QUARTERLY REPORT
SEPTEMBER 30, 2018
UNAUDITED

INDEX

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: 9/30/2018
Total shares outstanding: 3,619,504 as of: 9/30/2018

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 15th 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 1/1/16-9/30/18:

Outstanding shares at 1/1/16	4,383,358
Purchase of treasury shares (1/1/16-12/31/16)	(196,201)
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)	(563,253)
Shares outstanding at 12/31/17	3,619,504
Purchase of treasury shares (1/1/18-9/30/18)	-
Shares outstanding at 9/30/18	3,619,504

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 otciq.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 ("OEG") is currently 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. 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 OEG's principal products include remote control units ("RCU"), intercommunication panels, displays, keyboards, keypads and pointing devices, operator control trays and command display units ("CDU'S"). 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.

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 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 will be in 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
Donna Holzeis-Assistant Secretary
Wayne Cadwallader-Director
William Collins-Director
Bernard Karcinell-Director

Control Persons:

Name and Address	Shares Beneficially Owned	Percentage of Class
Elkhorn Partners Limited Partnership 2222 Skyline Drive Elkhorn, NE 68022	1,809,700 (1)	50.00%

(1) Based on information provided to the Company in June 2018. 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.

Name and Address	Shares Beneficially Owned	Percentage of Class
Elkhorn Partners Limited Partnership, Alan S. Parsow-General Partner 2222 Skyline Drive Elkhorn, NE 68022	1,809,700 (1)	50.00%

(1) Based on information provided to the Company in June 2018. 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, 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 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.

November 14, 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.

November 14, 2018

/s/ David Goldman
CFO

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	September 30, 2018 (unaudited)	December 31, 2017
Current assets:		
Cash and cash equivalents.....	$ 1,583,000	$ 941,000
Investments in marketable securities....	-	301,000
Accounts receivable (less allowance for doubtful accounts of $115,000).....	2,863,000	3,248,000
Contract assets.....	726,000	-
Inventories.....	11,444,000	10,080,000
Other current assets.....	328,000	146,000
Total current assets.....	16,944,000	14,716,000
Property and equipment, net.....	283,000	183,000
Goodwill.....	868,000	868,000
Other assets.....	33,000	33,000
Deferred tax assets, net.....	1,123,000	550,000
TOTAL ASSETS.....	$19,251,000	$16,350,000

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 2018 (unaudited)	December 31, 2017
Current liabilities:		
Accounts payable	$ 1,264,000	$ 524,000
Accrued expenses	1,021,000	1,014,000
Customer advances	147,000	69,000
Total current liabilities	2,432,000	1,607,000
STOCKHOLDERS' EQUITY		
Common stock - $0.10 par value, 10,000,000 shares authorized, 3,620,000 and 4,582,000 shares issued at September 30, 2018 and December 31, 2017, respectively, and 3,620,000 shares outstanding at September 30, 2018 and December 31, 2017, respectively	362,000	458,000
Additional paid-in capital	17,639,000	20,932,000
Treasury stock, at cost, 0 and 962,000 shares at September 30, 2018 and December 31, 2017, respectively	-	(3,419,000)
Accumulated other comprehensive income, net of tax	-	1,000
Accumulated deficit	(1,182,000)	(3,229,000)
Total stockholders' equity	16,819,000	14,743,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$19,251,000	$16,350,000

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)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017
Net sales.....	$16,710,000	$15,254,000	$ 6,329,000	$ 5,004,000
Cost of sales.....	10,590,000	9,286,000	4,138,000	2,925,000
Gross profit.....	6,120,000	5,968,000	2,191,000	2,079,000
Selling, general and administrative expenses.....	4,901,000	4,960,000	1,595,000	1,644,000
Interest expense....	11,000	-	6,000	-
Investment and other (income) expense, net.....	(5,000)	10,000	(7,000)	(5,000)
Income before income tax (benefit) provision.....	1,213,000	998,000	597,000	440,000
Income tax (benefit) provision.....	(540,000)	(238,000)	9,000	(259,000)
NET INCOME.....	**1,753,000**	**1,236,000**	**588,000**	**699,000**
Change in unrealized gains (losses) on marketable securities, net of income tax...	(1,000)	24,000	-	1,000
Comprehensive Income.....	$1,752,000	$ 1,260,000	$ 588,000	$ 700,000
Net income per common share:				
Basic	$ 0.49	$ 0.31	$ 0.16	$ 0.19
Diluted	$ 0.49	$ 0.31	$ 0.16	$ 0.19
Weighted average number of common shares outstanding:				
Basic	3,594,000	3,924,000	3,594,000	3,759,000
Diluted	3,603,000	3,929,000	3,603,000	3,762,000

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)

	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net income	$ 1,753,000	$ 1,236,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation expense	29,000	64,000
Cumulative effect of adoption of ASC 606	330,000	-
Depreciation and amortization	80,000	90,000
Loss on sale of marketable securities	6,000	22,000
Gain on sale of property and equipment	(7,000)	-
Bond amortization	-	(2,000)
Deferred tax benefit	(573,000)	(250,000)
Changes in operating assets and liabilities:		
Accounts receivable	385,000	(261,000)
Contract assets	(726,000)	-
Inventories	(1,364,000)	(15,000)
Other current assets	(182,000)	(11,000)
Accounts payable	740,000	226,000
Accrued expenses	(29,000)	(50,000)
Income tax receivable	-	18,000
Customer advances	78,000	98,000
Other liabilities	-	7,000
Net cash provided by operating activities	520,000	1,172,000
Cash flows from investing activities:		
Purchases of property and equipment	(180,000)	(26,000)
Purchases of marketable securities	-	(202,000)
Sale of property and equipment	7,000	-
Sale of marketable securities	295,000	116,000
Net cash provided by (used in) investing activities	122,000	(112,000)

(continued)

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

	Nine Months Ended September 30, 2018	2017
Cash flows from financing activities:		
Purchase of treasury stock.....	$ -	(2,345,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	642,000	(1,285,000)
Cash and cash equivalents – Beginning of period	941,000	2,076,000
CASH AND CASH EQUIVALENTS – End of period.....	$ 1,583,000	$ 791,000
Supplemental cash flow information:		
Cash paid for interest.....	$ 9,000	$ -
Cash paid for income taxes	$ 22,000	$ -

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

(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 nine months ended September 30, 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.

(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 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.

Other Current Assets

The Company reported a total of $328,000 in other current assets at September 30, 2018. This amount includes $142,000 of vendor advances relating to the OPG's Common Aircraft Armament Test Sets (CAATS) contract with the U.S. Navy.

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

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

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.

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, Cost Recognition and Contract Assets

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

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

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 $22,523,000 at September 30, 2018. The period of performance for its backlog, pursuant to current delivery schedules, is estimated to be approximately $6,670,000 in 2018, $14,962,000 in 2019, $616,000 in 2020 and $275,000 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. 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, Nine months ending-9/30/18	Previous Guidance, Nine months ending-9/30/18	Current Guidance, Three months ending-9/30/18	Previous Guidance, Three months ending-9/30/18
Sales	$16,710,000	$ 17,239,000	$ 6,329,000	$ 7,356,000
Cost of sales	$10,590,000	$ 11,119,000	$ 4,138,000	$ 4,889,000
Gross Profit	$ 6,120,000	$ 6,120,000	$ 2,191,000	$ 2,467,000
Net Income	$ 1,753,000	$ 1,753,000	$ 588,000	$ 864,000
Contract Assets	$ 726,000	$ 0	$ 726,000	$ 0
Inventory	$11,444,000	$ 11,840,000	$11,444,000	$11,840,000

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

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 September 30, 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 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-September 30, 2018	$ 726,000
Decrease	$ (529,000)

The decrease from January 1, 2018 to September 30, 2018 was primarily the result of the shipment of product for which revenue was previously recognized.

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.

Advertising

The Company elects to expense advertising as incurred.

(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 was $29,000 and $10,000 for the nine and three months ended September 30, 2018, respectively, and was $64,000 and $39,000, respectively, for the comparable 2017 periods.

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 September 30, 2018, the Company had unearned compensation of $54,000 associated with all of the Company's restricted stock awards, which will be expensed ratably through the period ending January 1, 2020. The unvested portion of restricted stock awards at September 30, 2018 and 2017 were approximately 26,000 and 37,000 shares, respectively.

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 six months ended September 30, 2018:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested restricted stock at January 1, 2018.....	26,000	$3.23
Granted	-	-
Vested.....	-	-
Forfeited.....	-	-
Nonvested restricted stock at September 30, 2018.....	26,000	$3.23

(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 (5.25% at September 30, 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. There were no outstanding borrowings under the line of credit at September 30, 2018. The Company had $4,000,000 of availability under its line of credit at September 30, 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 September 30, 2018.

(NOTE 4) – Net Income Per Common Share:

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2018	2017	2018	2017
Denominator:				
Denominator for basic net Income per share – weighted-average common shares.....	3,594,000	3,924,000	3,594,000	3,759,000
Effect of dilutive securities:				
Nonvested restricted stock to employees	9,000	5,000	9,000	3,000
Denominator for diluted net Income per share – weighted-average common shares and assumed conversion....	3,603,000	3,929,000	3,603,000	3,762,000

(NOTE 4) – Net Income Per Common Share (continued):

The numerator for basic and diluted net income per share for the nine and three month periods ended September 30, 2018 and 2017 is the net income for each period.

Approximately 26,000 and 37,000 shares of common stock were outstanding at September 30, 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:

	September 30, 2018	December 31, 2017
Raw Materials.....	$ 7,284,000	$ 5,671,000
Work-in-process.....	3,786,000	4,001,000
Finished goods.....	374,000	408,000
TOTAL	$11,444,000	$10,080,000

(NOTE 7) – Marketable Securities:

The following is a summary of the Company's available-for-sale marketable securities at September 30, 2018 and December 31, 2017:

September 30, 2018	Amortized Cost	Fair Value	Unrealized Holding Loss
Corporate Bonds	$ -	$ -	$ -
December 31, 2017			
Corporate Bonds	$ 302,000	$ 301,000	$ (1,000)

(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:

(NOTE 8) - Fair Value of Financial Instruments (continued):

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 September 30, 2018 and December 31, 2017, of assets measured at fair value on a recurring basis by level within the hierarchy.

September 30, 2018	Total	Level 1	Level 2	Level 3
Corporate Bonds	$ -	$ -	$ -	$ -

December 31, 2017	Total	Level 1	Level 2	Level 3
Corporate Bonds	$ 301,000	$ 301,000	$ -	$ -

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 currently comprised of the Company's 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 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, armament systems and commercial-off-the-shelf ("COTS") power solutions.

(NOTE 9) - Business Segments (continued):

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 nine and three month periods ended September 30, 2018 and 2017:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2018	2017	2018	2017
Net sales:				
Electronics Group.....				
Domestic.....	$ 9,528,000	$ 9,315,000	$ 3,233,000	$ 3,353,000
Foreign.....	334,000	551,000	16,000	88,000
Total Electronics	9,862,000	9,866,000	3,249,000	3,441,000
Power Group.....				
Domestic.....	6,217,000	4,264,000	2,951,000	1,227,000
Foreign.....	631,000	1,212,000	129,000	380,000
Total Power Group	6,848,000	5,476,000	3,080,000	1,607,000
Intersegment Sales.....	-	(88,000)	-	(44,000)
Total	$16,710,000	$15,254,000	$ 6,329,000	$ 5,004,000
Income before income tax (benefit) provision:				
Electronics Group.....	$ 2,273,000	$ 2,126,000	$ 718,000	$ 900,000
Power Group.....	(567,000)	(480,000)	10,000	(234,000)
General corporate expenses not allocated.....	(520,000)	(627,000)	(165,000)	(241,000)
Interest expense.....	(11,000)	-	(6,000)	-
Investment and other income (expense), net.....	5,000	(10,000)	7,000	5,000
Intersegment profit.....	33,000	(11,000)	33,000	10,000
Income before income tax (benefit) provision.....	$ 1,213,000	$ 998,000	$ 597,000	$ 440,000

(NOTE 10) - Goodwill:

As of September 30, 2018 and December 31, 2017, the Company's goodwill consists of the following:

Gross Carrying Value	Accumulated Amortization	Accumulated Impairment	Net Carrying Value
$868,000	$ -	$ -	$ 868,000

(NOTE 11) – Income Taxes:

For the nine months ended September 30, 2018, the Company recorded an income tax (benefit) expense of approximately $(540,000) relating to a $573,000 deferred tax benefit which was partially offset by state income and minimum tax expense. The $573,000 deferred tax benefit relates to the Company's decision to reduce the entire 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 in 2019 and 2020 when it expects to file its 2018 and 2019 tax returns. For the three months ended September 30, 2018, the Company recorded an income tax (benefit) expense of approximately $9,000 relating to state income and minimum tax expense. At September 30, 2017, the Company evaluated its cumulative pre-tax income for the three most recent years 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 by $250,000 resulting in a net deferred tax asset of $550,000. For the nine months ended September 30, 2017, the Company recorded an income tax benefit of approximately $(238,000) relating to the $250,000 deferred tax benefit which was partially offset by state income and minimum tax expense. For the three months ended September 30, 2017, the Company recorded an income tax benefit of approximately $(259,000) relating to the $250,000 deferred tax benefit and federal and state income tax refunds which was partially offset by state income and minimum tax expense.

(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 (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. From July 1, 2018 to November 14, 2018, the Company purchased a total of 6,192 shares of common stock under the 2018 Plan, for total cash consideration of approximately $34,000 at an average price of $5.50 per share.

The Company retired 962,558 shares of treasury stock in May 2018.

(NOTE 13) – Cash Dividend:

In September 2018, the Company's Board of Directors declared a 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 and the related payable is included in accrued expenses at September 30, 2018.