



**ANNUAL REPORT
DECEMBER 31, 2018**

To Our Shareholders:

I am pleased to report that once again we completed a year of solid operating performance in 2018. Our net income for the year ended December 31, 2018 increased to \$2,225,000 (\$0.62 per diluted share) as compared to \$1,797,000 (\$0.47 per diluted share) in the prior year. Our net income for the current year was positively impacted by a \$573,000 deferred tax benefit resulting from a future tax refund of our alternative minimum tax credit pursuant to the Tax Cuts and Jobs Act of 2017. We expect to receive the first half of this refund when we file our federal tax return in the fourth quarter of 2019. Our prior year net income was positively impacted by a \$250,000 deferred tax benefit. Our pretax income for 2018 increased by 8.1%, which was accomplished through higher sales, albeit at expected lower gross margins, and tight management of costs.

Our performance in 2018 further strengthened our balance sheet and generated excellent operating cash flow. As a result, we instituted our first quarterly cash dividend in our history and in March 2019, our Board of Directors declared our first special annual dividend to our shareholders. We have also repurchased 54,308 shares since the beginning of the fourth quarter of 2018 and 617,561 shares since January 1, 2017, approximately 14.7% of our outstanding shares. Finally, our tangible book value has increased to \$4.52 per share at December 31, 2018 which does not include any additional value for our remaining reserved deferred tax asset.

It should be noted that our gross margin for the year ended December 31, 2018 decreased to 33.0% compared to 39.0% in the prior year. This was expected due to the commencement of shipment of Common Aircraft Armament Test Sets (CAATS) by our Power Group (OPG), which contributed to the increase in sales for the 2018 year but has a lower gross margin than our other products. CAATS shipments are expected to continue through the fourth quarter of 2019 and we are currently in discussion with the U.S. Navy for an additional award of CAATS units that is expected to exceed \$3,000,000. We hope to receive this award in the second quarter of 2019 and shipments are expected to take place in the first half of 2020.

We completed 2018 with a strong booking quarter of approximately \$6,000,000 and was highlighted by strong bookings by our Electronics Group (OEG). We recently announced solid bookings for the month of March 2019, and we are expecting significant bookings in the second half of 2019, although timing of the receipt of awards is always an uncertainty. Our OEG is currently working with its customer base on several expected follow-on awards containing many of the same products we have manufactured in prior years. However, we are also working with our customers on developing new technology that will allow our Company to expand its product base on existing programs.

Aside from the CAATS business, the focus of our OPG is to continue to develop and expand our VPX products and continue to stay at the forefront of this technology. All our research indicates that many defense programs will turn to VPX technology for their systems and we continue to make alliances with many of the key prime contractors that are looking to integrate our power supply into their VPX products. Our bid pipeline for products utilizing our VPX technology continues to grow and our reach onto new systems and programs is widening. All our sales remain at the preproduction stage. Our bookings for our VPX products in 2018 exceeded bookings from the prior year by 90%. Thus far in 2019, we are ahead of our projections for VPX bookings, which we hope to increase by at least 50% over 2018. Once many of these programs move to the production stage, we hope to see an increase in the dollar value of these orders.

We enter 2019 with a strong balance sheet, firm backlog and bid pipeline and we remain well positioned with our customers to participate with them on future opportunities. We continue to exercise tight management of our costs and remain committed to providing our customers with the highest quality products and whatever solutions are needed to make us more competitive. We are encouraged that the administration in Washington D.C. continues to be committed to a stronger military and are hopeful we will reap the benefits of an increased defense budget. Consequently, we are encouraged with our business outlook and expected operating performance for 2019.

I want to thank all our employees for their contribution to our growth and success. On behalf of the entire Orbit team, I want to extend our deep appreciation to all of you for your support.

Mitchell Binder
President and Chief Executive Officer
April 2019

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

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Disclosure Statement Pursuant to the Pink Basic Disclosure Guidelines

ORBIT INTERNATIONAL CORP.

A Delaware Corporation
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Hauppauge, NY 11788

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SIC Code: 3679

Annual Report
For the Period Ending: 12/31/2018
(the "Reporting Period")

As of 12/31/2018, the number of shares outstanding of our Common Stock was: 3,571,947

As of 9/30/2018, the number of shares outstanding of our Common Stock was: 3,619,504

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: No:

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: No:

Indicate by check mark whether a Change in Control¹ of the company has occurred over this reporting period:

Yes: No:

¹ "Change in Control" shall mean any events resulting in:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

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

In answering this item, please also provide any names used by predecessor entities in the past five years and the dates of the name changes.

Orbit International Corp.

Date and state (or jurisdiction) of incorporation (also describe any changes to incorporation since inception, if applicable) Please also include the issuer's current standing in its state of incorporation (e.g. active, default, inactive):

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 name was changed to Orbit International Corp. Orbit International Corp.'s current standing in Delaware is active.

Has the issuer or any of its predecessors ever been in bankruptcy, receivership, or any similar proceeding in the past five years?

Yes: No:

2) Security Information

Trading symbol:	<u>ORBT</u>	
Exact title and class of securities outstanding:	<u>Common Stock</u>	
CUSIP:	<u>685559304</u>	
Par or stated value:	<u>\$0.10</u>	
Total shares authorized:	<u>10,000,000</u>	as of date: <u>12/31/2018</u>
Total shares outstanding:	<u>3,571,947</u>	as of date: <u>12/31/2018</u>
Number of shares in the Public Float ² :	<u>1,381,397</u>	as of date: <u>12/31/2018</u>
Total number of shareholders of record:	<u>118</u>	as of date: <u>12/31/2018</u>

Additional class of securities (if any): None

Transfer Agent

Name: American Stock Transfer and Trust Company, LLC
Phone: 718-921-8200
Email: admin7@astfinancial.com

Is the Transfer Agent registered under the Exchange Act?³ Yes: No:

Describe any trading suspension orders issued by the SEC concerning the issuer or its predecessors:

None

² "Public Float" shall mean the total number of unrestricted shares not held directly or indirectly by an officer, director, any person who is the beneficial owner of more than 10 percent of the total shares outstanding (a "control person"), or any affiliates thereof, or any immediate family members of officers, directors and control persons.

³ To be included in the Pink Current Information tier, the transfer agent must be registered under the Exchange Act.

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

3) Issuance History

The goal of this section is to provide disclosure with respect to each event that resulted in any direct changes to the total shares outstanding of any class of the issuer's securities **in the past two completed fiscal years and any subsequent interim period.**

Disclosure under this item shall include, in chronological order, all offerings and issuances of 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. Using the tabular format below, please describe these events.

A. Changes to the Number of Outstanding Shares

Check this box to indicate there were no changes to the number of outstanding shares within the past two completed fiscal years and any subsequent periods:

Number of Shares outstanding as of : <u>12/31/16</u>	<u>Opening Balance:</u> Common: <u>4,187,157</u> Preferred: <u>N/A</u>		*Right-click the rows below and select "Insert" to add rows as needed.						
<u>Date of Transaction</u>	<u>Transaction type (e.g. new issuance, cancellation, shares returned to treasury)</u>	<u>Number of Shares Issued (or cancelled)</u>	<u>Class of Securities</u>	<u>Value of shares issued (\$/per share) at Issuance</u>	<u>Were the shares issued at a discount to market price at the time of issuance? (Yes/No)</u>	<u>Individual/ Entity Shares were issued to (entities must have individual with voting / investment control disclosed).</u>	<u>Reason for share issuance (e.g. for cash or debt conversion) OR Nature of Services Provided (if applicable)</u>	<u>Restricted or Unrestricted as of this filing?</u>	<u>Exemption or Registration Type?</u>
<u>1/1/17-12/31/17</u>	<u>Shares returned to treasury</u>	<u>(563,253)</u>	<u>Common</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>1/1/17-12/31/17</u>	<u>Cancellation -Forfeited</u>	<u>(4,400)</u>	<u>Common</u>	<u>\$3.23</u>	<u>No</u>	<u>Kenneth Ice</u>	<u>Employee Restricted Stock Grant</u>	<u>N/A</u>	<u>N/A</u>
<u>1/1/18-12/31/18</u>	<u>Shares returned to treasury</u>	<u>(47,557)</u>	<u>Common</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Shares Outstanding on <u>12/31/18</u>	<u>Ending Balance:</u> Common: <u>3,571,947</u> Preferred: <u>N/A</u>								

Use the space below to provide any additional details, including footnotes to the table above:

None

B. Debt Securities, Including Promissory and Convertible Notes

Use the chart and additional space below to list and describe any issuance of promissory notes, convertible notes or convertible debentures **in the past two completed fiscal years and any subsequent interim period.**

Check this box if there are no outstanding promissory, convertible notes or debt arrangements:

Date of Note Issuance	Outstanding Balance (\$)	Principal Amount at Issuance (\$)	Interest Accrued (\$)	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of Noteholder	Reason for Issuance (e.g. Loan, Services, etc.)
_____	_____	_____	_____	_____	_____	_____	_____

Use the space below to provide any additional details, including footnotes to the table above:

N/A

4) Financial Statements

A. The following financial statements were prepared in accordance with:

- U.S. GAAP
- IFRS

B. The financial statements for this reporting period were prepared by (name of individual)⁴:

Name: David Goldman
 Title: CFO
 Relationship to Issuer: Employee

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

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

You may either (i) attach/append the financial statements to this disclosure statement or (ii) file the financial statements through OTCIQ 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 statements in a separate report as described 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 OTCIQ in the field below.

Financial statement information is considered current until the due date for the subsequent report (as set forth in the qualifications section above). To remain qualified for Current Information, a company must post its Annual Report within 90 days from its fiscal year-end date and Quarterly Reports within 45 days of each fiscal quarter-end date.

⁴ The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS by persons with sufficient financial skills.

5) Issuer's Business, Products and Services

The purpose of this section is to provide a clear description of the issuer's current operations. In answering this item, please include the following:

- A. Summarize the issuer's business operations (If the issuer does not have current operations, state "no operations")

Orbit International Corp. conducts its operations through its Electronics and Power Groups. The Company's Electronics Group ("OEG") is comprised of its Orbit Instrument and Tulip Development Laboratory ("TDL") Divisions. The Electronics Group's Integrated Combat System ("ICS") division ceased operations during the fourth quarter of 2018. The OEG is engaged in the design, manufacture and sale of customized electronic components and subsystems. The Power Group ("OPG") is comprised of the Company's wholly owned subsidiary, Behlman Electronics Inc. ("Behlman"), and is engaged in the design and manufacture of VPX/VME power supplies, high quality commercial power units, AC power supplies, frequency converters, uninterruptible power supplies and commercial-off-the-shelf ("COTS") power solutions.

- B. Describe any subsidiaries, parents, or affiliated companies, if applicable, and a description of their business contact information for the business, officers, directors, managers or control persons. Subsidiary information may be included by reference

See 5) A. above for a description of subsidiaries and divisions.

- C. Describe the issuers' principal products or services, and their markets

The OEG's principal products include remote control units ("RCU"), intercommunication panels, displays, keyboards, keypads and pointing devices, operator control trays and command display units ("CDUs"). These products are used primarily in support of military programs. The OPG'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.

6) 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 thirteen months at a monthly lease payment of \$2,530. The lease is subject to an automatic one-year renewal, at prevailing market rates, assuming no prior notification of termination from the tenant. We have notified the landlord of our intent to not renew the lease for another year and the lease will expire April 30, 2019. We are in the process of looking for other suitable space to replace our expiring California selling office.

Our ICS division ceased operations during the fourth quarter of 2018. Our ICS division operated out of a 2,500 square foot facility in Louisville, Kentucky. The final lease payment for this facility was made in November 2018.

7) 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 or beneficial shareholders.

Using the tabular format below, please provide information regarding any person or entity owning 5% of more of the issuer, as well as any officer, and any director of the company, regardless of the number of shares they own. **If any listed are corporate shareholders or entities, provide the name and address of the person(s) beneficially owning or controlling such corporate shareholders, or the name and contact information of an individual representing the corporation or entity in the note section.**

Name of Officer/Director and Control Person	Affiliation with Company (e.g. Officer/Director/Owner of more than 5%)	Residential Address (City / State Only)	Number of shares owned	Share type/class	Ownership Percentage of Class Outstanding	Note
<u>Mitchell Binder</u>	<u>President, CEO, and Director</u>	<u>Hauppauge, NY</u>	<u>165,401</u>	<u>Common</u>	<u>4.63%</u>	<u>_____</u>
<u>David Goldman</u>	<u>CFO, Treasurer, Secretary, and Director</u>	<u>Hauppauge, NY</u>	<u>19,567</u>	<u>Common</u>	<u>0.55%</u>	<u>_____</u>
<u>Karl Schmidt</u>	<u>COO</u>	<u>Hauppauge, NY</u>	<u>30,250</u>	<u>Common</u>	<u>0.85%</u>	<u>_____</u>
<u>Wayne Cadwallader</u>	<u>Director</u>	<u>Hauppauge, NY</u>	<u>1,000</u>	<u>Common</u>	<u>0.03%</u>	<u>_____</u>
<u>William Collins</u>	<u>Director</u>	<u>Hauppauge, NY</u>	<u>157,508</u>	<u>Common</u>	<u>4.41%</u>	<u>Ownership amount includes shares owned by Brencourt Capital Management LLC, a family office in which Mr. Collins serves as CEO.</u>
<u>Bernard Karcinell</u>	<u>Director</u>	<u>Hauppauge, NY</u>	<u>7,124</u>	<u>Common</u>	<u>0.20%</u>	<u>_____</u>
<u>Donna Holzeis</u>	<u>Assistant Secretary</u>	<u>Hauppauge, NY</u>	<u>=</u>	<u>N/A</u>	<u>N/A</u>	<u>_____</u>
<u>Elkhorn Partners Limited Partnership – Alan S. Parsow, General Partner 2222 Skyline Drive Elkhorn, NE 68022</u>	<u>Owner of more than 5%</u>	<u>Elkhorn, NE</u>	<u>1,809,700</u>	<u>Common</u>	<u>50.66%</u>	<u>Ownership based on information provided to the Company in June 2018. Includes shares owned individually by the partnership’s general partner.</u>

8) Legal/Disciplinary History

A. Please identify whether any of the persons listed above have, in the past 10 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

B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

None

9) Third Party Providers

Please provide the name, address, telephone number and email address of each of the following outside providers:

Securities Counsel

Name: Irvin Brum
Firm: Ruskin Moscou Faltischek, P.C.
Address 1: 1425 RXR Plaza
Address 2: East Tower, 15th 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 Service Providers

Provide the name of any other service provider(s), including, counsel, advisor(s) or consultant(s) **that assisted, advised, prepared or provided information with respect to this disclosure statement**, or provided assistance or services to the issuer during the reporting period.

N/A

10) Issuer Certification

Principal Executive Officer:

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 Annual Report of Orbit International Corp. and Subsidiaries;
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.

March 29, 2019

/s/ Mitchell Binder

CEO

Principal Financial Officer:

I, David Goldman certify that:

1. I have reviewed this Annual Report of Orbit International Corp. and Subsidiaries;
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.

March 29, 2019

/s/ David Goldman

CFO

Independent Auditor's Report

To the Board of Directors and Stockholders
Orbit International Corp.

We have audited the accompanying consolidated financial statements of Orbit International Corp. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orbit International Corp. and Subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ CohnReznick LLP
Jericho, New York
March 29, 2019

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31,	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,506,000	\$ 941,000
Investments in marketable securities	-	301,000
Accounts receivable, less allowance for doubtful accounts of \$115,000 at 2018 and 2017	2,105,000	3,248,000
Inventories	10,127,000	10,080,000
Contract assets	296,000	-
Other current assets	345,000	146,000
Total current assets	17,379,000	14,716,000
Property and equipment, net	266,000	183,000
Goodwill	868,000	868,000
Deferred tax assets, net	1,123,000	550,000
Other assets	30,000	33,000
Total Assets	\$19,666,000	\$16,350,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,273,000	\$ 524,000
Accrued expenses	1,211,000	1,014,000
Customer advances	171,000	69,000
Total current liabilities	2,655,000	1,607,000
Commitments and contingencies		
Stockholders' Equity:		
Common stock, \$.10 par value, 10,000,000 shares authorized, 3,615,000 and 4,582,000 shares issued at 2018 and 2017, respectively, and 3,572,000 and 3,620,000 shares outstanding at 2018 and 2017, respectively	361,000	458,000
Additional paid-in capital	17,623,000	20,932,000
Treasury stock, at cost, 43,000 and 962,000 shares at 2018 and 2017, respectively	(227,000)	(3,419,000)
Accumulated other comprehensive income, net of income tax	-	1,000
Accumulated deficit	(746,000)	(3,229,000)
Stockholders' equity	17,011,000	14,743,000
Total Liabilities and Stockholders' Equity	\$19,666,000	\$16,350,000

See Notes to Consolidated Financial Statements

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years ended December 31,	2018	2017
Net sales	\$24,658,000	\$20,851,000
Cost of sales	16,511,000	12,711,000
Gross profit	8,147,000	8,140,000
Selling, general and administrative expenses	6,491,000	6,569,000
Interest expense	11,000	-
Investment and other (income) expense, net	(48,000)	5,000
Total expenses, net	6,454,000	6,574,000
Income before benefit from income taxes	1,693,000	1,566,000
Benefit from income taxes	(532,000)	(231,000)
Net income	2,225,000	1,797,000
Change in unrealized gains on marketable securities, net of income tax of \$ - and \$14,000, respectively	-	3,000
Reclassification adjustment for loss realized	(1,000)	22,000
Other comprehensive (loss) income	(1,000)	25,000
Comprehensive income	\$ 2,224,000	\$ 1,822,000
Net income per common share:		
Basic	\$ 0.62	\$ 0.47
Diluted	\$ 0.62	\$ 0.47
Weighted average number of common shares outstanding:		
Basic	3,589,000	3,838,000
Diluted	3,598,000	3,844,000

See Notes to Consolidated Financial Statements

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2018 and 2017

	Common Stock 10,000,000 Shares Authorized		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock		Accumulated Other Comprehensive Income (Loss), Net of Income Tax	Total
	Shares Issued	Amount			Shares	Amount		
Balance at January 1, 2017	4,877,000	\$488,000	\$22,029,000	\$(5,026,000)	690,000	\$ (2,273,000)	\$ (24,000)	\$15,194,000
Share-based compensation expense	-	-	74,000	-	-	-	-	74,000
Retirement of treasury stock	(291,000)	(29,000)	(1,171,000)	-	(291,000)	1,200,000	-	-
Purchase of treasury stock	-	-	-	-	563,000	(2,346,000)	-	(2,346,000)
Forfeiture of restricted stock	(4,000)	(1,000)	-	-	-	-	-	(1,000)
Change in unrealized gains and losses on marketable securities, net of income tax	-	-	-	-	-	-	3,000	3,000
Reclassification adjustment for loss	-	-	-	-	-	-	22,000	22,000
Net income	-	-	-	1,797,000	-	-	-	1,797,000
Balance at December 31, 2017	4,582,000	458,000	20,932,000	(3,229,000)	962,000	(3,419,000)	1,000	14,743,000
Share-based compensation expense	-	-	38,000	-	-	-	-	38,000
Retirement of treasury stock	(967,000)	(97,000)	(3,347,000)	-	(967,000)	3,444,000	-	-
Purchase of treasury stock	-	-	-	-	48,000	(252,000)	-	(252,000)
Cash dividends	-	-	-	(72,000)	-	-	-	(72,000)
Reclassification adjustment for loss	-	-	-	-	-	-	(1,000)	(1,000)
Adoption of ASU 606	-	-	-	330,000	-	-	-	330,000
Net income	-	-	-	2,225,000	-	-	-	2,225,000
Balance at December 31, 2018	3,615,000	\$361,000	\$17,623,000	\$ (746,000)	43,000	\$ (227,000)	\$ -	\$17,011,000

See Notes to Consolidated Financial Statements

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,	2018	2017
Cash flows from operating activities:		
Net income	\$ 2,225,000	\$ 1,797,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Share-based compensation expense	38,000	74,000
Depreciation and amortization	105,000	114,000
Bond amortization	-	(2,000)
Deferred tax benefit	(573,000)	(250,000)
Loss on sale of marketable securities	6,000	22,000
Gain on sale of fixed asset	(7,000)	-
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	1,143,000	(473,000)
Increase in inventories	(972,000)	(78,000)
Decrease in contract asset	959,000	-
(Increase) decrease in other current assets	(199,000)	77,000
Increase in accounts payable	749,000	41,000
Decrease (increase) in customer advances	102,000	(18,000)
Increase in accrued expenses	161,000	14,000
Decrease in other assets	3,000	7,000
Net cash provided by operating activities	3,740,000	1,325,000
Cash flows from investing activities:		
Purchase of marketable securities	-	(202,000)
Proceeds from sale of marketable securities	294,000	117,000
Purchase of property and equipment	(188,000)	(29,000)
Sale of fixed asset	7,000	-
Net cash provided by (used in) investing activities	113,000	(114,000)
Cash flows from financing activities:		
Purchase of treasury stock	(252,000)	(2,346,000)
Cash dividends paid	(36,000)	-
Net cash used in financing activities	(288,000)	(2,346,000)

(continued)

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

Years ended December 31,	2018	2017
Net increase (decrease) in cash and cash equivalents	\$ 3,565,000	\$ (1,135,000)
Cash and cash equivalents at beginning of year	941,000	2,076,000
Cash and cash equivalents at end of year	\$ 4,506,000	\$ 941,000

Supplemental disclosures of cash flow information:

Cash paid during the year for interest	\$ 11,000	\$ -
Cash paid during the year for income taxes, net	\$ 28,000	\$ 16,000

Supplemental disclosure of noncash investing and financing activities:

Cash dividends declared and not paid	\$ 36,000	-
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See Notes to Consolidated Financial Statements

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **ORGANIZATION AND BUSINESS:** The consolidated financial statements include the accounts of Orbit International Corp. and its wholly owned subsidiaries (collectively, the “Company”). All significant intercompany transactions have been eliminated in consolidation.

The Company currently operates in two reporting segments, the Electronics Group and the Power Group. The Electronics Group is comprised of the Company's Orbit Instrument (“Orbit”) and Tulip Development Laboratory (“TDL”) divisions. Orbit and TDL are engaged in the design and manufacture of electronic components and subsystems. The Power Group is comprised of the Company's Behlman subsidiary and is engaged in the design and manufacture of commercial and custom power units. The Electronics Group and the Power Group both conduct their operations in the United States. The majority of the Company’s customers are comprised of various agencies and prime and lower tier subcontractors of the U.S. government.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

General

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. On an ongoing basis, the Company re-evaluates its judgments and estimates including those related to inventory valuation, the valuation allowance on its deferred tax assets, goodwill impairment and valuation of share-based compensation.

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 in debt securities were classified as available-for-sale securities and 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 on debt securities 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. In accordance with Accounting Standards Update (“ASU”) 2016-01, the Company will account for any equity investments at fair value with the change in fair value recognized in net 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. The Company writes off accounts receivable against the allowance when a balance is determined to be uncollectible.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Inventories

Inventories, which consist of raw materials, work-in-process, and finished goods, are recorded at the lower of 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, *Intangibles - Goodwill and Other*, 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, *Intangible - Goodwill and Other*, 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 consolidated 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.

Income Taxes

The Company recognizes deferred tax assets and liabilities in accordance with ASC 740, *Income Taxes*, based on the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the consolidated financial statements and tax bases 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, *Income Taxes – Overall*. 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

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

remain open to examination by such taxing authorities in accordance with their respective statutes.

Reclassification

Certain reclassifications have been made to the 2017 consolidated financial statement presentation to correspond to the current year's format. Total stockholders' equity and net income are unchanged due to these reclassifications.

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 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. The Company's remaining performance obligations, which it refers to as its backlog, was \$20,566,000 at December 31, 2018. The period of performance for its backlog, pursuant to current delivery schedules, is estimated to be approximately \$19,564,000 in 2019, \$677,000 in 2020 and \$325,000 in 2021.

Under the modified retrospective method, the Company is required to disclose the impact to financial statement elements had it continued to follow accounting policies under the previous revenue recognition guidance.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The table below shows the comparison between current and previous revenue recognition guidance on impacted financial statement line items:

Financial Statement Line Item	Current Guidance, Year ending-12/31/18	Previous Guidance, Year ending-12/31/18
Sales	\$24,658,000	\$ 25,617,000
Cost of sales	\$16,511,000	\$ 17,298,000
Gross Profit	\$ 8,147,000	\$ 8,319,000
Net Income	\$ 2,225,000	\$ 2,397,000
Contract Assets	\$ 296,000	\$ 0
Inventory	\$10,127,000	\$ 10,265,000

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 December 31, 2018 and January 1, 2018. Under previous guidance, revenue would not have been recognized on this product until it was shipped.

The Company's contract assets account represents revenue that it has recognized but has not yet shipped or billed its customer for. This account will be reversed, and accounts receivable will be increased when the Company ships its product and invoices its customer. The Company's contract liabilities at December 31, 2018 and 2017 consist of advance payments from customers in the amount of \$171,000 and \$69,000, respectively. The Company's payment terms with its customers are typically net 30 days. All contracts are for products made to customer specifications with no right of return. All units are shipped with a one-year warranty.

The following table summarizes the Company's contract assets balances:

Contract Assets-January 1, 2018	\$1,255,000
Contract Assets-December 31, 2018	\$ 296,000
Decrease	\$ 959,000

The decrease from January 1, 2018 to December 31, 2018 was primarily the result of the shipment of product for which revenue was previously recognized.

Comprehensive Income

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

Advertising

The company elects to expense advertising as incurred. The Company recorded \$98,000 and \$56,000 of advertising expense during the years ended December 31, 2018 and 2017, respectively.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock-Based Compensation

The Company accounts for stock-based compensation awards based on the fair value of the awards on the date of grant and expenses such compensation over the vesting periods of the awards.

Earnings Per Share

Basic earnings per share is computed by dividing net earnings by the weighted average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net earnings by the sum of the weighted average number of shares of common stock and the dilutive effect of unexercised stock options and the unearned portion of restricted stock awards.

Deferred Rent

Certain of 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 consolidated financial statements.

Freight and Delivery Costs

The Company's freight out and delivery costs were \$66,000 and \$54,000 for the years ended December 31, 2018 and 2017, respectively. These costs are included in selling, general and administrative expenses.

Research and Development Expenses

Research and development expenses are expensed when incurred. The Company expensed approximately \$1,464,000 and \$1,471,000 for research and development during the years ended December 31, 2018 and 2017, respectively, which is included in selling, general and administrative expenses.

Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), *Leases (Topic 842 ("ASC 842"))*. The standard requires lessees to recognize lease assets and lease liabilities for most operating leases. The updated guidance is effective for interim and annual periods beginning after December 15, 2018. The Company elected to use the optional transition method when initially adopting ASC 842 on January 1, 2019. This adoption method resulted in no effect to retained earnings or the statement of income but did create an approximate \$1,166,000 increase to both assets (right of use assets) and liabilities (lease liabilities) on January 1, 2019.

3. INVENTORIES:

Inventories consist of the following:

December 31,	2018	2017
Raw materials	\$ 6,319,000	\$ 5,671,000
Work-in-process	3,293,000	4,001,000
Finished goods	515,000	408,000
	<u>\$10,127,000</u>	<u>\$10,080,000</u>

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. MARKETABLE SECURITIES:

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

	<u>Adjusted Cost</u>	<u>Fair Value</u>	<u>Unrealized Holding Loss</u>
Corporate Bonds	\$ <u>302,000</u>	\$ <u>301,000</u>	\$ <u>(1,000)</u>

5. 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 consolidated 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 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 an analysis of the assets and liabilities that are subject to ASC 820.

The tables below present the balances, as of December 31, 2017, of assets measured at fair value on a recurring basis by level within the hierarchy.

	<u>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>301,000</u>	\$ <u>-</u>	\$ <u>-</u>

6. GOODWILL:

At December 31, 2018 and 2017, the Company's goodwill was \$868,000.

At December 31, 2018 and 2017, in connection with the annual impairment testing pursuant to ASC 350, the Company performed a qualitative assessment of Behlman's goodwill. Based on the assessment, the Company concluded at December 31, 2018 and 2017 that the fair value of Behlman was more likely than not greater than its carrying amount. The Company's conclusion was based on certain factors, such as: i) Behlman's bookings and revenue in 2018 and 2017, (ii) Behlman's net income in 2018 (iii) Behlman's backlog at December 31, 2018 and 2017 and (iv) Behlman's projected bookings, revenue and net income in 2019.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. PROPERTY AND EQUIPMENT:

Property and equipment, at cost, consist of the following:

December 31,	2018	2017
Leasehold improvements	\$ 205,000	\$ 208,000
Computer equipment	1,061,000	994,000
Machinery and equipment	1,836,000	1,804,000
Autos	21,000	21,000
Furniture and fixtures	771,000	747,000
Accumulated depreciation and amortization	3,894,000 (3,628,000)	3,774,000 (3,591,000)
	\$ 266,000	\$ 183,000

The Company recognized, on a straight-line basis, depreciation and amortization expense of \$105,000 and \$114,000 for the years ended December 31, 2018 and 2017, respectively.

8. 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 (5.50% at December 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. The Company had no borrowings under the line of credit at December 31, 2018. The Company had \$4,000,000 of availability under its line of credit at December 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 December 31, 2018.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**9. STOCK-BASED
COMPENSATION
PLANS:**

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-based compensation expense for the years ended December 31, 2018 and 2017 was \$38,000 and \$74,000, respectively.

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

The following table summarizes the Company's nonvested restricted stock activity for the year ended December 31, 2018:

	<u>Number of Shares</u>	<u>Weighted Average Grant-Date Fair Value</u>
Nonvested restricted stock at December 31, 2017.....	38,000	\$3.23
Granted	-	-
Vested.....	(12,000)	3.23
Forfeited.....	<u>-</u>	<u>-</u>
Nonvested restricted stock at December 31, 2018.....	<u>26,000</u>	<u>\$3.23</u>

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 share-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 December 31, 2018, the Company had unearned compensation of \$44,000 associated with all of the Company's restricted stock awards, which will be expensed ratably through the period ending December 31, 2019.

**10. EMPLOYEE
BENEFIT PLAN:**

A defined contribution plan provides benefits to certain employees who meet specified minimum service and age requirements. The plan provides for contributions by the Company equal to 1/2 of employee contributions (but not more than 2% of eligible compensation) and the Company may make additional contributions out of current or accumulated net earnings at the sole discretion of the Company's management.

The Company contributed approximately \$125,000 and \$118,000 to the plan during the years ended December 31, 2018 and 2017, respectively.

11. INCOME TAXES:

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 a combined or separate basis.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During 2018, the Company recorded a \$573,000 deferred tax benefit relating to the full reduction of the valuation allowance placed on its Alternative Minimum Tax (“AMT”) credit. This reduction was a result of the Tax Cuts and Jobs Act of 2017 which eliminated the corporate AMT credit but allows for refunds of credits not utilized. The Company estimates that the \$573,000 of unused AMT credit will be refunded to the Company; approximately 50% in 2019 and the remainder in 2020 when it expects to file its 2018 and 2019 tax returns. The Company’s pre-tax effected federal net operating loss carryforwards amounted to approximately \$8,100,000 at December 31, 2018.

During 2017, the Company evaluated its cumulative pre-tax income for the trailing thirty-six months as well as its income projections and determined that more likely than not certain deferred tax assets will be realized. As a result, the Company reduced the valuation allowance on its deferred tax asset resulting in a net deferred tax asset of \$550,000.

The reconciliation of income tax computed at the U.S. federal statutory tax rates to income tax expense is as follows:

December 31,	2018	2017
Tax at U.S. statutory rates	21.0%	34.0%
State income and federal minimum taxes	2.0%	1.0%
Effect of tax rate change	- %	115.0%
Change in valuation allowance	(54.0)%	(163.0)%
Other items, net	- %	(2.0)%
	(31.0)%	(15.0)%

Deferred tax assets are comprised of the following:

December 31,	2018	2017
Alternative minimum tax credit carryforward	\$ 573,000	\$ 573,000
Net operating loss carryforwards	1,746,000	2,072,000
Temporary differences in bases of assets and liabilities:		
Accounts receivable and inventory	510,000	456,000
Accrued expenses	112,000	112,000
Goodwill	120,000	252,000
Intangible assets	165,000	226,000
Total temporary differences	907,000	1,046,000
Total deferred tax assets, net	3,226,000	3,691,000
Valuation allowance	(2,103,000)	(3,141,000)
Net deferred tax assets	\$ 1,123,000	\$ 550,000

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The provision for (benefit from) income taxes consists of the following:

	<u>2018</u>	<u>2017</u>
Current income tax expense (benefit):		
Federal	\$ -	\$ -
State	<u>41,000</u>	<u>19,000</u>
Total	<u>41,000</u>	<u>19,000</u>
Deferred income tax expense (benefit), net:		
Federal	451,000	2,401,000
State	14,000	110,000
Change in valuation allowance	<u>(1,038,000)</u>	<u>(2,761,000)</u>
Total	<u>(573,000)</u>	<u>(250,000)</u>
Total	<u>\$ (532,000)</u>	<u>\$ (231,000)</u>

At December 31, 2017, the Company valued its net deferred tax assets based on tax rates expected to be in effect when its temporary differences reverse. The passage of the Tax Cuts and Job Act in December 2017 resulted in a lower federal tax rate (21%) and the elimination of the corporate alternative minimum tax. As a result, the Company's deferred tax assets and valuation allowance were reduced by approximately \$1,805,000 at December 31, 2017.

As of December 31, 2018 and 2017, the Company has no material uncertain tax positions. The Company is subject to routine income tax audits in various jurisdictions and tax returns from December 31, 2015 remain open to examination by such taxing authorities. The Company did not record any tax related interest or penalties.

12. SIGNIFICANT CUSTOMERS AND CONCENTRATIONS OF CREDIT RISK:

Sales to significant customers accounted for approximately 51% (33% and 18%) and 35% (22% and 13%) of the Company's consolidated net sales for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018, the Company had approximately 26% (16%, and 10%) of its accounts receivable balance due from two customers. The majority of the Company's consolidated sales are related to programs procured by the Department of Defense.

For the years ended December 31, 2018 and 2017, significant customers of the Company's Electronics Group accounted for approximately 72% (35%, 13%, 13%, and 11%) and 63% (34%, 15%, and 14%), respectively, of the Electronics Group's net sales. At December 31, 2018, the Company's Electronics Group had approximately 67% (16%, 15%, 13%, 12%, and 11%) of its accounts receivable balance due from five customers.

Significant customer(s) of the Company's Power Group accounted for approximately 52% and 22% (11% and 11%) of the Power Group's net sales for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018, the Company's Power Group had approximately 55% (27%, 17%, and 11%) of its accounts receivable balance due from three customers.

A substantial portion of the net sales is subject to audit by agencies of the U.S. government. In the opinion of management, adjustments to such sales, if any, will not have a material effect on the Company's consolidated financial position or results of operations.

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and trade receivables from its customers.

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The Company performs credit evaluations on its customers and collateral is generally not required. Credit losses are provided for in the consolidated financial statements during the period in which an impairment has been determined.

13. LEASING

ARRANGEMENTS:

Effective January 1, 2011, the Company entered into an amendment to its lease. The amendment extended the lease expiration date to December 31, 2021 and modified the annual lease payments. The Company's current annual lease payment is \$463,200 and will continue at that annual amount through the year 2021. The Company's landlord agreed, at its sole expense, to make certain improvements to the facility.

In December 2016, the Company's ICS division entered into a two-year sub-lease agreement which called for lease payments of approximately \$1,685 per month for January 2017 through December 2018. The lease expired December 31, 2018.

Additional operating leases are for a sales office and office equipment. The Company has 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 consolidated financial statements.

Future minimum lease payments as of December 31, 2019 under all operating lease agreements that have initial or remaining noncancelable lease terms in excess of one year are as follows:

Year ending December 31,	
2019	\$ 503,000
2020	503,000
2021	502,000
2022	33,000
2023	25,000
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Total future minimum lease payments	\$1,566,000

Rent expense for operating leases was approximately \$479,000 and \$497,000 for the years ended December 31, 2018 and 2017, respectively.

14. COMMITMENTS:

The Company has employment agreements with three executive officers. At December 31, 2018, the total contractual obligations under these agreements over the next three years are approximately \$1,855,000. In addition, two executive officers are entitled to bonuses with one officer's bonus based on certain performance criteria, as defined, and the other officers' bonus is completely discretionary. One executive officer and six key employees are entitled to bonuses based on a percentage of earnings before taxes, as defined in the employment agreements. Total bonus compensation expense was approximately \$152,000 and \$232,000 for years ended December 31, 2018 and 2017, respectively.

From time to time, the Company may become a party to litigation or other legal proceedings that it considers to be a part of the ordinary course of business. The Company is not currently involved in any legal proceedings that could reasonably be expected to have a material adverse effect on its business, prospects, financial condition or results of operations.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

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15. 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’s Integrated Combat System (“ICS”) division ceased operations during the fourth quarter of 2018. The Electronics Group is engaged in the design, manufacture and sale of customized electronic components and subsystems. The Power Group is comprised of Behlman and is engaged in the design and manufacture of VPX/VME power supplies, high quality commercial power units, AC power supplies, frequency converters, uninterruptible power supplies 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 and the Company’s chief operating decision maker evaluate performance of the Company’s reportable segments based on each segment’s revenue and profitability.

The following is the Company's reporting segment information as of and for the years ended December 31, 2018 and 2017:

Year ended December 31,	2018	2017
Net sales:		
Electronics Group:		
Domestic	\$11,307,000	\$12,450,000
Foreign	536,000	867,000
Total Electronics Group	11,843,000	13,317,000
Power Group:		
Domestic	11,431,000	6,090,000
Foreign	1,384,000	1,532,000
Total Power Group	12,815,000	7,622,000
Intersegment sales	-	(88,000)
Total net sales	\$24,658,000	\$20,851,000
Income before benefit from income taxes:		
Electronics Group	\$2,137,000	\$3,050,000
Power Group	161,000	(663,000)
General corporate expenses not allocated	(675,000)	(805,000)
Interest expense	(11,000)	-
Investment and other (income) expense, net	48,000	(5,000)
Intersegment profit	33,000	(11,000)
Income before benefit from income taxes	\$ 1,693,000	\$ 1,566,000

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

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December 31,	2018	2017
Assets:		
Electronics Group (1)	\$ 5,256,000	\$ 7,585,000
Power Group (2)	7,879,000	6,090,000
General corporate assets not allocated	6,531,000	2,708,000
Elimination of intersegment gross profit in ending inventory	-	(33,000)
Total assets	\$19,666,000	\$ 16,350,000
Depreciation and amortization:		
Electronics Group	\$ 76,000	\$ 93,000
Power Group	29,000	21,000
Total depreciation and amortization	\$ 105,000	\$ 114,000

(1) Includes property and equipment, net of \$152,000 and \$128,000 at December 31, 2018 and 2017, respectively.

(2) Includes property and equipment, net of \$114,000 and \$55,000 at December 31, 2018 and 2017, respectively.

16. NET INCOME PER COMMON SHARE:

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

Year Ended December 31,	2018	2017
Denominator:		
Denominator for basic net income per share - weighted average common shares	3,589,000	3,838,000
Effect of dilutive securities:		
Nonvested restricted stock to employees	9,000	6,000
Denominator for diluted net income per share – weighted average common shares and assumed conversions	3,598,000	3,844,000

The numerator for basic and diluted net income per share for the years ended December 31, 2018 and 2017 is the net income for each year.

Approximately 26,000 and 38,000 shares of restricted common stock were outstanding at December 31, 2018 and 2017, respectively, but were not included in the computation of basic net income per share. These shares were excluded because they represent the unvested portion of restricted stock awards.

17. EQUITY:

In May 2017, the Company's Board of Directors authorized management to enter into a new 10b5-1 Plan (the "2017 Plan") for the purpose of purchasing its shares in the marketplace or in private transactions. 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.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

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In May 2018, the Company's Board of Directors authorized management to enter into a new 10b5-1 Plan (the "2018 Plan"), effective July 1, 2018. The 2018 Plan allows the Company to purchase up to \$600,000 of its common stock from July 1, 2018 through June 30, 2019, with the maximum dollar amount reduced by the amount of any cash dividends paid. In March 2019, the Company's Board of Directors amended the 2018 Plan whereby the dollar value of common stock that management was authorized to purchase under this plan increased to \$850,000 less any dollar amount for both dividends paid and expected to be paid by June 30, 2019. From July 1, 2018 to March 28, 2019, the Company purchased a total of 54,308 shares of common stock under the 2018 Plan, as amended, for total cash consideration of approximately \$290,000 at an average price of \$5.34 per share. In addition, during that same period, the Company paid and expects to pay cash dividends of approximately \$215,000. As of March 28, 2019, the Company has approximately \$345,000 of availability remaining under the 2018 Plan, as amended.

The Company retired 967,191 shares of treasury stock during 2018.

17. CASH DIVIDEND: In September 2018, the Company's Board of Directors declared a quarterly cash dividend of \$0.01 per share payable to stockholders of record as of September 28, 2018 with a payment date of October 5, 2018. The total cash dividend amounted to approximately \$36,000.

In December 2018, the Company's Board of Directors declared a quarterly cash dividend of \$0.01 per share payable to stockholders of record as of December 31, 2018 with a payment date of January 8, 2019. The total cash dividend amounted to approximately \$36,000 and the related payable is included in accrued expenses at December 31, 2018.

In March 2019, the Company's Board of Directors declared two cash dividends: 1) a quarterly cash dividend of \$0.01 per share and 2) a special annual cash dividend of \$0.03 per share. Both cash dividends are payable to stockholders of record as of March 29, 2019 with a payment date of April 5, 2019.