

RELIABILITY INC
Form 10-K
March 20, 2017

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15 (d)
of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2016 Commission File Number 0-7092

RELIABILITY INCORPORATED

(Exact name of registrant as specified in its charter)

TEXAS 75-0868913
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

53 Forest Avenue, First Floor 06870
Old Greenwich, Connecticut
(Address of principal executive offices) (Zip Code)

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

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

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

Common Stock, no par value per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO

Indicate by check mark whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. YES NO

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 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

RELIABILITY INCORPORATED

Form 10-K

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PART I

Item 1. Business

THE COMPANY

Reliability Incorporated ("we", "our", "or the "Company") was incorporated under the laws of the State of Texas in 1953, and from 1971 to 2007 the Company was principally engaged in the design, manufacture, market, and support of high performance equipment used to test and condition integrated circuits. This business was closed down in 2007. The Company has no further operating activities and is now a shell company.

The Company has concluded that it should look for acquisitions or identify a merger partner or other business combination. 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 this action.

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.

Copies of this Annual Report, including our financial statements, and our quarterly reports on Form 10-Q as well as other corporate information, including press releases, of interest to our stockholders are available by writing us at 53 Forest Avenue - First Floor, Old Greenwich, Connecticut 06870.

Available sources of liquidity at December 31, 2016 include cash and cash equivalents of \$30,479.

The Company's common stock is a "penny stock," as defined in Rule 3a51-1 under the Exchange Act. The penny stock rules require a broker-dealer, prior to a transaction in penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its sales person in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules require that the broker-dealer, not otherwise exempt from such rules, must make a special written determination that the penny stock is suitable for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure rules have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules. So long as the Company's common stock is subject to the penny stock rules, the level of trading activity could be limited and it may be difficult for investors to sell our common stock.

EMPLOYEES

The Company has no employees. It is managed by two directors/officers, with assistance from a contract bookkeeper.

Item 1A. Risk Factors.

The Company Has No Means to Generate Revenue

We have no source of revenue. Our cash balance has been diminished by general and administrative expenses. We do not expect to generate any revenues until, and we will only potentially generate revenues if, we enter into a new

business. We believe that we may need additional financing to pay accounting and professional fees and other expenses to fulfill our reporting obligations under the Securities Exchange Act of 1934, as amended (the "Exchange Act") until we commence business operations. The sale of additional equity or convertible debt securities could result in additional dilution to the stockholders. In addition, our failure to secure additional financing could have a material adverse effect on our ability to pay the accounting and other fees required in order to continue to fulfill our reporting obligations and pursue our business plan. We do not have any arrangements with any bank or financial institution to secure additional financing and there can be no assurance that any such arrangement would be available at all or on terms acceptable to us.

The Market For Our Stock Is Not Liquid And The Stock Price Is Subject To Volatility

Our stock is quoted on the OTCQB of the OTC Marketplace under the symbol of "RLBY", where low trading volume and high volatility is often experienced. While a few firms make a market in our stock, the historically low trading volume and relatively few market makers of our stock make it more likely that a severe fluctuation in volume, either up or down, will significantly impact the stock price. There can be no assurance that these market makers will continue to quote our stock and a reduction in such market makers would negatively impact trading liquidity. Lastly, the uncertainty of the future of the Company may limit the liquidity of our stock. This and the existing limited market and volume in the trading of our stock, may result in our stockholders having difficulty selling our common stock. The trading price of our common stock has been, and will likely continue to be, subject to wide fluctuations due to the uncertainty of the future of the Company, general market fluctuations and other events and factors, some of which may be beyond our control.

Our management will have broad discretion in connection with the selection of a business combination. Any person who invests in our securities will do so without an opportunity to evaluate the specific merits or risks of any potential business combination in which we may engage. As a result, investors will be entirely dependent on the broad discretion and judgment of management in connection with the selection of a business combination. There can be no assurance that determinations made by the acting management will permit us to achieve our business objectives. Since we have not yet selected a particular industry or any target business with which to complete our business combination, stockholders will be unable to ascertain the merits or risks of the industry or business in which we may ultimately operate.

There is no basis for stockholders to evaluate the possible merits or risks of potential business combinations or the particular industry in which we may ultimately operate. To the extent that we effect a business combination with a financially unstable entity or an entity that is in its early stage of development or growth, including entities without established records of revenues or income, we will become subject to numerous risks inherent in the business and operations of such entity. In addition, to the extent that we effect a business combination with an entity in an industry characterized by a high degree of risk, we will become subject to the currently unascertainable risks of that industry. A high level of risk frequently characterizes certain industries that experience rapid growth. Although management will endeavor to evaluate the risks inherent in a particular new prospective business or industry, there can be no assurance that we will properly ascertain or assess all such risks or that subsequent events may not alter the risks that we perceive at the time of the consummation of a business combination.

We currently do not have any agreements nor any minimum requirements for a business combination. The Company has no current arrangement, agreement or understanding with respect to engaging in a business combination with a specific entity. There can be no assurance that the Company will be successful in identifying and evaluating or in concluding a business combination. No particular industry or specific business within an industry has been selected for a target company. The Company has not established a specific length of operating history or a specified level of earnings, assets, net worth or other criteria that it will require a target company to have achieved, or without which the Company would not consider a business combination with such business entity. Accordingly, the Company may enter into a business combination with a business entity having no significant operating history, losses, limited or no potential for immediate earnings, limited assets, negative net worth or other negative characteristics. There can be no assurance that the Company will be able to negotiate a business combination on terms favorable to the Company. In addition, there can be no assurance that a business combination will benefit stockholders or prove to be more favorable to stockholders than any other investment that may be made by stockholders and investors.

We may have only limited ability to evaluate the management of the target business.

We may have only limited ability to evaluate the management of the target business. Although we intend to closely scrutinize the management of a prospective target business in connection with evaluating the desirability of effecting a business combination, we cannot assure you that our assessment of management will prove to be correct. These individuals may be unfamiliar with the requirements of operating a public company and the securities laws, which could increase the time and resources we must expend to assist them in becoming familiar with the complex disclosure and financial reporting requirements imposed on U.S. public companies, including the requirement to maintain an effective system of internal controls. This could be expensive and time-consuming and could lead to various regulatory issues that may adversely affect the price of our stock.

Reporting requirements may delay or preclude the consummation of a business combination.

Pursuant to the requirements of Section 13 of the Exchange Act, the Company is required to provide certain information about significant acquisitions including audited financial statements of the acquired company. These audited financial statements must be furnished within 4 days following the effective date of a business combination. Obtaining audited financial statements are the economic responsibility of the target company. The additional time and costs that may be incurred by some potential target companies to prepare such financial statements may significantly delay or essentially preclude consummation of an otherwise desirable acquisition by the Company. Acquisition prospects that do not have or are unable to obtain the required audited statements may not be appropriate for acquisition so long as the reporting requirements of the Exchange Act are applicable.

Our principal stockholders have significant voting power and may vote their shares in a manner that is not in the best interest of other stockholders.

Our principal stockholders control over 50% of the voting power represented by our outstanding shares of Common Stock and if these stockholders act together, they will be able to exert significant control over our management and affairs requiring stockholder approval, including approval of a business combination. This concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of our common stock. This concentration of ownership may not be in the best interests of all our stockholders. Our officers and directors will allocate some portion of their time to other businesses thereby causing conflicts of interest in their determination as to how much time to devote to our affairs.

Our management is not required to commit its full time to our affairs. As a result, pursuing business combinations may require a greater period of time than if it would devote its full time to our affairs. Management is not precluded from serving as officers or directors of any other entity that is engaged in business activities similar to those of the Company. In the future, management may become associated or affiliated with entities engaged in business activities similar to those we intend to conduct. In such event, management may have conflicts of interest in determining to which entity a particular business combination should be presented. In cases where our management has multiple business affiliations, they may have similar legal obligations to present certain business opportunities to multiple entities. If several business opportunities or operating entities approach management with respect to a business combination, management will consider a number of factors, including preferences of the management of the operating company and availability of resources of the acquiring company. However, management will act in what it believes will be in the best interests of the stockholders of the Company and other respective public companies.

Because of significant competition for business combination opportunities, including numerous companies with a business plan similar to ours, it may be more difficult for us to complete a business combination.

In identifying, evaluating and selecting a target business for our potential business combination, we may encounter intense competition from other entities having a business objective similar to ours, including other blank check companies and operating businesses seeking acquisitions. Many of these entities may be well established and may have extensive experience in identifying prospective business combinations. Many of these competitors may possess greater financial, technical, human and other resources than we do and there can be no assurance that we will have the ability to compete successfully. While we believe there are numerous potential target businesses with which we could enter into a business combination with, our ability to acquire larger target businesses will be limited by our available financial resources.

There may be state blue-sky law restrictions upon the ability of investors to resell our securities.

The holders of our shares of common stock and those persons who desire to purchase them in any trading market that might develop should be aware that there may be state blue-sky law restrictions upon the ability of investors to resell our securities. Accordingly, investors should consider the secondary market for the Registrant's securities to be a limited one.

We do not expect to pay dividends for the foreseeable future.

We do not expect to pay dividends for the foreseeable future because we have no revenues. The payment of dividends will be contingent upon our future revenues and earnings, if any, capital requirements and overall financial condition. The payment of any future dividends will be within the discretion of our board of directors. It is our expectation that after the consummation of a business combination that future management will determine to retain any earnings for use in business operations and, accordingly, we do not anticipate declaring any dividends in the foreseeable future.

There may be a change in control and management of the Company in connection with a business combination.

In conjunction with completion of a business combination, it is anticipated that the Company will issue an amount of the Company's authorized but unissued common stock that represents a majority of the voting power and total capital stock of the Company, which will, in all likelihood, result in stockholders of a target company obtaining a controlling interest in the Company. As a condition of the business combination agreement, the current controlling stockholders of the Company may agree to sell or transfer all or a portion of the Company's common stock they own so as to provide the target company with all or majority control. The resulting change in control of the Company will likely result in removal of the present officer and directors of the Company and a corresponding reduction in or elimination of their participation in the future affairs of the Company.

Issuance of additional shares of common stock in connection with a business combination may result in dilution of our common stock.

A business combination normally will involve the issuance of a significant number of additional shares of common stock. Depending upon the value of the assets acquired in such business combination, the per share trading value of the Company's common stock may increase or decrease, perhaps significantly.

It is possible that our business combination may not meet the statutory requirements of a tax-free reorganization or that the parties may not obtain the intended tax-free treatment upon a transfer of stock or assets.

Federal and state tax consequences will, in all likelihood, be major considerations in any business combination that the Company may undertake. Currently, such transactions may be structured so as to result in tax-free treatment to both companies, pursuant to various federal and state tax provisions. The Company intends to structure any business combination so as to minimize the federal and state tax consequences to both the Company and the target entity; however, there can be no assurance that such business combination will meet the statutory requirements of a tax-free reorganization or that the parties will obtain the intended tax-free treatment upon a transfer of stock or assets. A non-qualifying reorganization could result in the imposition of both federal and state taxes, which may have an adverse effect on both parties to the transaction.

If we locate a suitable target business outside of the United States, we would be subject to all the inherent risks of doing business in that foreign country.

Although we intend to focus our search on target businesses located within the United States, we are not limited to this geographical region. It is possible that prospective target businesses could be introduced to us in this and other areas.

If we locate a suitable target business outside of the United States, we would be subject to all the inherent risks of doing business in that foreign country. For instance, many countries have had economic difficulties and political instability. If we were to complete a business combination with a target business located in another country, our operations and profitability could be negatively affected by that country's response to these and other issues. In addition, we cannot assure you that management of the target business will be familiar with United States securities laws. If new management is unfamiliar with our laws, it may have to expend time and resources becoming familiar with such laws. This could be expensive and time-consuming and could lead to various regulatory issues which may adversely affect our operations.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

None.

Item 3. Legal Proceedings.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's common stock trades in the over-the-counter bulletin board market under the symbol RLBY. The high and low sale prices for 2015 and 2016 are set forth below.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2015				
High	\$.085	\$.105	\$.115	\$.130
Low	.046	.040	.080	.056
2016				
High	\$.062	\$.070	.061	.065
Low	.049	.049	.038	.045

The Company paid no cash dividends in 2015 or 2016 and had 462 shareholders of record as of December 31, 2016, not counting the shareholders who hold the Company's common stock in street name.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's discussion and analysis of its financial condition and results of operations is based on the Company's financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities, if any exist. The Company evaluates its estimates on an on-going basis. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values and disclosure of amounts recorded or disclosed in the financial statements of the Company.

CRITICAL ACCOUNTING POLICIES

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.

Our audited financial statements have been prepared assuming that the Company will continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of any uncertainty articulated in Item 1.

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.

We intend to seek new business opportunities. As we have only limited cash resources, our ability to complete any acquisition or investment opportunities we may identify will depend on our ability to raise additional financing, as to which there can be no assurance. There can be no assurance that we will successfully identify, complete or integrate any future acquisition or investment, or that acquisitions or investments, if completed, will contribute favorably to our operations and future financial condition.

ANALYSIS OF FINANCIAL CONDITION

Net cash used in operating activities for the year ended December 31, 2016 was \$21,445 compared to \$25,811 during 2015. The usage of cash was attributable to the net loss, which in turn resulted from general and administrative expenses. The principal items contributing to the usage of \$21,445 in 2016 were a loss of \$30,026, with an increase in accounts payable and accrued liabilities.

Financing activities provided cash flows of \$40,000 via the issuance of a promissory note in 2016 with no financing activities occurring in 2015. In 2014, the Company issued shares of its common stock generating cash proceeds of \$50,000 and received a loan from stockholder in the amount of \$50,000.

The Company is now a shell corporation. 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.

The Company continuously is evaluating the prospects for an acceptable merger or acquisition, but the likelihood and timing of such merger or acquisition cannot be estimated with any reasonable certainty. 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 this action, in which case the Company might be forced to dissolve.

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RESULTS OF OPERATIONS

Net Revenues and Gross Profit

Revenues and gross profit for 2016 and 2015 were zero for both years, as all operations were discontinued as of September 30, 2007.

General and Administrative

General and administrative ("G&A") expenses primarily consist of legal, accounting and other professional services.

G&A expenses decreased from approximately \$30,175 in 2015 to approximately \$29,776 in 2016.

Other Income

The Company did not receive any other income in 2016 or 2015.

OFF-BALANCE SHEET ARRANGEMENTS

None.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 8. Financial Statements

The financial statements of the Company and the related report of the Company's independent registered public accounting firm thereon are included in this report on pages 15 through 23.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures. The Principal Executive Officer/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/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/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.

Management's Annual Report on Internal Control over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). 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 in accordance with accounting principles generally accepted in the United States.

The Principal Executive Officer/ Principal Financial Officer evaluated the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. Based on this evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of December 31, 2016, internal control over financial reporting was effective.

The financial statements of the Company for 2015 and 2016 have been audited by the independent registered public accounting firm of Ramirez Jimenez International CPAs who were given unrestricted access to all financial records and related data, including minutes of all meetings of stockholders and the Board of Directors. This annual report does not include an attestation report from the independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

(b) Changes in Internal Control over Financial Reporting. The management of the Company's internal controls over financial reporting changed. Previously, on November 11, 2016 Hannah Bible was appointed Principal Executive Officer/Principal Financial Officer, pursuant to the Quarterly Report on Form 10-Q filed on November 14, 2016 and assumed the responsibility of the management of the Company's internal controls and financial reporting. The aforementioned change nor any other event occurring in the current period covered by this report have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.