



**QUARTERLY REPORT**  
**MARCH 31, 2018**  
**UNAUDITED**

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## **OTC Pink Basic Disclosure Guidelines**

### **1) Name of the issuer and its predecessors (if any)**

Orbit International Corp.

### **2) Address of the issuer's principal executive offices**

#### Company Headquarters

Address 1: 80 Cabot Court

Address 2: Hauppauge, NY 11788

Address 3:

Phone: 631-435-8300

Email: info@orbitintl.com

Website(s): www.orbitintl.com

#### IR Contact

Address 1: 80 Cabot Court

Address 2: Hauppauge, NY 11788

Address 3:

Phone: 631-435-8300

Email: dgoldman@orbitintl.com

Website(s): www.orbitintl.com

### **3) Security Information**

Trading Symbol: ORBT

Exact title and class of securities outstanding: Common Stock

CUSIP: 685559304

Par or Stated Value: \$0.10

Total shares authorized: 10,000,000 as of: 3/31/2018

Total shares outstanding: 3,619,504 as of: 3/31/2018

Additional class of securities (if necessary):

Trading Symbol:

Exact title and class of securities outstanding:

CUSIP:

Par or Stated Value:

Total shares authorized: as of:

Total shares outstanding: as of:

#### Transfer Agent

Name: American Stock Transfer and Trust Company, LLC

Address 1: 6201 15<sup>th</sup> Avenue

Address 2: Brooklyn, NY 11219

Address 3:

Phone: 718-921-8200

Is the Transfer Agent registered under the Exchange Act?\* Yes: ☒ No: ☐

\*To be included in the OTC Pink Current Information tier, the transfer agent must be registered under the Exchange Act.

List any restrictions on the transfer of security:

None.

Describe any trading suspension orders issued by the SEC in the past 12 months.

None.

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

None.

#### **4) Issuance History**

List below any events, in chronological order, that resulted in changes in total shares outstanding by the issuer in the past two fiscal years and any interim period. The list shall include all offerings of equity securities, including debt convertible into equity securities, whether private or public, and all shares or any other securities or options to acquire such securities issued for services, describing (1) the securities, (2) the persons or entities to whom such securities were issued and (3) the services provided by such persons or entities. The list shall indicate:

A. The nature of each offering (e.g., Securities Act Rule 504, intrastate, etc.);

The Company had no offerings in the past two fiscal years or in the current interim period.

The following is a reconciliation of the Company's outstanding shares from 1/1/16-3/31/18:

|                                                       |                         |
|-------------------------------------------------------|-------------------------|
| Outstanding shares at 1/1/16                          | 4,383,358               |
| Purchase of treasury shares (1/1/16-12/31/16)         | <u>(196,201)</u>        |
| Outstanding shares at 12/31/16                        | 4,187,157               |
| Forfeiture of restricted shares (1/1/17-12/31/17):    |                         |
| Kenneth Ice-Former President, Orbit Electronics Group | (4,400)                 |
| Purchase of treasury shares (1/1/17-12/31/17)         | <u>(563,253)</u>        |
| Shares outstanding at 12/31/17                        | 3,619,504               |
| Purchase of treasury shares (1/1/18-3/31/18)          | <u>-</u>                |
| Shares outstanding at 3/31/18                         | <u><u>3,619,504</u></u> |

B. Any jurisdictions where the offering was registered or qualified;

N/A

C. The number of shares offered;

N/A

D. The number of shares sold;

N/A

E. The price at which the shares were offered, and the amount actually paid to the issuer;

N/A

F. The trading status of the shares; and

N/A

G. Whether the certificates or other documents that evidence the shares contain a legend (1) stating that the shares have not been registered under the Securities Act and (2) setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act.

N/A

## **5) Financial Statements**

Provide the financial statements described below for the most recent fiscal year end or quarter end to maintain qualification for the OTC Pink Current Information tier. For the initial disclosure statement (qualifying for Current Information for the first time) please provide reports for the two previous fiscal years and any interim periods.

- A. Balance sheet;
- B. Statement of income;
- C. Statement of cash flows;
- D. Financial notes; and
- E. Audit letter, if audited

The financial statements requested pursuant to this item shall be prepared in accordance with US GAAP by persons with sufficient financial skills.

You may either (i) attach/append the financial statements to this disclosure statement or (ii) post such financial statements through the OTC Disclosure & News Service as a separate report using the appropriate report name for the applicable period end. ("Annual Report," "Quarterly Report" or "Interim Report").

If you choose to publish the financial reports separately as described in part (ii) above, you must state in the accompanying disclosure statement that such financial statements are incorporated by reference. You may reference the document(s) containing the required financial statements by indicating the document name, period end date, and the date that it was posted to otcicq.com in the field below.

Information contained in a Financial Report is considered current until the due date for the subsequent Financial Report. To remain in the OTC Pink Current Information tier, a company must post its Annual Report within 90 days from its fiscal year-end date and Quarterly Reports within 45 days of its fiscal quarter-end date.

The Company's consolidated financial statements are included herein beginning on page 11.

## **6) Describe the Issuer's Business, Products and Services**

Describe the issuer's business so a potential investor can clearly understand the company. In answering this item, please include the following:

A. a description of the issuer's business operations;

Orbit International Corp. conducts its operations through its Electronics and Power Groups. The Company's Electronics Group is comprised of its Orbit Instrument, Tulip Development Laboratory ("TDL") and Integrated Combat Systems ("ICS") Divisions. Through its Orbit Instrument and TDL Divisions, the Company is engaged in the design, manufacture and sale of customized electronic components and subsystems. ICS, based in Louisville, Kentucky, performs systems integration for gun weapons systems and fire control interface and cable and harness assembly. The Power Group is comprised of the Company's wholly owned subsidiary, Behlman Electronics Inc. ("Behlman"), and is engaged in the design and manufacture of high quality commercial power units, AC power, frequency converters, uninterruptible power supplies and commercial-off-the-shelf ("COTS") power solutions.

B. Date and State (or Jurisdiction) of Incorporation:

Orbit International Corp. was incorporated under the laws of the State of New York on April 4, 1957 as Orbit Instrument Corp. In December 1986, the state of incorporation was changed from New York to Delaware and in July 1991, the Company's name was changed to Orbit International Corp.

C. the issuer's primary and secondary SIC Codes;

3679 (Electronic Components, not elsewhere classified)

D. the issuer's fiscal year end date;

December 31

E. principal products or services, and their markets;

The Electronics Group's ("OEG") principal products include remote control units ("RCU"), intercommunication panels, displays, keyboards, keypads and pointing devices, operator control trays, command display units ("CDU'S"), gun weapon system products and cable and harness assemblies. These products are used primarily in support of military programs. The Power Group's principal products include power supplies, frequency converters, uninterruptible power supply products, armament systems and inverters. These products are primarily used in commercial applications and in support of military programs.

## **7) Describe the Issuer's Facilities**

The goal of this section is to provide a potential investor with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer.

In responding to this item, please clearly describe the assets, properties or facilities of the issuer, give the location of the principal plants and other property of the issuer and describe the condition of the

properties. If the issuer does not have complete ownership or control of the property (for example, if others also own the property or if there is a mortgage on the property), describe the limitations on the ownership.

If the issuer leases any assets, properties or facilities, clearly describe them as above and the terms of their leases.

Our plant and executive offices are located at 80 Cabot Court, Hauppauge, New York. This facility, which consists of approximately 60,000 square feet (of which approximately 50,000 square feet are available for manufacturing operations) in a two-story, brick building, was completed in October 1982 and expanded in 1985. We are currently operating this facility at approximately 70% of capacity. In March 2001, we completed a sale-leaseback transaction whereby we sold our land and building for \$3,000,000 and entered into a twelve-year net lease with the buyer of the property. Effective January 1, 2011, we entered into an amendment to the lease. The amendment extended the lease expiration date to December 31, 2021 and modified the lease payments as follows: approximately \$32,500 per month for January 2011 through December 2013, approximately \$35,400 per month for January 2014 through December 2016, and approximately \$38,600 per month for January 2017 through December 2021. In connection with the lease amendment, our landlord agreed, at its sole expense, to make certain improvements to the facility.

In December 2007, our Behlman subsidiary entered into a lease for a 2,000 square foot facility at 2363 Teller Road, Unit 108, Newbury Park, California, which was used as a selling office for all of the Company's operating units. In December 2012, the lease was amended whereby the expiration date was extended to December 31, 2017 at a lease payment of approximately \$2,300 per month for the term of the lease. In November 2016, we requested from the landlord an early termination of the lease and in February 2017, this lease was terminated effective March 31, 2017. In March 2017, we entered into a one-year lease for a 503 square foot facility located at 199 W. Hillcrest Drive, Thousand Oaks, California which is used as a selling office for the Electronics Group. The monthly lease payment was \$2,300 through March 31, 2018 and was renewed for another year at a monthly lease payment of \$2,530. The lease expires March 31, 2019 but is subject to an automatic one-year renewal, at prevailing market rates, assuming no prior notification of termination from the tenant.

Our ICS division operates out of a 2,500 square foot facility in Louisville, Kentucky. In March 2014, ICS entered into a lease for a three-year period, with a three-year renewal option, for approximately 4,700 square feet. The lease payments were as follows: approximately \$4,100 per month for April 2014 through March 2015, approximately \$4,300 per month for April 2015 through March 2016, and approximately \$4,500 per month for April 2016 through March 2017. Our lease at this location expired March 31, 2017. In December 2016, ICS entered into a new two-year sub-lease agreement for a different facility which is also located in Louisville, Kentucky. The lease payments at the new facility are \$1,685 per month for January 2017 through December 2018.

## **8) Officers, Directors, and Control Persons**

The goal of this section is to provide an investor with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business

development and disclosure of the issuer, as well as the identity of any significant shareholders.

- A. Names of Officers, Directors, and Control Persons. In responding to this item, please provide the names of each of the issuer's executive officers, directors, general partners and control persons (control persons are beneficial owners of more than five percent (5%) of any class of the issuer's equity securities), as of the date of this information statement.

Officers and Directors

Mitchell Binder-President, CEO and Director  
David Goldman-CFO, Treasurer, Secretary and Director  
Karl Schmidt-COO  
Wayne Cadwallader-Director  
Fredric Gruder-Director  
Bernard Karcinell-Director

Control Persons:

| <u>Name and Address</u>                                                            | <u>Shares<br/>Beneficially Owned</u> | <u>Percentage<br/>of Class</u> |
|------------------------------------------------------------------------------------|--------------------------------------|--------------------------------|
| Elkhorn Partners Limited<br>Partnership<br>2222 Skyline Drive<br>Elkhorn, NE 68022 | 1,689,602 (1)                        | 46.68%                         |

- (1) Based on information provided to the Company in June 2017.  
Includes shares owned individually by the partnership's general partner.

- B. Legal/Disciplinary History. Please identify whether any of the foregoing persons have, in the last five years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

None.

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

None.

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

None.

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

None.

C. Beneficial Shareholders. Provide a list of the name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer's equity securities. If any of the beneficial shareholders are corporate shareholders, provide the name and address of the person(s) owning or controlling such corporate shareholders and the resident agents of the corporate shareholders.

| <u>Name and Address</u>                                                                                                | <u>Shares<br/>Beneficially Owned</u> | <u>Percentage<br/>of Class</u> |
|------------------------------------------------------------------------------------------------------------------------|--------------------------------------|--------------------------------|
| Elkhorn Partners Limited<br>Partnership, Alan S. Parsow-<br>General Partner<br>2222 Skyline Drive<br>Elkhorn, NE 68022 | 1,689,602 (1)                        | 46.68%                         |

(1) Based on information provided to the Company in June 2017. Includes shares owned individually by the partnership's general partner.

#### **9) Third Party Providers**

Please provide the name, address, telephone number, and email address of each of the following outside providers that advise your company on matters relating to operations, business development and disclosure:

##### Legal Counsel

Name: Irvin Brum  
Firm: Ruskin Moscou Faltischek P.C.  
Address 1: 1425 RXR Plaza  
Address 2: East Tower, 15<sup>th</sup> Floor  
Uniondale, NY 11556  
Phone: 516-663-6610  
Email: ibrum@rmfpc.com

##### Accountant or Auditor

Name: Michael Monahan  
Firm: CohnReznick LLP  
Address 1: 100 Jericho Quadrangle  
Address 2: Jericho, NY 11753  
Phone: 516-336-5509  
Email: michael.monahan@cohnreznick.com

##### Investor Relations Consultant-N/A

Other Advisor: Any other advisor(s) that assisted, advised, prepared or provided information with respect to this disclosure statement.-N/A

## 10) Issuer Certification

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles, but having the same responsibilities).

The certifications shall follow the format below:

I, Mitchell Binder certify that:

1. I have reviewed this quarterly report of Orbit International Corp.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

May 15, 2018

/s/ Mitchell Binder  
CEO

I, David Goldman certify that:

1. I have reviewed this quarterly report of Orbit International Corp.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

May 15, 2018

/s/ David Goldman  
CFO

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

| <u>ASSETS</u>                                                                   | March 31,<br><u>2018</u><br>(unaudited) | December 31,<br><u>2017</u> |
|---------------------------------------------------------------------------------|-----------------------------------------|-----------------------------|
| Current assets:                                                                 |                                         |                             |
| Cash and cash equivalents.....                                                  | \$ 858,000                              | \$ 941,000                  |
| Investments in marketable securities....                                        | -                                       | 301,000                     |
| Accounts receivable (less allowance for<br>doubtful accounts of \$115,000)..... | 2,538,000                               | 3,248,000                   |
| Contract assets.....                                                            | 1,776,000                               | -                           |
| Inventories.....                                                                | 9,557,000                               | 10,080,000                  |
| Income tax receivable.....                                                      | 8,000                                   | 15,000                      |
| Other current assets.....                                                       | <u>1,207,000</u>                        | <u>131,000</u>              |
| Total current assets.....                                                       | 15,944,000                              | 14,716,000                  |
| Property and equipment, net.....                                                | 296,000                                 | 183,000                     |
| Goodwill.....                                                                   | 868,000                                 | 868,000                     |
| Other assets.....                                                               | 33,000                                  | 33,000                      |
| Deferred tax asset, net.....                                                    | <u>550,000</u>                          | <u>550,000</u>              |
| TOTAL ASSETS.....                                                               | <u>\$17,691,000</u>                     | <u>\$16,350,000</u>         |

The accompanying notes are an integral part of these condensed consolidated financial statements.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(continued)

|                                                                                                                                                                                                                                                      | March 31,<br>2018<br>(unaudited) | December 31,<br>2017 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------|
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>                                                                                                                                                                                                          |                                  |                      |
| Current liabilities:                                                                                                                                                                                                                                 |                                  |                      |
| Accounts payable.....                                                                                                                                                                                                                                | \$ 673,000                       | \$ 524,000           |
| Accrued expenses.....                                                                                                                                                                                                                                | 926,000                          | 1,014,000            |
| Customer advances.....                                                                                                                                                                                                                               | <u>89,000</u>                    | <u>69,000</u>        |
| Total current liabilities.....                                                                                                                                                                                                                       | 1,688,000                        | 1,607,000            |
| Line of credit.....                                                                                                                                                                                                                                  | <u>500,000</u>                   | <u>-</u>             |
| Total liabilities.....                                                                                                                                                                                                                               | <u>2,188,000</u>                 | <u>1,607,000</u>     |
| STOCKHOLDERS' EQUITY                                                                                                                                                                                                                                 |                                  |                      |
| Common stock - \$.10 par value, 10,000,000 shares<br>authorized, 4,582,000 shares issued at March 31, 2018<br>and December 31, 2017, respectively, and 3,620,000<br>shares outstanding at March 31, 2018 and<br>December 31, 2017, respectively..... |                                  |                      |
|                                                                                                                                                                                                                                                      | 458,000                          | 458,000              |
| Additional paid-in capital.....                                                                                                                                                                                                                      | 20,942,000                       | 20,932,000           |
| Treasury stock, at cost, 962,000 shares at<br>March 31, 2018 and December 31, 2017, respectively                                                                                                                                                     | (3,419,000)                      | (3,419,000)          |
| Accumulated other comprehensive income, net of tax                                                                                                                                                                                                   | -                                | 1,000                |
| Accumulated deficit.....                                                                                                                                                                                                                             | <u>(2,478,000)</u>               | <u>(3,229,000)</u>   |
| Total stockholders' equity.....                                                                                                                                                                                                                      | <u>15,503,000</u>                | <u>14,743,000</u>    |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....                                                                                                                                                                                                      | <u>\$17,691,000</u>              | <u>\$16,350,000</u>  |

The accompanying notes are an integral part of these condensed consolidated financial statements.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
(unaudited)

|                                                                                               | Three Months Ended<br>March 31, |                   |
|-----------------------------------------------------------------------------------------------|---------------------------------|-------------------|
|                                                                                               | <u>2018</u>                     | <u>2017</u>       |
| Net sales.....                                                                                | \$ 5,349,000                    | \$ 5,207,000      |
| Cost of sales.....                                                                            | <u>3,197,000</u>                | <u>3,193,000</u>  |
| Gross profit.....                                                                             | <u>2,152,000</u>                | <u>2,014,000</u>  |
| Selling, general and<br>administrative<br>expenses.....                                       | 1,717,000                       | 1,671,000         |
| Investment and<br>other (income), net....                                                     | <u>2,000</u>                    | <u>19,000</u>     |
| Income before tax<br>provision.....                                                           | 433,000                         | 324,000           |
| Income tax provision....                                                                      | <u>12,000</u>                   | <u>11,000</u>     |
| <b>NET INCOME.....</b>                                                                        | <b>421,000</b>                  | <b>313,000</b>    |
| Change in unrealized<br>gains (losses) on marketable<br>securities, net of<br>income tax..... | <u>(1,000)</u>                  | <u>20,000</u>     |
| Comprehensive income                                                                          | <u>\$ 420,000</u>               | <u>\$ 333,000</u> |
| Net income per common share:                                                                  |                                 |                   |
| Basic                                                                                         | <u>\$ 0.12</u>                  | <u>\$ 0.08</u>    |
| Diluted                                                                                       | <u>\$ 0.12</u>                  | <u>\$ 0.08</u>    |
| Weighted average number of<br>common shares outstanding:                                      |                                 |                   |
| Basic                                                                                         | <u>3,594,000</u>                | <u>4,053,000</u>  |
| Diluted                                                                                       | <u>3,602,000</u>                | <u>4,059,000</u>  |

The accompanying notes are an integral part of these condensed consolidated financial statements.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

|                                                                                                | Three Months Ended<br>March 31, |                |
|------------------------------------------------------------------------------------------------|---------------------------------|----------------|
|                                                                                                | <u>2018</u>                     | <u>2017</u>    |
| Cash flows from operating activities:                                                          |                                 |                |
| Net income.....                                                                                | \$ 421,000                      | \$ 313,000     |
| Adjustments to reconcile net income to net<br>cash (used in) provided by operating activities: |                                 |                |
| Stock based compensation expense.....                                                          | 9,000                           | 13,000         |
| Cumulative effect of adoption of ASC 606....                                                   | 330,000                         | -              |
| Depreciation and amortization.....                                                             | 24,000                          | 33,000         |
| Loss on sale of marketable securities.....                                                     | 6,000                           | 22,000         |
| Bond discount.....                                                                             | -                               | 1,000          |
| Changes in operating assets and liabilities:                                                   |                                 |                |
| Accounts receivable.....                                                                       | 710,000                         | (235,000)      |
| Contract assets.....                                                                           | (1,776,000)                     | -              |
| Inventories.....                                                                               | 523,000                         | 4,000          |
| Other current assets.....                                                                      | (1,076,000)                     | (55,000)       |
| Accounts payable.....                                                                          | 149,000                         | 240,000        |
| Accrued expenses.....                                                                          | (88,000)                        | 32,000         |
| Income tax receivable.....                                                                     | 7,000                           | 13,000         |
| Customer advances.....                                                                         | 20,000                          | 199,000        |
| Other liabilities.....                                                                         | <u>-</u>                        | <u>2,000</u>   |
| Net cash (used in) provided by operating<br>activities.....                                    | <u>(741,000)</u>                | <u>582,000</u> |
| Cash flows from investing activities:                                                          |                                 |                |
| Purchases of property and equipment.....                                                       | (138,000)                       | (15,000)       |
| Purchases of marketable securities.....                                                        | -                               | (99,000)       |
| Sale of marketable securities.....                                                             | <u>296,000</u>                  | <u>114,000</u> |
| Net cash provided by investing activities.....                                                 | <u>158,000</u>                  | <u>-</u>       |

(continued)

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)  
(continued)

|                                                             | Three Months Ended<br>March 31, |                    |
|-------------------------------------------------------------|---------------------------------|--------------------|
|                                                             | <u>2018</u>                     | <u>2017</u>        |
| Cash flows from financing activities:                       |                                 |                    |
| Purchase of treasury stock.....                             | \$ -                            | \$ (730,000)       |
| Advances under line of credit.....                          | <u>500,000</u>                  | <u>-</u>           |
| Net cash provided by (used in) financing<br>activities..... | <u>500,000</u>                  | <u>(730,000)</u>   |
| NET DECREASE IN CASH AND CASH EQUIVALENTS.....              | <u>(83,000)</u>                 | <u>(148,000)</u>   |
| Cash and cash equivalents - Beginning of period             | <u>941,000</u>                  | <u>2,076,000</u>   |
| CASH AND CASH EQUIVALENTS - End of period.....              | <u>\$ 858,000</u>               | <u>\$1,928,000</u> |
| Supplemental cash flow information:                         |                                 |                    |
| Cash paid (refunds received) for income taxes               | <u>\$ 5,000</u>                 | <u>\$ (2,000)</u>  |

The accompanying notes are an integral part of these condensed consolidated financial statements.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

(NOTE 1) - Basis of Presentation and Summary of Significant Accounting Policies:

General

The interim financial information contained herein is unaudited. However, in the opinion of management, such information reflects all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of operations for the periods being reported. Additionally, it should be noted that the accompanying consolidated financial statements do not purport to contain complete disclosures required for annual financial statements in accordance with accounting principles generally accepted in the United States of America.

The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results of operations that can be expected for the year ending December 31, 2018.

The December 31, 2017 balance sheet has been derived from the audited consolidated financial statements at that date but does not include all disclosures required by GAAP. These condensed consolidated statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2017 contained in the Company's 2017 Annual Report filed with the OTC Pink Marketplace on March 30, 2018.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company maintains cash in bank deposit accounts, which, at times, exceed federally insured limits. The Company has not experienced any losses on these accounts.

Marketable Securities

The Company's investments are classified as available-for-sale securities and are stated at fair value, based on quoted market prices, with the unrealized gains and losses, net of income tax, reported in accumulated other comprehensive income (loss). Realized gains and losses are included in investment income. Any decline in value judged to be other-than-temporary on available-for-sale securities are included in earnings to the extent they relate to a credit loss. A credit loss is the difference between the present value of cash flows expected to be collected from the security and the amortized cost basis. The amount of any impairment related to other factors will be recognized in comprehensive income (loss). The cost of securities is based on the specific-identification method. Interest and dividends on such securities are included in investment income.

Allowance for Doubtful Accounts

Accounts receivable are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Company estimates doubtful accounts based on historical bad debts, factors related to specific customers' ability to pay and current economic trends.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)  
(continued)

(NOTE 1) - Basis of Presentation and Summary of Significant Accounting Policies (continued):

The Company writes off accounts receivable against the allowance when a balance is determined to be uncollectible.

Inventories

Inventories, which consist of raw materials, work-in-process, and finished goods, are recorded at cost (average cost method) or net realizable value. Inventories are shown net of any reserves relating to any potential slow moving or obsolete inventory.

Property and Equipment

Property and equipment is recorded at cost. Depreciation and amortization of the respective assets are computed using the straight-line method over their estimated useful lives ranging from 3 to 10 years. Leasehold improvements are amortized using the straight-line method over the remaining term of the lease or the estimated useful life of the improvement, whichever is less.

Long-Lived Assets

When impairment indicators are present, the Company reviews the carrying value of its long-lived assets in determining the ultimate recoverability of their unamortized values using future undiscounted cash flow analyses. In the event the future undiscounted cash flows of the long-lived asset are less than the carrying value, the Company will record an impairment charge for the difference between the carrying value and the fair value of the long-lived asset.

Goodwill

The Company records goodwill as the excess of purchase price over the fair value of identifiable net assets acquired. In accordance with Accounting Standards Codification ("ASC") 350, goodwill is not amortized but instead tested for impairment on at least an annual basis. The Company, where appropriate, will utilize Accounting Standards Update ("ASU") 2011-08 which allows the Company to not perform the two-step goodwill impairment test if it determines that it is not more likely than not that the fair value of the reporting unit is less than the carrying amount based on a qualitative assessment of the reporting unit. The Company's annual goodwill impairment test is performed in the fourth quarter each year or sooner when impairment indicators are present. If the goodwill is deemed to be impaired, the difference between the carrying amount reflected in the financial statements and the estimated fair value is recognized as an expense in the period in which the impairment occurs. In determining the recoverability of goodwill, assumptions are made regarding estimated future cash flows and other factors to determine the fair value of the assets.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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(continued)

(NOTE 1) - Basis of Presentation and Summary of Significant Accounting Policies (continued):

Income Taxes

The Company recognizes deferred tax assets and liabilities in accordance with ASC 740 based on the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances have been established to reduce deferred tax assets to the amount expected to be realized. The Company evaluates uncertain tax positions and accounts for such items in accordance with ASC 740-10. The Company is subject to federal income taxes and files a consolidated U.S. federal income tax return. In addition to the federal tax return, the Company files income tax returns in various state jurisdictions on both an unconsolidated and consolidated basis depending on the respective state. The Company is subject to routine income tax audits in various jurisdictions and tax returns remain open to examination by such taxing authorities in accordance with their respective statutes.

Revenue and Cost Recognition

On January 1, 2018, the Company began accounting for its revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers. The core principle of this Topic is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

When adopting the new guidance, the Company elected to use the modified retrospective (cumulative effect) transition method which was applied only to contracts that were not completed at the date of initial application. The Company recorded an increase to opening retained earnings of \$330,000 for the cumulative effect of adopting the new guidance which also resulted in an increase to contract assets of \$1,255,000 and a decrease to inventory of \$925,000.

The Company recognizes revenue when control transfers to its customer. The Company has determined that control transfers to its customers over time when a contract contains an enforceable right to payment for performance completed to date, such as a termination for convenience provision, and when the manufactured product has no alternative use. The Company has determined that it has no alternative use for its product when it reaches the finished good/top assembly stage. Before that point, the product is considered inventory. The Company recognizes revenue over time using an output method based on units shipped with an adjustment to revenue and ending inventory for any product where control has deemed to transfer to the customer. The adjustment to revenue is based on the stand alone selling price of the unit

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES  
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(NOTE 1) - Basis of Presentation and Summary of Significant Accounting Policies (continued):

multiplied by the equivalent number of units in ending inventory. The adjustment to ending inventory and cost of sales is based on the estimated material, direct labor and overhead costs associated with the units in ending inventory. The Company recognizes revenue at a point in time (when shipped) for all other contracts that either do not contain an enforceable right to payment for performance completed to date or where the top assembly/finished good has alternative use.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue as of a point in time or over time. Our remaining performance obligations, which we refer to as our backlog, was \$26,489,000 at March 31, 2018. The period of performance for our backlog is estimated to be approximately \$16,430,000 in 2018 and \$10,059,000 in 2019.

Under the modified retrospective method, we are required to disclose the impact to financial statement elements had we continued to follow our accounting polies under the previous revenue recognition guidance. The table below shows the comparison between current and previous revenue recognition guidance on impacted financial statement line items:

| Financial Statement<br>Line Item | Current<br>Guidanace-<br>3/31/18 | Previous<br>Guidance-<br>3/31/18 |
|----------------------------------|----------------------------------|----------------------------------|
| Sales                            | \$5,349,000                      | \$ 4,828,000                     |
| Cost of sales                    | \$3,197,000                      | \$ 2,906,000                     |
| Gross Profit                     | \$2,152,000                      | \$ 1,922,000                     |
| Net Income                       | \$ 421,000                       | \$ 191,000                       |
| Contract Assets                  | \$1,776,000                      | \$ 0                             |
| Inventory                        | \$9,557,000                      | \$10,773,000                     |

The differences in the financial statement line items referenced above are principally due to the recognition of revenue on product in the finished good/top assembly stage at March 31, 2018. Under previous guidance, revenue would not have been recognized on this product until it was shipped.

Our contract assets account represents revenue that we have recognized but have not yet shipped or billed our customer for. This account will be reversed, and accounts receivable will be increased when we ship the product and invoice our customer.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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(NOTE 1) - Basis of Presentation and Summary of Significant Accounting Policies (continued):

The following table summarizes our contract assets balances:

|                                |             |
|--------------------------------|-------------|
| Contact Assets-January 1, 2018 | \$1,255,000 |
| Contract Assets-March 31, 2018 | \$1,776,000 |
| Change                         | \$ 521,000  |

The change from January 1, 2018 to March 31, 2018 was primarily the result of an increase in revenue recognized on finished good/top assembly inventory at March 31, 2018.

Deferred Rent

The Company's leases have escalation clauses which are recognized on a straight-line basis over the life of the lease. The amounts are recorded in accrued expenses in the accompanying financial statements.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and unrealized gains and losses on marketable securities, net of tax. The Company has elected to present the components of net income (loss), the components of other comprehensive income (loss) and total comprehensive income (loss) as a single continuous statement.

(Note 2) - Stock-Based Compensation:

The Company had stock-based employee compensation plans, which provided for the granting of nonqualified and incentive stock options, as well as restricted stock awards and stock appreciation rights to officers, employees and key persons. The plans granted options at the market value of the Company's stock on the date of such grant and all options expired ten years after grant. The terms and vesting schedules for stock-based awards vary by type of grant and generally the awards vest based upon time-based conditions. Stock option exercises were funded through the issuance of the Company's common stock. Stock-based compensation expense for the three months ended March 31, 2018 and 2017 was \$9,000 and \$13,000, respectively.

The Company's stock-based employee compensation plans allowed for the issuance of restricted stock awards that may not be sold or otherwise transferred until certain restrictions have lapsed. The unearned stock-based compensation related to restricted stock granted is being amortized to compensation expense over the vesting period, which is seven years. The stock-based expense for these awards was determined based on the market price of the Company's stock at the date of grant applied to the total number of shares that were anticipated to vest. As of March 31, 2018, the Company had unearned compensation of \$73,000 associated with all of the Company's restricted stock awards, which will be expensed over approximately the next two years. The unvested portion of restricted stock awards at March 31, 2018 and 2017 were approximately 26,000 and 48,000 shares, respectively.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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(Note 2) - Stock-Based Compensation (continued):

There are currently no stock-based compensation plans in effect that provide for the granting of stock option or restricted shares.

The following table summarizes the Company's nonvested restricted stock activity for the three months ended March 31, 2018:

|                                                       | <u>Number of<br/>Shares</u> | <u>Weighted-Average<br/>Grant-Date Fair Value</u> |
|-------------------------------------------------------|-----------------------------|---------------------------------------------------|
| Nonvested restricted stock<br>at January 1, 2018..... | 26,000                      | \$3.23                                            |
| Granted .....                                         | -                           | -                                                 |
| Vested.....                                           | -                           | -                                                 |
| Forfeited.....                                        | -                           | -                                                 |
| Nonvested restricted stock at<br>March 31, 2018.....  | <u>26,000</u>               | <u>\$3.23</u>                                     |

(NOTE 3) - Debt:

On November 8, 2012, the Company entered into a credit agreement ("Credit Agreement") with a commercial lender pursuant to which the Company established a committed line of credit of up to \$6,000,000. This line of credit was used to pay off, in full, all of the Company's obligations to its former primary lender and to provide for its general working capital needs. In March 2015, the Credit Agreement was amended whereby the line of credit was reduced to \$4,000,000 from \$6,000,000. In January 2018, the Company's Credit Agreement was further amended whereby the expiration date on its credit facility was extended to August 1, 2020.

Payment of interest on the line of credit is due at a rate per annum as follows: either (i) variable at the lender's prime lending rate (4.75% at March 31, 2018) and/or (ii) 2% over LIBOR for 30, 60 and 90 day LIBOR maturities, at the Company's sole discretion. The line of credit is collateralized by a first priority security interest in all of the Company's tangible and intangible assets. Outstanding borrowings under the line of credit were \$500,000 at March 31, 2018 with an interest rate of 3.875% representing 2% plus the one-month LIBOR rate. The Company had \$3,500,000 of availability under its line of credit at March 31, 2018.

The Credit Agreement contains customary affirmative and negative covenants and certain financial covenants. Additionally, available borrowings under the line of credit are subject to a borrowing base of eligible accounts receivable and inventory. All outstanding borrowings under the line of credit are accelerated and become immediately due and payable (and the line of credit terminates) in the event of a default, as defined, under the Credit Agreement. The Company was in compliance with the financial covenants contained in its Credit Agreement at March 31, 2018.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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(NOTE 4) - Net Income Per Common Share:

The following table sets forth the computation of basic and diluted net income per common share:

|                                                                                                                 | Three Months Ended<br>March 31, |                  |
|-----------------------------------------------------------------------------------------------------------------|---------------------------------|------------------|
|                                                                                                                 | <u>2018</u>                     | <u>2017</u>      |
| Denominator:                                                                                                    |                                 |                  |
| Denominator for basic net income per<br>share - weighted-average common shares                                  | 3,594,000                       | 4,053,000        |
| Effect of dilutive securities:                                                                                  |                                 |                  |
| Nonvested restricted stock to employees                                                                         | <u>8,000</u>                    | <u>6,000</u>     |
| Denominator for diluted net income<br>per share - weighted-average common<br>shares and assumed conversion..... | <u>3,602,000</u>                | <u>4,059,000</u> |

The numerator for basic and diluted net income per share for the three month periods ended March 31, 2018 and 2017 is the net income for each period.

Approximately 26,000 and 48,000 shares of common stock were outstanding at March 31, 2018 and 2017, respectively, but were not included in the computation of basic income per share. These shares were excluded because they represent the unvested portion of restricted stock awards.

(NOTE 5) - Cost of Sales:

For interim periods, the Company estimates certain components of its inventory and related gross profit.

(NOTE 6) - Inventories:

Inventories are comprised of the following:

|                      | March 31,<br><u>2018</u> | December 31,<br><u>2017</u> |
|----------------------|--------------------------|-----------------------------|
| Raw Materials.....   | \$ 5,999,000             | \$ 5,671,000                |
| Work-in-process..... | 3,238,000                | 4,001,000                   |
| Finished goods.....  | <u>320,000</u>           | <u>408,000</u>              |
| TOTAL                | <u>\$ 9,557,000</u>      | <u>\$10,080,000</u>         |

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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(NOTE 7) - Marketable Securities:

The following is a summary of the Company's available-for-sale marketable securities at March 31, 2018 and December 31, 2017:

|                          | Amortized<br>Cost | Fair<br>Value     | Unrealized<br>Holding<br>Loss |
|--------------------------|-------------------|-------------------|-------------------------------|
| <u>March 31, 2018</u>    |                   |                   |                               |
| Corporate Bonds          | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>                   |
| <u>December 31, 2017</u> |                   |                   |                               |
| Corporate Bonds          | <u>\$ 302,000</u> | <u>\$ 301,000</u> | <u>\$ (1,000)</u>             |

(NOTE 8) - Fair Value of Financial Instruments:

ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. This statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are subject to ASC 820.

The table below presents the balances, as of March 31, 2018 and December 31, 2017, of assets measured at fair value on a recurring basis by level within the hierarchy.

| <u>March 31, 2018</u>    | <u>Total</u>      | <u>Level 1</u>    | <u>Level 2</u> | <u>Level 3</u> |
|--------------------------|-------------------|-------------------|----------------|----------------|
| Corporate Bonds          | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>    | <u>\$ -</u>    |
| <u>December 31, 2017</u> | <u>Total</u>      | <u>Level 1</u>    | <u>Level 2</u> | <u>Level 3</u> |
| Corporate Bonds          | <u>\$ 301,000</u> | <u>\$ 301,000</u> | <u>\$ -</u>    | <u>\$ -</u>    |

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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(NOTE 8) - Fair Value of Financial Instruments (continued):

The Company's only asset or liability that is measured at fair value on a recurring basis is marketable securities, based on quoted market prices in active markets and therefore classified as level 1 within the fair value hierarchy. The carrying value of cash and cash equivalents, accounts receivable, and accounts payable reasonably approximate their fair value due to their relatively short maturities. The fair value estimates presented herein were based on market or other information available to management. The use of different assumptions and/or estimation methodologies could have a significant effect on the estimated fair value amounts.

(NOTE 9) - Business Segments:

The Company conducts its operations through two business segments, the Electronics Segment (or "Electronics Group") and the Power Units Segment (or "Power Group"). The Electronics Group is comprised of the Company's Orbit Instrument, Tulip Development Laboratory ("TDL") and Integrated Combat System ("ICS") Divisions. Through its Orbit Instrument and TDL Divisions, the Company is engaged in the design, manufacture and sale of customized electronic components and subsystems. ICS, located in Louisville, Kentucky, performs systems integration for gun weapons systems and fire control interface and cable and harness assembly. The Power Group is comprised of Behlman and is engaged in the design and manufacture of high quality commercial power units, AC power, frequency converters, uninterruptible power supplies, armament systems and commercial-off-the-shelf ("COTS") power solutions.

The Company's reportable segments are business units that offer different products with each segment utilizing its own direct labor personnel. The Company's reportable segments are each managed separately as they manufacture and distribute distinct products with different production processes. Management evaluates performance of the Company's reportable segments based on each segment's revenue and profitability.

The following is the Company's business segment information for the three month periods ended March 31, 2018 and 2017:

|                         | Three Months Ended  |                     |
|-------------------------|---------------------|---------------------|
|                         | March 31,           |                     |
|                         | <u>2018</u>         | <u>2017</u>         |
| Net sales:              |                     |                     |
| Electronics Group.....  |                     |                     |
| Domestic.....           | \$ 3,571,000        | \$ 3,185,000        |
| Foreign.....            | <u>150,000</u>      | <u>159,000</u>      |
| Total Electronics       | 3,721,000           | 3,344,000           |
| Power Group.....        |                     |                     |
| Domestic.....           | 1,378,000           | 1,702,000           |
| Foreign.....            | <u>250,000</u>      | <u>161,000</u>      |
| Total Power Group       | 1,628,000           | 1,863,000           |
| Intersegment sales..... | -                   | -                   |
| Total                   | <u>\$ 5,349,000</u> | <u>\$ 5,207,000</u> |

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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(NOTE 9) - Business Segments (continued):

|                                                 |                   |                   |
|-------------------------------------------------|-------------------|-------------------|
| Income (loss) before income tax provision:      |                   |                   |
| Electronics Group.....                          | \$ 1,033,000      | \$ 733,000        |
| Power Group.....                                | (383,000)         | (190,000)         |
| General corporate expenses not allocated.....   | (215,000)         | (200,000)         |
| Investment and other income (expense), net..... | <u>(2,000)</u>    | <u>(19,000)</u>   |
| Income before income tax provision.....         | <u>\$ 433,000</u> | <u>\$ 324,000</u> |

(NOTE 10) - Goodwill:

As of March 31, 2018 and December 31, 2017, the Company's goodwill consists of the following:

| Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Accumulated<br>Impairment | Net<br>Carrying<br>Value |
|----------------------------|-----------------------------|---------------------------|--------------------------|
| <u>\$868,000</u>           | <u>\$ -</u>                 | <u>\$ -</u>               | <u>\$ 868,000</u>        |

(NOTE 11) - Income Taxes:

For the three months ended March 31, 2018 and 2017, the Company recorded income tax expense of approximately \$12,000 and \$11,000, respectively, relating to state income and minimum tax expense. As of March 31, 2018, the Company has no material uncertain tax positions.

(NOTE 12) - Equity:

In May 2017, the Company's Board of Directors authorized management to enter into a 10b5-1 Plan (the "2017 Plan"). The 2017 Plan allowed the Company to purchase up to \$400,000 of its common stock from July 1, 2017 through June 30, 2018. In August 2017, the Company's Board of Directors amended the 2017 Plan whereby the dollar value of common stock that management was authorized to purchase under this plan increased to \$728,000. From July 1, 2017 to May 14, 2018, the Company purchased a total of 144,938 shares of common stock under the 2017 Plan, as amended, for total cash consideration of approximately \$626,000 at an average price of \$4.32 per share. During the same period, the Company also purchased 204,383 shares of its common stock outside of the 2017 plan for cash consideration of approximately \$872,000 at an average price of \$4.27 per share.

In May 2018, the Company's Board of Directors authorized management to enter into a new 10b5-1 Plan ("2018 10b5-1 Plan"), effective July 1, 2018. The 2018 10b5-1 Plan allows the Company to purchase up to \$600,000 of its common stock from July 1, 2018 through June 30, 2019.