RELIABILITY INC
Form 10-Q
August 13, 2008
Table of Contents

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 June 30, 2008

¨ 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 small business issuer in its charter)

TEXAS	75-0868913
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
Post Office Box 218690 Houston, Texas	77218-8690
(Address of principal executive offices)	(Zip Code)

(281) 492-0550

(Issuer s telephone number, including area code)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety days. YES x NO ¨

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

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

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date: 6,335,965 shares of Common Stock, no par value as of June 1, 2008.

Transitional Small Business Disclosure Format (check one): Yes ¨ No x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes ¨ No x

Table of Contents

RELIABILITY INCORPORATED

FORM 10-Q

TABLE OF CONTENTS

June 30, 2008

		Page No.
	PART I FINANCIAL INFORMATION	
Item 1.	Financial Statements:	
	Consolidated Balance Sheets as of June 30, 2008 Unaudited and December 31, 2007	3
	Unaudited Consolidated Statements of Operations:	
	Six Months Ended June 30, 2008 and 2007	4
	Three Months Ended June 30, 2008 and 2007	5
	Unaudited Consolidated Statements of Cash Flows:	
	Six Months Ended June 30, 2008 and 2007	6
	Notes to Unaudited Consolidated Financial Statements	7-12
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	13-14
Item 4T.	Controls and Procedures	14
	PART II OTHER INFORMATION	
Item 6.	Exhibits	15
Signatures		16

2

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

RELIABILITY INCORPORATED

UNAUDITED CONSOLIDATED BALANCE SHEET (In thousands)

	June 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1	$ 32
Prepaid expenses		33
Assets of discontinued operations	104	106
Total current assets	105	171
Asset held for sale	100	225
	$ 205	$ 396
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accrued liabilities	$ 29	$ 42
Accrued liabilities of discontinued operations	128	120
Total current liabilities	157	162
Stockholders equity:		
Common stock, without par value; 20,000,000 shares authorized; 6,690,265 issued	9,767	9,767
Accumulated deficit	(8,625)	(8,439)
Less treasury stock at cost, 354,300 shares	(1,094)	(1,094)
Total stockholders equity	48	234
	$ 205	$ 396

See accompanying notes.

Table of Contents

RELIABILITY INCORPORATED

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
General and administrative	$ 50	$ 389
Impairment on real estate held for sale	126	
Total cost and expenses	176	389
Operating (loss) from continuing operations	(176)	(389)
Other income (expense):		
Interest income		20
Other income		1
Total other income (expense)		21
(Loss) from continuing operations, before income taxes	(176)	(368)
Provision for income taxes		
(Loss) from continuing operations	(176)	(368)
(Loss) from discontinued operations, net of income tax provisions of nil	(10)	(54)
Net (loss)	$ (186)	$ (422)
Basic and diluted (loss) per share:		
Continuing operations	$ (.03)	$ (.06)
Discontinued operations	.00	(.01)
Net (loss)	$ (.03)	$ (.07)
Weighted average shares:		
Basic	6,336	6,336
Diluted	6,336	6,336

See accompanying notes.

Table of Contents

RELIABILITY INCORPORATED

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
General and administrative	$ 24	$ 168
Impairment on real estate held for sale	126	
Total cost and expenses	150	168
Operating (loss) from continuing operations	(150)	(168)
Other income (expense):		
Interest income		4
Other (expense)	(3)	
Total other income (expense)	(3)	4
(Loss) from continuing operations, before income taxes	(153)	(164)
Provision for income taxes		
(Loss) from continuing operations	(153)	(164)
(Loss) from discontinued operations, net of income tax provisions of nil	(8)	17
Net (loss)	$ (161)	$ (147)
Basic and diluted (loss) per share:		
Continuing operations	$ (.03)	$ (.03)
Discontinued operations	.00	.01
Net (loss)	$ (.03)	$ (.02)
Weighted average shares:		
Basic	6,336	6,336
Diluted	6,336	6,336

See accompanying notes.

Table of Contents

RELIABILITY INCORPORATED

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Cash flows from operating activities:		
Net (loss)	$ (186)	$ (422)
(Loss) from discontinued operations	(10)	(54)
(Loss) from continuing operations	(176)	(368)
Adjustment to reconcile net (loss) to cash used by operating activities:		
Impairment on real estate held for sale	126	
Changes in operating assets and liabilities:		
Accounts receivable	4	2
Prepaid expenses	28	19
Accounts payable and accrued liabilities	(13)	78
Total adjustments	145	99
Net cash (used) by continuing operations	(31)	(269)
Net cash (used) by discontinued operations		(876)
Net cash (used) by operating activities	(31)	(1,145)
Net (decrease) in cash	(31)	(1,145)
Cash and cash equivalents:		
Beginning of period	32	1,258
End of period	$ 1	113

See accompanying notes.

Table of Contents

RELIABILITY INCORPORATED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

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

Discontinuance of all Operations and Liquidity

The Company has sustained significant negative financial results, including substantial decreases in revenues, net income, and cash flows from operating activities. The deterioration in the Company s financial condition and liquidity are generally attributable to operating losses sustained in each of the last seven years.

Due to the deterioration in its financial position, the Company undertook significant steps to reduce its expenses and improve the Company s liquidity, including the sale and discontinuance of all operations. Based upon its current financial position, the Company concluded that it should pursue the following course of action: sell its remaining real estate holding and invest in another line of business through a purchase or merger.

On April 1, 2007, Reliability completed the merger of its wholly owned subsidiary, Reliability-Medallion, Inc., a Florida corporation, into Medallion Electric Acquisition Corporation and the indirect acquisition, through Medallion Electric Acquisition Corporation, of Medallion Electric, Inc. Medallion Electric Acquisition Corporation was incorporated under the laws of the State of Florida on December 8, 2006 to facilitate a merger between business entities and was considered to be a development stage company with no operations at March 31, 2007. On June 21, 2007, the Company changed the name of Medallion Electric Acquisition Corporation (*MEAC*) to Reliability Contractors of Florida, Inc. Reliability Contractors of Florida, Inc. is a wholly-owned subsidiary of Reliability.

Medallion Electric, Inc. (*Medallion Electric* or *Medallion*) was incorporated in the State of Florida in 1980. Medallion Electric is an electrical contracting company, located in Coral Springs, Florida, specializing in electrical contracting services to residential homebuilders, with its major assets consisting of contracts for services to be performed and accounts receivable. Medallion Electric is a wholly-owned subsidiary of Reliability Contractors of Florida, Inc. (collectively referred to as *Reliability Florida* or *Electrical Contracting Services*).

All of the funds used for the initial acquisition payment and the Company s transaction costs related to the merger and acquisition were paid out of the Company s cash on hand. The Company funded $750,000 to finance the acquisition. $100,000 of such funds was made available to Medallion Electric as working capital; $150,000 was used by MEAC to pay its transaction related expenses. The remaining $500,000 was used to make the initial payment to the sole shareholder of Medallion Electric for 100% of the stock of Medallion Electric. The remainder of the purchase price consisted of two notes- one for $500,000 due in six months and one for $1.4 million due in six months. The Company secured the $500,000 note with the pledge of its real property in North Carolina; the $1.4 million note was secured with the assets of Medallion Electric.

The Company planned to pay the notes from the Company s working capital, funds generated by Electrical Contracting Services, additional debt and/or equity financing, and the sale of a part of its real estate located in North Carolina. However, in early September, 2007 it became apparent, the Company was not generating enough funds and had not been successful in raising debt or equity funds to meet all of the obligations which would be due on October 1, 2007. Therefore, the Reliability Board of Directors passed a resolution on September 25, 2007 that instructed management to enter into an agreement to sell Medallion Electric, Inc. back to the previous owner.

Table of Contents

RELIABILITY INCORPORATED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

On October 12, 2007, the Company and its subsidiaries Reliability Contractors of Florida, Inc. and Medallion Electric, Inc. entered into a Settlement, Sale of Stock and Release Agreement (*Agreement*) with Mr. Ronald Masaracchio, the previous owner, pursuant to which Reliability Contractors sold back the stock of Medallion effective October 1, 2007. The Company agreed to pay $325,000 upon the closing of the sale of part of the Company s North Carolina real estate, which was under a purchase and sale contract, and transfer 100% of the Medallion stock to the previous owner, who agreed to release all the liens against the Company s assets, cancel all the notes, and release the Company from any and all of its obligations to him. In addition to the $325,000, Reliability transferred all the stock of Medallion which held assets that were valued at approximately $1.7 million on Reliability s balance sheet and liabilities which were generated in the normal course of business at Medallion valued at approximately $529,000.

Upon the closing of the sale of a portion of Reliability s North Carolina real estate on October 26, 2007, the previous owner received the $325,000, and the sale of Medallion Electric, the release of the liens, and cancellation of all the obligations was consummated. At the time of the sale, the previous owner held two notes totaling $1.9 million, which were due October 1, 2007, and an earnout agreement which called for a minimum payment of $750,000 over three years. The notes were secured by the assets of Medallion and the North Carolina property owned by Reliability. The sale of Medallion back to previous owner included a release of all liability on the notes and the earnout agreement, assumption of all Medallion ordinary course of business debts and obligations, mutual releases between Reliability and previous owner, including a release of the security for the notes. The net proceeds from the sale of a part of the North Carolina real estate to Reliability, after the $325,000 payment and all other expenses of the sale, were $292,000. The Company retained the ownership of 10 acres of land in North Carolina.

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

The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern.

Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with instructions to Form 10-Q and Item 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

The consolidated financial statements include the financial transactions and accounts of the Company and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation. For further information, refer to the financial statements and footnotes thereto included in the Company s annual report on Form 10-KSB for the year ended December 31, 2007.

Certain expenses on the consolidated statement of operations for the three and six months ended June 30, 2007, related primarily to discontinued operations, have been reclassified to be consistent with the classifications adapted for the three and six months ended June 30, 2008. These reclassifications had no effect on net income.

Table of Contents

RELIABILITY INCORPORATED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

Accounting Estimates

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

Stock Options

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

Cash Equivalents

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

Property, Plant and Equipment

The Company has approximately 10 acres of land held for sale and is reflected at cost net of an allowance for impairment. See Note 4.

2. INCOME TAXES

Deferred income taxes are provided under the liability method and reflect the net tax effects of temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements. The Company establishes valuation allowances when the realization of specific deferred tax assets are subject to significant uncertainty. The Company recorded no tax benefits on its operating losses, as the losses will have to be carried forward and realization of any benefit is uncertain.

At December 31, 2007, the Company had U.S. net operating loss carryforwards of $15.3 million that will expire commencing in 2023 through 2027. These carryforwards may be subject to certain limitations on annual utilization in the event of a change in ownership, as defined by tax law. See Note 5 in the Company s 10-KSB dated December 31, 2007.

3. ACCRUED LIABILITES

Accrued liabilities as of June 30, 2008 and December 31, 2007 consist of the following (in thousands):

	June 30, 2008	December 31, 2007
Property tax	$	$ 5
Professional fees	25	16
Insurance		19

Other	4	2
	$ 29	$ 42

4. ASSETS HELD FOR SALE AND IMPAIRMENT LOSS SUBSEQUENT EVENT

The Company shut down a Services facility in North Carolina in April 1998. On October 26, 2007, seven and one half acres of the land and a building previously occupied by the Services operation were sold for $675,000 cash. The Company retained 10 acres of land adjacent to the property that was sold. The value of the land is presented as assets held for sale in the accompanying consolidated balance sheet. An impairment loss of $159,000 was recorded in the third quarter of 2007 to reduce the carrying value of the real estate held for sale to $225,000. Subsequent to June 30, 2008, the property was sold with net proceeds received of $99,500 and an impairment loss of $126,000 recorded at June 30, 2008.

Table of Contents

RELIABILITY INCORPORATED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

5. STOCK OPTION PLAN

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

On January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards 123(R), *Share-Based Payment* (SFAS 123(R)). SFAS 123(R) requires that the compensation cost relating to stock-based payments, including grants of employee stock options, be recognized in financial statements. The Company recognizes the fair value of stock-based compensation awards as compensation expense in its statement of operations on a straight line basis, over the vesting period, for awards granted after January 1, 2006 and for unvested awards outstanding as of December 31, 2005.

The fair value of each option is estimated on the date of grant using a Black-Scholes option-pricing model. Expected volatilities are based on a number of factors, including historical volatility of the Company s stock. The Company uses the shortcut method described in SAB Topic 14D.2 for determining the expected life used in the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. As the Company has not declared dividends since it became a public entity, no dividend yield is used in the calculation. No options were granted during the six months ended June 30, 2008.

At June 30, 2008, there were no unvested option grants, thus no further stock option expense will be recorded until such time that additional grants are made. The weighted-average remaining contractual term, as of June 30, 2008, was 8.6 years for outstanding and exercisable options. The following table summarizes option activity for the six months ended June 30, 2008:

	Number of Options	Weighted Average Price
Balance as of December 31, 2007	370,000	$ .21
Expired or canceled		
Exercised		
Granted		
Balance as of June 30, 2008	370,000	$ .21

In addition to the options outstanding under The Company s Stock Option Plan, 100,000 options were issued in connection with a business combination and were outstanding and exercisable at December 31, 2007. These options were canceled as of January, 2008.

Table of Contents

RELIABILITY INCORPORATED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

6. DISCONTINUED OPERATIONS

On March 14, 2006, the Company sold its Power Sources Division to Reliability Power, Inc., an unaffiliated third party. Proceeds from the sale were $300,000.

On April 18, 2006, the Company announced plans to close down its Services division located in Singapore. During the wind down of operations, the division has maintained a small number of employees to complete unfinished jobs, provide limited services for its customers while they seek alternative service providers, prepare equipment for sale and vacate the division s leased facility. The liquidation of the Company s former Services division was substantially complete as of June 30, 2007.

In April of 2007 , following the acquisition of Medallion Electric, the Company concluded that it should abandon its Testing Products business in favor of concentrating all available resources on its newly acquired business line, Electrical Contracting Services.

On September 25, 2007, the Company s Board of Directors passed a resolution to sell Medallion Electric to the previous owner. Therefore, all operations, including Electrical Contracting Services (Medallion Electric, Inc.) are included as discontinued operations.

Results for all operations for the Company s former Power Sources, Services, Testing Products, and Electrical Contracting Services are reported as discontinued operations in the accompanying Statement of Operations for each period presented. Net sales and the related income or (loss) from discontinued operations are as follows (in thousands):

	Three Months Ended June 30,	
	2008	**2007**
Revenues:		
Power Sources	$	$
Services		
Testing Products		
Electrical Contracting Services		1,261
	$	$ 1,261
Income (loss) from discontinued operations:		
Power Sources		
Services	(8)	
Testing Products		
Electrical Contracting Services		104
	$ (8)	$ 104

	Six Months Ended June 30,	
	2008	**2007**
Revenues:		
Power Sources	$	$

Services		36
Testing Products		6
Electrical Contracting Services		1,261
	$	$ 1,303
Income (loss) from discontinued operations:		
Power Sources		
Services	(2)	(160)
Testing Products		4
Electrical Contracting Services		104
	$ (2)	$ (52)

Table of Contents

RELIABILITY INCORPORATED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

The assets and liabilities of the Company s former Services segment are reported as assets of discontinued operations and accrued liabilities of discontinued operations in the accompanying Consolidated Balance Sheet for each period presented. There are no remaining assets or liabilities of the Company s former Power Sources or Testing Products segment. The assets and accrued liabilities from discontinued operations of the Company s former Services segment are as follows (in thousands):

	Ended June 30, 2008	Ended December 31, 2007
Assets:		
Cash	$ 96	$ 91
Accounts receivable	8	15
	$ 104	$ 106
Accrued liabilities:		
Accrued payroll and termination benefits	119	$ 113
Other accrued liabilities	9	7
	$ 128	$ 120

Table of Contents

RELIABILITY INCORPORATED

MANAGEMENT S DISCUSSION AND ANALYSIS

June 30, 2008

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

FORWARD-LOOKING STATEMENTS

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

CRITICAL ACCOUNTING POLICIES AND COMMENTS RELATED TO OPERATIONS

The Company has defined a critical accounting policy as one that is both important to the portrayal of the Company s financial condition and results of operations and requires the management of the Company to make difficult, subjective or complex judgments. Estimates and assumptions about future events and their effects cannot be perceived with certainty. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the Company s operating environment changes. There have been no material changes or developments in the Company s evaluation of the accounting estimates and the underlying assumptions or methodologies that it believes to be Critical Accounting Policies and Estimates as disclosed in its Form 10-KSB for the year ended December 31, 2007.

Management s Discussion included in the Form 10-KSB for the year ended December 31, 2007 includes discussion of various factors related to the decline in the Company s revenues and items related to the Company s results of operations, liquidity, merger and acquisition. There have been no other significant changes in most of the factors discussed in the Form 10-KSB and many of the items discussed in the Form 10-KSB are relevant to 2008 operations; thus the reader of this report should read Management s Discussion included in Form 10-KSB for the year ended December 31, 2007 and Form 8-K filed on April 6, 2007.

Table of Contents

RELIABILITY INCORPORATED

MANAGEMENT S DISCUSSION AND ANALYSIS

June 30, 2008

LIQUIDITY AND CAPITAL RESOURCES

Due to the deterioration in its financial position, the Company undertook significant steps to reduce its expenses and improve the Company s liquidity, including the sale and discontinuance of all operations. Based upon its current financial position, the Company concluded that it should pursue the following course of action: sell its remaining real estate holding and invest in another line of business through a purchase or merger.

On April 1, 2007, the Company consummated a merger of its wholly owned subsidiary, Reliability-Medallion, Inc., a Florida corporation, into Medallion Electric Acquisition Corporation, a Florida corporation (MEAC), and the indirect acquisition, through MEAC, of Medallion Electric, Inc., a Florida corporation (Medallion Electric). All of the funds used for the initial payment to Medallion Electric were paid out of the Company s cash on hand. Additional payments were to come from the Company s working capital, funds generated by the private placements, and funds generated by Medallion Electric s operations. However, the Company was not successful in raising funds or increasing its liquidity from Medallion s operation over a period of time that would allow it to continue to service the related acquisition commitments.

The Company passed a resolution on September 25, 2007 to sell Medallion Electric back to its previous owners and the operation was sold effective October 1, 2007. See the Company s Form 10-KSB Note 1 filed for the year ended December 31, 2007, and Note 1 of this document for more information. The Company is now reporting all the operations as discontinued operations.

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

Net cash used by operating activities during the six months ended June 30, 2008 was $31,000 compared to $1,145,000 used by operations in the comparable period of 2007. The principal items contributing to the difference was a lower loss from continuing operations of $31,000 in 2008 as compared to $368,000 in 2007, as well as $808,000 used in 2007 related to the Medallion transaction.

RESULTS OF OPERATIONS

Six months ended June 30, 2008 compared to six months ended June 30, 2007.

Revenues and Gross Profit.

Revenues and gross profit for the three and six months ended June 30, 2008, and 2007 were all reported as zero, since all operations are reported as discontinued operations.

General and Administrative

Marketing, general and administrative expenses decreased from $389,000 for the six months ended June 30, 2007 to $50,000 for the first six months of 2008. The expense reductions were primarily the result of a decrease in payroll and payroll related cost due to staff reductions and pay decreases, a decrease in corporate compliance and professional fees, and a reduction in rent and utility expenses.

Interest, Other Income and Impairment Loss on Real Estate Held for Sale

Interest and other income was $21,000 for the six months ended June 30, 2007 compared with zero for the same period of 2008. The Company generated approximately $20,000 in interest in the six months ended in 2007 from its cash investments vs zero in the same period of 2008. Subsequent to June 30, 2008, land held for sale was sold resulting in proceeds of $99,500 and an impairment loss of $126,000 recorded at June 30, 2008.

Item 4T. Controls and Procedures.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Acting Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to Rule 13a-5 under the Securities Exchange Act. Based on that evaluation, the Company s Chief Executive Officer and Acting Chief Financial Officer had concluded that the Company s disclosure controls and procedures provide reasonable assurance of their effectiveness.

There have been no significant changes in the Company s internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation described in the preceding paragraph.

Table of Contents

RELIABILITY INCORPORATED

OTHER INFORMATION

PART II - OTHER INFORMATION

June 30, 2008

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

Item 6. Exhibits:
The following exhibits are filed as part of this report:

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

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

Table of Contents

RELIABILITY INCORPORATED

SIGNATURES

June 30, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RELIABILITY INCORPORATED

(Registrant)

August 13, 2008

/s/ Larry Edwards
Larry Edwards
President and Chief Executive Officer