

RELIABILITY INC
Form 10QSB
August 14, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

x **QUARTERLY REPORT UNDER SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2007

.. **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
(State or other jurisdiction of
incorporation or organization)

15720 Park Row Suite 500
Post Office Box 218370

75-0868913
(I.R.S. Employer
Identification Number)

77218-8370

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Houston, Texas
(Address of principal executive offices)

(281) 492-0550

(Zip Code)

(Issuer's telephone number, including area code)

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

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 August 13, 2007.

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

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

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

RELIABILITY INCORPORATED

UNAUDITED CONSOLIDATED BALANCE SHEET

(In thousands)

| | June 30, 2007 |
|---|----------------------|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 304 |
| Accounts receivable | 670 |
| Prepaid expenses | 32 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 756 |
| Assets of discontinued operations | 92 |
| Other | 16 |
| Total current assets | 1,870 |
| Property, machinery and equipment, at cost: | |
| Machinery and equipment | 291 |
| Less accumulated depreciation | (173) |
| Net property, machinery and equipment | 118 |
| Other assets: | |
| Assets held for sale | 1,000 |
| Goodwill | 2,192 |
| Deferred acquisition cost | 5 |
| Total other assets | 3,197 |
| | \$ 5,185 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| Current liabilities: | |
| Accounts payable | 298 |
| Accrued liabilities | 302 |
| Notes payable | 1,870 |
| Earnout payable | 250 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 29 |
| Accrued liabilities of discontinued operations | 115 |
| Total current liabilities | 2,864 |
| Long-term liabilities: | |
| Notes payable (net of current portion) | 16 |
| Earnout payable (net of current portion) | 500 |
| Total long-term liabilities | 516 |

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| | |
|--|----------|
| | 3,380 |
| Stockholders' equity: | |
| Common stock, without par value; 20,000,000 shares authorized; 6,690,265 shares issued | 9,767 |
| Accumulated deficit | (6,868) |
| Less treasury stock at cost, 354,300 shares | (1,094) |
| Total stockholders' equity | 1,805 |
| | \$ 5,185 |

See accompanying notes.

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RELIABILITY INCORPORATED

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

| | Six Months Ended June 30, | |
|--|---------------------------|---------|
| | 2007 | 2006 |
| Revenue | \$ 1,261 | \$ |
| Costs and expenses: | | |
| Cost of goods sold | 854 | |
| Marketing, general and administrative | 647 | 627 |
| Total cost and expenses | 1,501 | 627 |
| (Gain) on the sale of assets | | (1,542) |
| Operating income (loss) from continuing operations | (240) | 915 |
| Other income (expense): | | |
| Interest (expense) | (47) | (170) |
| Interest income | 20 | 14 |
| Other income | 1 | 36 |
| Total other income (expense) | (26) | (120) |
| Income (loss) from continuing operations, before income taxes | (266) | 795 |
| Provision for income taxes | | |
| Income (loss) from continuing operations | (266) | 795 |
| (Loss) from discontinued operations, net of income tax provisions of nil | (156) | (428) |
| Net income (loss) | \$ (422) | \$ 367 |
| Basic earnings (loss) per share: | | |
| Continuing operations | \$ (.04) | \$ 0.13 |
| Discontinued operations | (.03) | (0.07) |
| Net income (loss) | \$ (.07) | \$ 0.06 |
| Diluted earnings (loss) per share: | | |
| Continuing operations | \$ (.04) | \$ 0.11 |
| Discontinued operations | (.02) | (0.06) |
| Net income (loss) | \$ (.06) | \$ 0.05 |
| Weighted average shares: | | |
| Basic | 6,336 | 6,336 |
| Diluted | 6,806 | 6,806 |

See accompanying notes.

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RELIABILITY INCORPORATED

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

| | Three Months Ended June 30, | |
|--|-----------------------------|---------|
| | 2007 | 2006 |
| Revenue | \$ 1,261 | \$ |
| Costs and expenses: | | |
| Cost of goods sold | 854 | |
| Marketing, general and administrative | 426 | 318 |
| Total cost and expenses | 1,280 | 318 |
| (Gain) on the sale of assets | | (1,482) |
| Operating income (loss) from continuing operations | (19) | 1,164 |
| Other income (expense): | | |
| Interest (expense) | (47) | (85) |
| Interest income | 4 | 6 |
| Other income | | 19 |
| Total other income (expense) | (43) | (60) |
| Income (loss) from continuing operations, before income taxes | (62) | 1,104 |
| Provision for income taxes | | |
| Income (loss) from continuing operations | (62) | 1,104 |
| (Loss) from discontinued operations, net of income tax provisions of nil | (85) | (317) |
| Net income (loss) | \$ (147) | \$ 787 |
| Basic earnings (loss) per share: | | |
| Continuing operations | \$ (.01) | \$ 0.17 |
| Discontinued operations | (.01) | (0.05) |
| Net income (loss) | \$ (.02) | \$ 0.12 |
| Diluted earnings (loss) per share: | | |
| Continuing operations | \$ (.01) | \$ 0.16 |
| Discontinued operations | (.01) | (0.05) |
| Net income (loss) | \$ (.02) | \$ 0.11 |
| Weighted average shares: | | |
| Basic | 6,336 | 6,336 |
| Diluted | 6,806 | 6,806 |

See accompanying notes.

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RELIABILITY INCORPORATED

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

| | Six Months Ended June 30, | |
|---|---------------------------|----------|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (422) | \$ 367 |
| (Loss) from discontinued operations | (156) | (428) |
| Income (loss) from continuing operations | (266) | 795 |
| Adjustments to reconcile net income to cash (used) by operating activities: | | |
| Depreciation | 8 | 1 |
| Stock option expense | | 3 |
| (Gain) on sale of assets | | (1,542) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 225 | |
| Prepaid expenses | 7 | 115 |
| Cost & earnings in excess of billings on uncompleted contracts | (335) | |
| Accounts payable | 159 | 19 |
| Accrued liabilities | 148 | (332) |
| Billings in excess of costs & earnings on uncompleted contracts | (10) | |
| Total adjustments | 202 | (1,736) |
| Net cash (used) by continuing operations | (64) | (941) |
| Net cash (used) by discontinued operations | (49) | (97) |
| Net cash (used) by operating activities | (113) | (1,038) |
| Cash flows from investing activities: | | |
| Capital expenditures | (1) | |
| Proceeds from sale of investment securities | | 207 |
| Proceeds from sale of assets | | 4,002 |
| Proceeds from sale of discontinued operation | | 300 |
| Acquisition of business (net of cash acquired) | (787) | |
| Net cash (used) provided by investing activities | (788) | 4,509 |
| Cash flows from financing activities: | | |
| Increase in short-term debt | | 330 |
| Repayments of short-term debt | (53) | (2,886) |
| Net cash (used) by financing activities | (53) | (2,556) |
| Net (decrease) increase in cash | (954) | 915 |
| Cash and cash equivalents: | | |
| Beginning of period | 1,258 | 742 |
| End of period | \$ 304 | \$ 1,657 |
| Supplemental cash flow information: | | |
| Interest paid | | 167 |
| Owner financing of acquisition costs | 2,635 | |

See accompanying notes.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Description and Liquidity

Reliability Incorporated has historically been engaged in the design, manufacture, market and support of high performance equipment used to test and condition integrated circuits (Testing Products). Reliability also designed, manufactured and marketed a line of DC-DC power converters (Power Sources). Reliability and its subsidiaries (collectively referred to as Reliability or the Company) also operated a service facility in Singapore that conditioned and tested integrated circuits as a service for others (Services).

During the past six years, the Company has sustained significant negative financial results, including substantial decreases in revenues, net income, backlog, and cash flows from operating activities that are generally attributable to operating losses in its historical business segments. Due to the deterioration in its financial position, the Company has undergone significant restructuring to reduce its expenses and improve its liquidity, including: the closure of its Power Sources Costa Rica facility, significant downsizing of its domestic and international workforce, suspension of all res