

RELIABILITY INC
Form 10-K/A
November 14, 2012

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 2)

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

For the Fiscal Year Ended December 31,
2011

Commission File Number 0-7092

RELIABILITY INCORPORATED
(Exact name of registrant as specified 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,
New York 10022
(Address of principal executive offices)

10022
(Zip Code)

(212) 231-8359
(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

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. YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information

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statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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.

| | | | |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |

(Do not check if a smaller reporting company)

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

State issuer's revenues for its most recent fiscal year: 0

State the aggregate market value of the voting and non-voting common equity held by non-affiliates; computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2011: \$107,500.

Number of shares outstanding of the issuer's Common Stock as of March 7, 2012: 13,513,533.

Documents Incorporated by Reference None.

RELIABILITY INCORPORATED

Form 10-K
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EXPLANATORY NOTE

We are filing this Amendment No. 2 of Form 10-K/A (the "Amendment") to our annual report on Form 10-K for the fiscal year ended December 31, 2011 (the "Original Report") to revise Item 9A (Controls and Procedures) and Item 15 (Exhibits). No other changes have been made to the Original Report. Except as otherwise reflected below, this Amendment speaks as of the filing date of the Original Report and does not reflect events that may have occurred subsequent to the filing of the Original Report.

PART I

Item 1. Description of Business

THE COMPANY

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, and 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 operating. The Company has no further operating activities and is now a shell company.

Based upon its current financial position, and an evaluation of the prospects for continuing to operate, the Company has concluded that it should sell the Company or identify a merger partner. 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 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.

Available sources of liquidity at December 31, 2011 include cash and cash equivalents of \$4,000.

EMPLOYEES

We have no employees.

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.

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 "REAL", 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. Further, with our constrained resources and increased cost and time associated with implementation of Sarbanes-Oxley, it may

not be possible for us to remain listed on the OTC Bulletin Board in the future as a fully reporting company. 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 in response to possible claims arising from our asset sale, the uncertainty of the future of the Company, general market fluctuations and other events and factors, some of which may be beyond our control.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Description of Properties.

Not applicable

Item 3. Legal Proceedings.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

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 REAL. The high and low sale prices for 2010 and 2011 are set forth below.

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|------|------------------|-------------------|------------------|-------------------|
| 2011 | | | | |
| High | \$.025 | .035 | .021 | .05 |
| Low | .012 | .021 | .012 | .012 |
| 2010 | | | | |
| High | \$.02 | \$.020 | \$.030 | \$.030 |
| Low | .01 | .010 | .010 | .010 |

The Company paid no cash dividends in 2010 or 2011 and had 190 shareholders of record as of December 31, 2011, not counting the shareholders who hold the Company stock in street name.

The following table sets forth the number of shares of the Company's common stock reserved for issuance under the Company's equity compensation plan as of December 31, 2011:

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|--|--|--|--|
| Equity compensation plans approved by security holders | \$ 370,000 | \$ 0.21 | \$ 0 |
| Equity compensation plans not approved by security holders | — | — | — |
| Total | 370,000 | \$ 0.21 | 0 |

No shares of common stock were repurchased by the Company in 2010 or 2011.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis or Plan of Operation.

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. As discussed in Note 1 to the financial statements, the Company's current circumstances, including the sale of all its revenue-generating assets and significant operating losses, raise substantial doubt about the likelihood that the Company will continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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.

ANALYSIS OF FINANCIAL CONDITION

Net cash used by operating activities for the year ended December 31, 2010 was \$29,000, compared to \$24,000 used by operations during 2011. The usage of cash in 2011 was attributable to the net loss, which in turn resulted from general and administrative expenses. The principal items contributing to the \$29,000 usage of cash in 2010 were a loss of \$32,000, offset by an increase in accounts payable and accrued liabilities of \$3,000.

Financing activities provided \$10,000 cash in 2010, while financing activities provided \$26,000 cash in 2011.

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 that may result from the possible inability of the Company to continue as a going concern.

Based upon its current financial position, and an evaluation of the prospects for continuing to operate, the Company has concluded that it should sell the Company or identify a merger partner. 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 or seek protection under the Federal bankruptcy statutes, or both.

RESULTS OF OPERATIONS

Net Revenues and Gross Profit

Revenues and gross profit for 2010 and 2011 are reported as 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 \$32,000 in 2010 to \$24,000 in 2011.

Provision for Income Taxes

The Company recorded no provision or benefit for Federal income taxes in 2010 or 2011. Benefits from the tax loss carryforwards have been fully offset by valuation allowances since realization cannot be assured.

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 12 through 18.

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

Not applicable

Item 9A.

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.

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 of accounting principles generally accepted in the United States.

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

The Principal Executive Officer and Principal Financial Officer evaluated the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. In making this assessment, the Principal Executive Officer and Principal Financial Officer used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on this evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of December 31, 2011, internal control over financial reporting was effective.

The financial statements of the Company for 2010 and 2011 have been audited by the independent registered public accounting firm of Ramirez Jimenez International CPA's 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 Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's 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. 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.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors Executive Officers, and Corporate Governance.

The following table sets forth the name, age and position with the Company of (i) each of the persons appointed to the Company's Board of Directors effective 10 days after this Information Statement is distributed to shareholders and (ii) each of the persons appointed as Executive Officer(s) of the Company as described herein:

| NAME | AGE | PRINCIPAL POSITION |
|--------------------|-----|---|
| Jay Gottlieb | 67 | Chairman of the Board of Directors, Secretary and Treasurer |
| Michael Pearce | 50 | Director |
| Greggory Schneider | 35 | Director and Chief Financial Officer |
| Joshua Krom | 35 | Director |
| Ron Gutterson | 67 | Director |

Below is the biography of the current Member of the Board of Directors:

Jay A. Gottlieb is a private investor in various companies since 1998. He is involved in analysis and investment in undervalued special situations and shell corporations. He presently owns between 5% and 25% of 10 public companies and from 2008 to 2010 was a member of the Board of Directors of Golf Trust of America, Inc. From 1992 to 1998 he was the editor of an investment service that analyzed and published extensive data on companies planning initial public offerings. From 1977 to 1991, Mr. Gottlieb was the President and Chairman of the Board of The Computer Factory, Inc.(NYSE), a nationwide organization involved in retail and direct sales, servicing and leasing of personal computers. From 1969 to 1988, he was President of National Corporate Sciences, Inc., a registered investment advisory service. Mr. Gottlieb holds a Bachelor of Arts from New York University.

Michael Pearce is Chairman of Pernix Therapeutics Holdings, Inc (NYSE Amex:PTX), a specialty pharmaceutical company. From November 2007 to March 2010, he was Chairman and Chief Executive Officer of Golf Trust of America, Inc. (NYSE Amex:GTA). Mr. Pearce has been a private investor in various companies since 2002, with emphasis in distressed securities of publicly traded entities. From late 1999 through 2001, he served as Chief Executive Officer of iEntertainment Network. From 1996 to 1998, he served as Senior Vice President of Sales and Marketing of publicly traded VocalTec Communications, later returning in 1999 in a consulting capacity to its Chairman on matters pertaining to strategic alternatives, business development and mergers and acquisitions. From 1983 to 1996, he was employed in various technology industry management positions, including Senior Vice President of Sales and Marketing at Ventana Communications, a subsidiary of Thomson Corporation; Vice President of Sales at Librex Computer Systems, a subsidiary of Nippon Steel; and National Sales Manager at Hyundai Electronics America. From 1979 to 1983, he attended Southern Methodist University.

Gregg Schneider is a private investor who specializes in undervalued publicly traded securities. During the past sixteen years, Mr. Schneider has been an active dealer in numismatic items, specializing in U.S. rare coins and currency. Mr. Schneider attended two years of courses at UCLA and is involved in several charitable organizations.

Joshua Krom is the President of Realty Asset Management, LLC, a full service real estate company which has specialized in acquiring and rapidly repositioning distressed properties with the goal of maximize its investors' returns. Mr. Krom has significant experience in the financial analysis of residential portfolios, retail, industrial and apartment buildings. He is a member of some of the most prominent national Real Estate Owned organizations. Prior to forming Realty Asset Management, LLC, Mr. Krom practiced real estate and corporate law. He is a licensed attorney and real estate broker in California and a licensed real estate broker in Nevada. Mr. Krom received his Juris Doctorate degree from Emory University School of Law where he was a Dean's Honors recipient. He graduated with High Honors from the University of California, Santa Barbara where he received a Bachelor of Arts Degree in

Communications.

Ron Gutterson has for the last 15 years been President and Chief Operating Officer of Sage Solutions Inc., a New York based computer technology organization. During this period, he has rendered technology services to the major Fortune 100 corporations of America in the manufacturing, banking, and brokerage industries. For ten years prior, Mr. Gutterson was Vice President of Sales for the International Operations division of a major home furnishings convertor based out of New York. He holds a B.S. in Economics and an MBA in Finance.

Directors serve a one-year term and hold office until their successors are elected by the shareholders, unless they shall sooner resign.

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Item 11. Executive Compensation.

Summary compensation table

The Company has not paid any salary to its officers or Directors in 2011 or 2010.

Under the Company's Amended and Restated 1997 Stock Option Plan ("Option Plan"), which expired in 2006, stock option grants were available for officers, directors, and key employees. The objective of the Option Plan was 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 acted as the Plan Administrator, determined to whom options were granted, the type of options, the number of shares covered by such options and the option vesting schedule. All options were issued at market value on the date of the grant and generally had a ten-year contractual term with graded vesting.

Outstanding equity awards

The following table discloses information regarding all option awards, to executive officers, to purchase the Company's Common Stock as of December 31, 2011.

| Name (a) | Option Awards | | Option Exercise Price (e) | Option Expiration Date (f) |
|----------------------------------|----------------------|--|---------------------------------|----------------------------------|
| | # Exercisable (b) | Number of Securities Underlying Unexercised Options # Unexercisable (1) (c) | | |
| Larry Edwards (former President) | 200,000 | | \$.21 | 7/19/2016 |

(1) All issued options are vested and became exercisable on January 20, 2007.

Director Compensation

None

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Principal shareholders

Based on information available to the Company through filings with the Securities and Exchange Commission, each of the following persons or groups beneficially owned 5% or more of the 12,013,333 shares of common stock outstanding as of December 31, 2011.

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership Percent of Class | | |
|--|---|------|---|
| Jay Gottlieb 27 Misty Brook Lane, New Fairfield, CT 06812 | 4,136,588 | 34.4 | % |
| William Vlahos 601 Montgomery St., Ste. 1112, San Francisco, CA 94111 | 1,250,000 | 10.4 | % |

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. In January 2011, the Company issued 1,083,333 shares of common stock for total proceeds of \$13,000. In April 2011, the Company issued 500,000 shares for a total of \$8,000. On January 17, 2012 the Board voted to issue 1,500,000 shares to Jay Gottlieb and Gregg Schneider at \$0.016 per share for a total of \$24,000.

Security ownership of management

As of December 31, 2011, the amount of common stock owned by the directors of the Company was:

| Name of individual or group | Amount and Nature of Beneficial | |
|---|---------------------------------|----------------------|
| | Ownership (1), (2) | Percent of Class (3) |
| Jay Gottlieb | 4,136,588 | 34.4 % |
| Gregg Schneider | 1,160,000 | 9.7 |
| All executive officers and directors as a group | 5,296,588 | 44.1 % |

Item

13. Certain Relationships and Related Transactions and Director Independence

All directors other than Jay Gottlieb and Gregg Schneider are independent.

Item 14. Principal Accountant's Fees and Services

Aggregate fees paid or payable to Ramirez Jimenez International CPA's in connection with their services during fiscal years 2010 and 2011 are listed below:

| Fee category | 2010 | 2011 |
|--------------------|-----------|-----------|
| Audit fees | \$ 14,000 | \$ 14,000 |
| Audit-related fees | | |
| Tax fees | | |
| All other fees | | |
| Total fees | \$ 14,000 | \$ 14,000 |

Audit Fees: Consists of fees billed for professional services rendered for the audits of Reliability's annual financial statements and the review of Reliability's quarterly financial statements.

Tax Fees: Consists of tax compliance/preparation and other tax services. Tax compliance/preparation consists of fees billed for professional services related to federal, state and international tax compliance. Other tax services consist of fees billed for other miscellaneous tax consulting and planning.

PART IV

Item 15. Exhibits

The following exhibits are filed as part of this report or incorporated by reference:

Financial Statements: as referenced in Item 8 hereof

| | |
|-----------|--|
| 3.1 | Restated Articles of Incorporation (with amendment). Reference is made to Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995. |
| 3.2 | Restated Bylaws. Reference is made to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003. |
| 3.3 | Amended Bylaws. Reference is made to Exhibit 3.01 of the Company's Form 8-K, filed on April 6, 2007. |
| 23.1 | Consent of Independent Registered Public Accounting Firm—Ramirez Jimenez International CPA's. |
| 31.1 | Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act. |
| 31.2 | Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act. |
| 32.1 | Certification Pursuant to Rule 13a-14(b)/15d-14(b) and Section 1350, Chapter 63, Title 18 of the United States Code (Certification will not be deemed "filed" for purposes of Section 18 of the Securities Act of 1934, as amended). |
| 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 |

** 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 Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 2 to its Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

RELIABILITY INCORPORATED
(Registrant)

DATE: November 13, 2012

BY

/s/ Jay Gottlieb
Jay Gottlieb, Chairman of the
Board of Directors,
President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

/s/ Jay Gottlieb
Jay Gottlieb, President and Director
(Principal Executive Officer)

DATE: November 13, 2012

/s/ Gregg Schneider
Gregg Schneider, Chief Financial Officer and
Director (Principal Financial Officer)

DATE: November 13, 2012

/s/ Michael Pearce
Michael Pearce, Director

DATE: November 13, 2012

/s/ Ron Gutterson
Ron Gutterson, Director

DATE: November 13, 2012

/s/ Josh Krom
Josh Krom, Director

DATE: November 13, 2012

RELIABILITY INCORPORATED

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Reliability Incorporated

We have audited the accompanying balance sheets of Reliability Incorporated as of December 31, 2011 and 2010, and the related statements of operations, stockholders' equity (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Reliability Incorporated as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has no operating activities. It is now a shell company and its future plans are uncertain. These factors raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Ramirez Jimenez International
CPA's

Irvine, California
March 7, 2012

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

| | December 31, 2011 | December 31, 2010 |
|---|-------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4 | \$ 2 |
| Total current assets | 4 | 2 |
| | | |
| Total Assets | \$ 4 | \$ 2 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 9 | \$ 9 |
| Loans from officers | 5 | - |
| | | |
| Total current liabilities | 14 | 9 |
| | | |
| Stockholders' equity (deficit): | | |
| Common stock, without par value; 20,000,000 shares authorized; 12,367,633 and 10,784,300 shares issued respectively | 9,838 | 9,817 |
| Accumulated deficit | (8,754) | (8,730) |
| Less treasury stock at cost, 354,300 shares | (1,094) | (1,094) |
| | | |
| Total stockholders' equity (deficit) | (10) | (7) |
| | | |
| Total Liabilities and Stockholders' Equity (Deficit) | \$ 4 | \$ 2 |

The accompanying notes are an integral part of these statements.

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

| | Year ended December 31, | |
|-----------------------------------|-------------------------|-----------|
| | 2011 | 2010 |
| Operating expenses: | | |
| General and administrative | \$ 24 | \$ 32 |
| Total cost and expenses | 24 | 32 |
| Loss before income taxes | (24) | (32) |
| Provision for income taxes | - | - |
| Net Loss | \$ (24) | \$ (32) |
| Basic and diluted loss per share: | \$ Nil | \$ Nil |
| Weighted average shares: | | |
| Basic | 11,557 | 9,965 |
| Diluted | 11,557 | 9,965 |

The accompanying notes are an integral part of these statements.

RELIABILITY INCORPORATED
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(In thousands)

| | Common Stock | | Treasury Stock (At Cost) | | Retained Earnings | Total Stockholders' Equity (Deficit) |
|------------------------------|--------------|---------|-----------------------------|------------|----------------------|---|
| | Shares | Amount | Shares | Amount | (Deficit) | (Deficit) |
| Balance at December 31, 2009 | 9,984 | \$9,807 | (354) | \$(1,094) | \$(8,698) | \$ 15 |
| Issuance of stock | 800 | 10 | | | | 10 |
| Net loss | | | | | (32) | (32) |
| Balance at December 31, 2010 | 10,784 | \$9,817 | (354) | \$(1,094) | \$(8,730) | \$ (7) |
| | 444 | | | | | |
| Issuance of stock | 1,583 | 21 | | | | 21 |
| Net loss | | | | | (24) | (24) |
| Balance at December 31, 2011 | 12,367 | \$9,838 | (354) | \$(1,094) | \$(8,754) | \$ (10) |

The accompanying notes are an integral part of these statements.

RELIABILITY INCORPORATED

STATEMENTS OF CASH FLOWS
(In thousands)

| | Year ended December 31, | |
|--|-------------------------|---------|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net loss | \$ (24) | \$ (32) |
| Changes in operating assets and liabilities: | | |
| Accounts payable and accrued liabilities | - | 3 |
| Net cash used by operating activities | (24) | (29) |
| Cash flows from financing activities: | | |
| Loans from officers | 5 | - |
| Issuance of stock for cash | 21 | 10 |
| Net cash provided by financing activities | 26 | 10 |
| Net increase (decrease) in cash and cash equivalents | 2 | (19) |
| Cash and cash equivalents: | | |
| Beginning of period | 2 | 21 |
| End of period | \$ 4 | \$ 2 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ - | \$ - |
| Income taxes | \$ - | \$ - |

The accompanying notes are an integral part of these statements.

RELIABILITY INCORPORATED
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GOING CONCERN

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has no operating activities and is now a shell company. The Company has concluded that it should sell the company or identify a merger partner. 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.

Two of the Company's stockholder/officers have advanced cash to the Company on a short-term non-interest bearing basis to pay for ongoing general and administrative expenses. As of December 31, 2011, \$5,000 had been advanced and was reflected as Loans from officers.

BASIS OF PRESENTATION

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

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. The Company adopted the modified-prospective method. Under this method, 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, for awards granted after January 1, 2006.

INCOME TAXES

Deferred 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 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 Company generated net losses in 2011 and 2010, outstanding stock options would have been anti-dilutive and were not considered in these calculations.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of cash equivalents, accounts payable and accrued liabilities, and loans from officers at December 31, 2011 and 2010 approximated fair value due to their short maturity or nature.

2. INCOME TAXES

At December 31, 2011, the Company had U.S. net operating loss carryforwards of approximately \$15 million that will expire commencing in 2023 through 2030. These carryforwards may be subject to certain limitations on annual utilization in the event of a change in ownership, as defined by tax law. The Company has established valuation allowances to fully offset the deferred income tax assets related to these loss carryforwards, based upon the available evidence that indicates that it is more likely than not that the Company will not realize the tax benefits.

RELIABILITY INCORPORATED
NOTES TO FINANCIAL STATEMENTS—(Continued)
December 31, 2011

3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of December 31, 2011 and 2010 consist of the following (in thousands):

| | 2010 | 2011 |
|----------------------------|------------|------------|
| Legal and accounting costs | \$9 | \$9 |
| Total | \$9 | \$9 |

4. EMPLOYEE STOCK SAVINGS PLAN

The Reliability Incorporated Employee Stock Saving Plan (the “Plan”) (As Amended and Restated Effective January 1, 2000) was terminated effective November 16, 2006, with all accounts fully vested as of such date. The Company filed the termination of the Plan with the Internal Revenue Service to request a favorable letter of determination and notified all employees covered by the Plan of its termination, and their rights to final payment thereunder. The Company received a favorable letter of determination from the Internal Revenue Service.

The Plan allowed eligible United States employees to contribute up to 100% of defined compensation to the Plan and to elect to have contributions not be subject to Federal income taxes under Section 401(k) of the Internal Revenue Code. The Company matched employee contributions to the Plan at a rate equal to 50% of the employee’s contribution, but the Company’s matching contribution was limited to 2% of the employee’s defined compensation. The Company also made a voluntary contribution of an amount equal to 1% of the defined compensation of all participants. The Company also contributed a profit sharing amount based on the profits of the Company. The maximum profit sharing contribution was 5% of compensation. The Company registered and reserved 500,000 shares in 1992, and registered and reserved 500,000 additional shares in 2001, of common stock for sale to the Plan. The registration statements cover shares purchased both in the open market and from the Company. The Plan did not purchase any shares from the Company during the two-year period ending in 2011. At December 31, 2011, 354,300 reserved shares remain unissued under the 2001 registration statement. There are no plans to issue the reserved shares as the plan has been terminated.

5. STOCK OPTION PLAN

Under the Company’s Amended and Restated 1997 Stock Option Plan (the “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. No options were granted under the Option Plan during the years ended December 31, 2011 and 2010.

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, 2011, was 4.80 years for outstanding and exercisable options. There were no options exercised and none that expired or were canceled during the years ended December 31, 2010 and 2011. As of December 31, 2010 and 2011, 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.

6. STOCKHOLDERS’ EQUITY

During August 2010, the Company issued 800,000 shares of common stock for proceeds of \$10,000.

During January 2011, the Company issued 1,083,333 shares of common stock for proceeds of \$13,000. During April 2011, the Company issued 500,000 shares for proceeds of \$8,000.

7. SUBSEQUENT EVENTS

On January 17, 2012 the Board voted to issue 1,500,000 shares 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. No other material subsequent events have occurred since December 31, 2011 that require recognition or disclosure in the financial statements.

