholder and affiliate	105,000	90,000
Total long term liabilities	135,436	113,524

Total liabilities	138,831	121,194
Stockholders' equity (deficit):		
Preferred stock, without par value; 1,000,000 shares authorized, none issued and outstanding	-	-
Common stock, without par value; 300,000,000 shares authorized; 17,268,993 shares issued	9,912,150	9,912,150
Accumulated deficit	(8,948,316)	(8,930,784)
Less treasury stock at cost, 354,300 shares	(1,094,517)	(1,094,517)
Total stockholders' deficit	(130,683)	(113,151)
Total liabilities and stockholders' deficit	$8,148	$8,043

The accompanying notes are an integral part of these statements.

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RELIABILITY INCORPORATED

UNAUDITED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

	Three months ended	
	September 30,	
	2018	2017
Operating expenses:		
General and administrative	$3,734	$3,623
Interest expense	2,449	2,281
Total expenses	6,183	5,904
Operating loss	(6,183)	(5,904)
Loss before income taxes	(6,183)	(5,904)
Income taxes	50	-
Net loss	$(6,232)	$(5,904)
Basic and diluted loss per share	(0.00)	(0.00)
Weighted average shares:		
Basic	16,914,693	16,914,693
Diluted	16,914,693	16,914,693

The accompanying notes are an integral part of these statements.

RELIABILITY INCORPORATED

UNAUDITED STATEMENTS OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

	Nine months ended	
	September 30,	
	2018	2017
Operating expenses:		
General and administrative	$10,570	$9,693
Interest expense	6,912	6,732
Total expenses	17,482	16,425
Loss before income taxes	(17,482)	(16,425)
Income taxes	50	250
Net loss	$(17,532)	$(16,675)
Basic and diluted loss per share	(0.00)	(0.00)
Weighted average shares:		
Basic	16,914,693	16,914,693
Diluted	16,914,693	16,914,693

The accompanying notes are an integral part of these statements.

RELIABILITY INCORPORATED

UNAUDITED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

	Nine months ended September 30,	
	2018	**2017**
Cash flows from operating activities:		
Net loss	$(17,532)	$(16,675)
Adjustments to reconcile net loss to net cash used in operating activities:		
Accrued interest on loans from stockholder and affiliate	6,912	6,732
Changes in operating assets and liabilities:		
Accounts payable and accrued liabilities	(4,275)	(3,945)
Net cash used in operating activities	(14,895)	(13,888))
Cash flows from financing activities:		
Loan from shareholder and affiliate	15,000	--
Net cash provided by financing activities	15,000	--
Net (decrease) increase in cash and cash equivalents	105	(13,888)
Cash and cash equivalents:		
Beginning of period	8,043	30,479
End of period	$8,148	$16,591
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$-	$-
Income taxes	$50	$250

The accompanying notes are an integral part of these statements.

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RELIABILITY INCORPORATED

NOTES TO UNAUDITED FINANCIAL STATEMENTS

September 30, 2018

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Reliability Incorporated (the "Company") was incorporated under the laws of the State of Texas in 1953, but the principal business of the Company started in 1971, and was closed down in 2007. The Company has no further operating activities and is now a shell company.

Going Concern

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has concluded that it should look for acquisitions or identify a merger partner and is actively in discussions with interested parties. There can be no assurances that the Company will be successful in completing such a transaction or be able to maintain sufficient liquidity over a period of time that will allow it to carry out these actions, 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.

The Company is quoted on the OTC Marketplace under the symbol "RLBY".

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 September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

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, 2017.

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

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.

Stock Options

Compensation cost relating to stock-based payments, including grants of employee stock options, is recognized in financial statements based on the fair value of the equity instruments issued on the grant date. The Company recognized 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.

RELIABILITY INCORPORATED

NOTES TO UNAUDITED FINANCIAL STATEMENTS

September 30, 2018

Income Taxes

Income taxes are provided under the asset and 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 financial statements. The Company establishes valuation allowances when the realization of specific deferred tax assets is subject to significant uncertainty. The Company records 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 and the Company reported losses, the options would have been anti-dilutive and were not considered in these calculations.

Fair Value of Financial Instruments

The carrying values of the Company's current assets and current liabilities approximated fair value due to their short maturity or nature. It is not practicable to estimate the fair value of the loans from shareholder and affiliates due to the related party nature of the amount.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

Recently Issued Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which provides guidance under U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. In doing so, the amendments should reduce diversity in the timing and content of footnote disclosures. The ASU is effective for all entities and for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted. The adoption of ASU No. 2014-15 did not have a significant impact on the Company's financial statements and related disclosures.

2. INCOME TAXES

The Company has substantial U.S. net operating loss carryforwards that will expire in 2023 through 2037. 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, 2017.

The Company's income tax returns remain subject to examination for the years 2014 through 2017 for federal and state purposes.

RELIABILITY INCORPORATED

NOTES TO UNAUDITED FINANCIAL STATEMENTS

September 30, 2018

3. STOCKHOLDERS' EQUITY (DEFICIT)

On January 15, 2014, the Company issued 3,401,360 shares of unregistered common stock in a private placement to Lone Star Value Investors, LP (Lone Star Value), an entity controlled by a former director and officer of the Company, for cash proceeds of $50,000. The proceeds of this issuance were used to assist in funding the Company's operating expenses.

4. LOANS FROM SHAREHOLDER AND RELATED PARTY TRANSACTIONS

On June 6, 2014, a shareholder, Lone Star Value Investors, LP was issued a promissory note by the Company in the amount of $50,000 (2014 Note). The proceeds of the note are being used for ongoing operating expenses. The loan bears interest at 10% per annum. Interest on the loan and the full amount of the principal is to be repaid on June 30, 2019.

On August 2, 2016, the Company issued a promissory note to an affiliate of Lone Star Value Investors, LP in the amount of $40,000 (2016 Note). The proceeds of the 2016 Note will be used for ongoing operating expenses. The 2016 Note bears interest at 10% per annum. Interest and principal on the 2016 Note is to be repaid on August 31, 2021, and all payments are subordinate to the payment of all outstanding amounts due under the 2014 Note.

On August 13, 2018, the Company issued a promissory note to an affiliate of a shareholder in the amount of $15,000 ("2018 Note"). The proceeds of the 2018 Note will be used for ongoing operating expenses. The loan bears interest at 10% per annum. Interest and principal on the loan is to be repaid on August 31, 2021, and all payments are subordinate to the payment of all outstanding amounts due under the 2014 Note.

During the nine months ended September 30, 2018 and September 30, 2017, the Company recognized aggregate interest expense in the amounts of $6,912 and $6,732, respectively. During the three months ended September 30, 2018 and September 30, 2017, the Company recognized aggregate interest expense in the amounts of $2,449 and $2,281, respectively. Total accrued interest on the 2014 Note, 2016 Note, and 2018 Note is $30,436 and $23,524 as of the September 30, 2018 and December 31, 2017, respectively.

As of September 30, 2018, the Company had $821 payable to Lone Star Value Management as reimbursement for a payment made to the Company's transfer agent on the Company's behalf. This amount is included in accounts payable and accrued liabilities on the accompanying September 30, 2018 balance sheet.

5. SUBSEQUENT EVENTS

No material subsequent events have occurred since September 30, 2018 that require recognition or disclosure in the financial statements.

RELIABILITY INCORPORATED

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2018

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 to maintain sufficient working capital, adverse changes in the economy, the ability to attract and maintain key personnel, its ability to identify or complete an acceptable merger or acquisition, and future results related to acquisition, merger 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

This discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

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, 2017.

Management's Discussion included in the Form 10-K for the year ended December 31, 2017 includes discussion of various factors 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 2018 operations; thus the reader of this report should read Management's Discussion included in Form 10-K for the year ended December 31, 2017.

RESULTS OF OPERATIONS

Revenues

Revenues for the three and nine months ended September 30, 2018 were zero, since all operations were discontinued as of September 30, 2007.

General and Administrative

General and administrative expenses for the three and nine months ended September 30, 2018 were $3,734 and $10,570, respectively, as compared to $3,623 and $9,693 in the comparable periods in 2017. The increase over the nine month period is due to higher reporting costs in 2018 as compared to 2017.

Interest Expense

The Company recognized interest expense in the amount of $2,449 and $6,912 during the three and nine months ended September 30, 2018, respectively, compared to $2,281 and $6,732, respectively, during the prior year periods. The increase is due to the $15,000 note from affiliate issued in August 2018.

LIQUIDITY AND CAPITAL RESOURCES

The Company has undertaken steps to try 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 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.

The Company is in preliminary active discussions with interested parties as to possible acquisitions and or mergers, for which the impact of a successful transaction would be significant, but for which there is currently a low probability of execution.

Net cash used in operating activities during the nine months ended September 30, 2018 was $14,895 compared to $13,888 in the comparable period of 2017. The change was attributable to an decrease in accounts payable and accrued liabilities during the nine months ended September 30, 2018.

Also, during the nine months ended September 30, 2018, the Company issued a promissory note to a related party in the amount of $15,000 which provided cash flows from financing activities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Risk Controls and Procedures

(a) Evaluation of Disclosure 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 the 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 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.

(b) Changes in Internal Control over Financial Reporting. 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

September 30, 2018

PART II - OTHER INFORMATION

Item 1. ***Legal Proceedings***

None.

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, 2017, 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***

Not applicable.

Item 5. ***Other Information***

None.

Item 6. ***Exhibits*:**

The following exhibits are filed as part of this report:

Exhibit No.	Description
5.03	Certificate of Amendment to the Articles of Incorporation, dates November 11, 2016.
31.1	CEO Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
31.2	CFO Certification Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
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	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Balance Sheets, (ii) the Statements of Operations, (iii) the Statements of Cash Flows and (iv) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail (XBRL).

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)

November 14, 2018

/s/ Hannah Bible
Hannah Bible
President and Chief Executive Officer

/s/ Hannah Bible
Hannah Bible
Chief Financial Officer

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Index to Exhibits

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101	Interactive data files pursuant to Rule 405

of Regulation S-T: (i) the Balance Sheets, (ii) the Statements of Operations, (iii) the Statements of Cash Flows and (iv) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail (XBRL).

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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

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