



**QUARTERLY REPORT
MARCH 31, 2016
UNAUDITED**

INDEX

	<u>Page No.</u>
OTC Pink Basic Disclosure Guidelines	3-10
Consolidated Balance Sheets - March 31, 2016(unaudited) and December 31, 2015	11-12
Consolidated Statements of Operations and Comprehensive Income (loss) for the Three Months Ended March 31, 2016 and 2015 (unaudited)	13
Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015 (unaudited)	14-15
Notes to Consolidated Financial Statements (unaudited)	16-24

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: \$.10

Total shares authorized: 10,000,000 as of: 3/31/2016

Total shares outstanding: 4,360,468 as of: 3/31/2016

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 1/1/14-3/31/16:

Outstanding shares at 1/1/14	4,520,298
Purchase of treasury shares (1/1/14-12/31/14)	(26,580)
Forfeiture of restricted shares (1/1/14-12/31/14):	
David Gutman-Former President, TDL	(8,600)
Outstanding shares at 12/31/14	4,485,118
Purchase of treasury shares (1/1/15-12/31/15)	(101,760)
Shares outstanding at 12/31/15	4,383,358
Purchase of treasury shares (1/1/16-3/31/16)	(22,890)
Shares outstanding at 3/31/16	<u>4,360,468</u>

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

N/A

C. The number of shares offered;

N/A

D. The number of shares sold;

N/A

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

N/A

F. The trading status of the shares; and

N/A

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

N/A

5) Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3679 (Electronic Components, not elsewhere classified)

D. the issuer's fiscal year end date;

December 31

E. principal products or services, and their markets;

The Electronics Group's ("OEG") principal products include remote control units ("RCU"), intercommunication panels, displays, keyboards, keypads and pointing devices, operator control trays, command display units ("CDU'S"), MK 110 signal data converter ("SDC"), and cable and harness assemblies. These products are used primarily in support of military programs. The Power Group's principal products include power supplies, frequency converters, uninterruptible power supply products 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 is 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.

Our ICS division operates out of a facility in Louisville, Kentucky. In March 2014, ICS entered into a lease for a three-year period, with a three-year renewal option, for approximately 4,700 square feet. The lease payments are as follows: approximately \$4,100 per month for April 2014 through March 2015, approximately \$4,300 per month for April 2015 through March 2016, and approximately \$4,500 per month for April 2016 through March 2017.

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 and Assistant Secretary

Mark Tublisky-Secretary

Kenneth Ice-President, Orbit Electronics Group

Ronald Storm-President, Orbit Power Group and Assistant Secretary

Karl Schmidt-Executive Vice President and Chief Operating Officer of the Orbit Electronics and Power Groups

Wayne Cadwallader-Director

Fredric Gruder-Director

Sohail Malad-Director

Bernard Karcinell-Director

Control Persons:

<u>Name and Address</u>	<u>Shares Beneficially Owned</u>	<u>Percentage of Class</u>
Elkhorn Partners Limited Partnership 2222 Skyline Drive Elkhorn, NE 68022	1,460,500 (1)	33.49%
Joseph H. Moglia 130 Vista Del Mar Myrtle Beach, SC 29572	252,600 (1)	5.79%

(1) Based on information provided to the Company.

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

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

None.

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

None.

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

None.

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

None.

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

<u>Name and Address</u>	<u>Shares Beneficially Owned</u>	<u>Percentage of Class</u>
Elkhorn Partners Limited Partnership, Alan S. Parsow- General Partner 2222 Skyline Drive Elkhorn, NE 68022	1,460,500 (1)	33.49%

(1) Based on information provided to the Company.

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: Stephen Ebinger
Firm: CohnReznick LLP
Address 1: 100 Jericho Quadrangle
Address 2: Jericho, NY 11753
Phone: 516-336-5502
Email: stephen.ebinger@cohnreznick.com

Investor Relations Consultant-N/A

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

10) Issuer Certification

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

The certifications shall follow the format below:

I, Mitchell Binder certify that:

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

May 13, 2016

/s/ Mitchell Binder
CEO

I, David Goldman certify that:

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

May 13, 2016

/s/ David Goldman
CFO

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

<u>ASSETS</u>	March 31, <u>2016</u> (unaudited)	December 31, <u>2015</u>
Current assets:		
Cash and cash equivalents.....	\$ 2,160,000	\$ 1,747,000
Investments in marketable securities....	178,000	235,000
Accounts receivable (less allowance for doubtful accounts of \$125,000).....	2,903,000	3,264,000
Inventories.....	10,907,000	10,694,000
Income tax receivable.....	-	9,000
Other current assets.....	<u>150,000</u>	<u>259,000</u>
Total current assets.....	16,298,000	16,208,000
Property and equipment, net.....	361,000	408,000
Goodwill.....	868,000	868,000
Other assets.....	<u>40,000</u>	<u>40,000</u>
TOTAL ASSETS.....	<u>\$17,567,000</u>	<u>\$17,524,000</u>

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

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

	March 31, <u>2016</u> (unaudited)	December 31, <u>2015</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable.....	\$ 767,000	\$ 608,000
Accrued expenses.....	769,000	856,000
Customer advances.....	326,000	189,000
Income taxes payable.....	<u>3,000</u>	<u>-</u>
Total current liabilities.....	1,865,000	1,653,000
Line of credit.....	1,280,000	1,410,000
Other liabilities.....	<u>9,000</u>	<u>16,000</u>
Total liabilities.....	<u>3,154,000</u>	<u>3,079,000</u>
STOCKHOLDERS' EQUITY		
Common stock - \$.10 par value, 10,000,000 shares authorized, 5,137,000 shares issued at March 31, 2016 and December 31, 2015 and 4,361,000 and 4,383,000 shares outstanding at March 31, 2016 and December 31, 2015, respectively.....	514,000	514,000
Additional paid-in capital.....	22,672,000	22,659,000
Treasury stock, at cost, 776,000 and 754,000 shares at March 31, 2016 and December 31, 2015, respectively.....	(2,346,000)	(2,273,000)
Accumulated other comprehensive loss, net of tax	(44,000)	(37,000)
Accumulated deficit.....	<u>(6,383,000)</u>	<u>(6,418,000)</u>
Total stockholders' equity.....	<u>14,413,000</u>	<u>14,445,000</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	<u>\$17,567,000</u>	<u>\$17,524,000</u>

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

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

	Three Months Ended March 31,	
	<u>2016</u>	<u>2015</u>
Net sales.....	\$ 4,801,000	\$ 4,214,000
Cost of sales.....	<u>3,053,000</u>	<u>2,831,000</u>
Gross profit.....	<u>1,748,000</u>	<u>1,383,000</u>
Selling, general and administrative expenses.....	1,703,000	1,683,000
Interest expense.....	8,000	9,000
Investment and other (income), net....	<u>(6,000)</u>	<u>(4,000)</u>
Income (loss) before tax provision.....	43,000	(305,000)
Income tax provision....	<u>8,000</u>	<u>21,000</u>
NET INCOME (LOSS).....	35,000	(326,000)
Change in unrealized (losses) gains on marketable securities, net of income tax.....	<u>(7,000)</u>	<u>1,000</u>
Comprehensive income (loss)	<u>\$ 28,000</u>	<u>\$ (325,000)</u>
Net income (loss) per common share:		
Basic	<u>\$ 0.01</u>	<u>\$ (0.07)</u>
Diluted	<u>\$ 0.01</u>	<u>\$ (0.07)</u>
Weighted average number of common shares outstanding:		
Basic	<u>4,291,000</u>	<u>4,399,000</u>
Diluted	<u>4,295,000</u>	<u>4,399,000</u>

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

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

	Three Months Ended March 31,	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Net income (loss).....	\$ 35,000	\$ (326,000)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Stock based compensation expense.....	14,000	13,000
Depreciation and amortization.....	47,000	68,000
Loss on sale of marketable securities.....	-	1,000
Bond discount.....	(1,000)	(1,000)
Changes in operating assets and liabilities:		
Accounts receivable.....	361,000	(1,045,000)
Inventories.....	(213,000)	(342,000)
Other current assets.....	109,000	12,000
Accounts payable.....	159,000	166,000
Accrued expenses.....	(87,000)	(23,000)
Income taxes payable.....	3,000	15,000
Income tax receivable.....	9,000	2,000
Customer advances.....	137,000	27,000
Other liabilities.....	<u>(7,000)</u>	<u>(6,000)</u>
Net cash provided by (used in) operating activities.....	<u>566,000</u>	<u>(1,439,000)</u>
Cash flows from investing activities:		
Purchases of property and equipment.....	-	(14,000)
Purchase of marketable securities.....	-	(143,000)
Sale of marketable securities.....	<u>50,000</u>	<u>146,000</u>
Net cash provided by (used in) investing activities.....	<u>50,000</u>	<u>(11,000)</u>

(continued)

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

	Three Months Ended March 31,	
	<u>2016</u>	<u>2015</u>
Cash flows from financing activities:		
Purchase of treasury stock.....	\$ (73,000)	\$ -
Repayments of line of credit.....	<u>(130,000)</u>	<u>(75,000)</u>
Net cash used in financing activities.....	<u>(203,000)</u>	<u>(75,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	<u>413,000</u>	<u>(1,525,000)</u>
Cash and cash equivalents - Beginning of period	<u>1,747,000</u>	<u>2,139,000</u>
CASH AND CASH EQUIVALENTS - End of period.....	<u>\$2,160,000</u>	<u>\$ 614,000</u>
Supplemental cash flow information:		
Cash paid for interest.....	<u>\$ 8,000</u>	<u>\$ 9,000</u>
Cash paid for income taxes.....	<u>\$ 8,000</u>	<u>\$ 4,000</u>

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

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

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

General

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

The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results of operations that can be expected for the year ending December 31, 2016.

The December 31, 2015 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, 2015 contained in the Company's 2015 Annual Report filed with the OTC Pink Marketplace on March 30, 2016.

Cash Equivalents

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

Marketable Securities

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

Allowance for Doubtful Accounts

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

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

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

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

Inventories

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

Property and Equipment

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

Long-Lived Assets

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

Goodwill

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

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

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

Income Taxes

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

Revenue and Cost Recognition

The Company recognizes its revenue upon the shipment of product. The Company recognizes such revenue when title and risk of loss are transferred to the customer and when: i) there is persuasive evidence that an arrangement with the customer exists, which is generally a customer purchase order, ii) the selling price is fixed and determinable, iii) collection of the customer receivable is deemed probable, and iv) we do not have any continuing obligations.

All contracts are for products made to specific customer specifications with no right of return. All units are shipped with a one-year warranty. There were no material warranty claims during the three months ended March 31, 2016 and 2015.

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.

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

(Note 2) - Stock-Based Compensation:

The Company had stock-based employee compensation plans, which provided for the granting of nonqualified and incentive stock options, as well as restricted stock awards and stock appreciation rights to officers, employees and key persons. The plans granted options at the market value of the Company's stock on the date of such grant and all options expired ten years after grant. The terms and vesting schedules for stock-based awards vary by type of grant and generally the awards vest based upon time-based conditions. Stock option exercises were funded through the issuance of the Company's common stock. Stock-based compensation expense for the three months ended March 31, 2016 and 2015 was \$14,000 and \$13,000, respectively.

The Company's stock-based employee compensation plans allowed for the issuance of restricted stock awards that may not be sold or otherwise transferred until certain restrictions have lapsed. The unearned stock-based compensation related to restricted stock granted is being amortized to compensation expense over the vesting period, which is seven years. The stock-based expense for these awards was determined based on the market price of the Company's stock at the date of grant applied to the total number of shares that were anticipated to vest. As of March 31, 2016, the Company had unearned compensation of \$211,000 associated with all of the Company's restricted stock awards, which will be expensed over approximately the next four years. The unvested portion of restricted stock awards at March 31, 2016 and 2015 were approximately 69,000 and 86,000 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 three months ended March 31, 2016:

	<u>Number of Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Nonvested restricted stock at January 1, 2016.....	86,000	\$3.23
Granted	-	-
Vested.....	(17,000)	3.23
Forfeited.....	<u>-</u>	<u>-</u>
Nonvested restricted stock at March 31, 2016.....	<u>69,000</u>	<u>\$3.23</u>

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

(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 October 2015, the Company's Credit Agreement was further amended whereby the expiration date on its credit facility was extended to August 1, 2017.

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 (3.50% at March 31, 2016) and/or (ii) 2% over LIBOR for 30, 60 and 90 day LIBOR maturities, at the Company's sole discretion. The line of credit is collateralized by a first priority security interest in all of the Company's tangible and intangible assets. Outstanding borrowings under the line of credit were \$1,280,000 at March 31, 2016 at an interest rate of 2.44% representing 2% plus the 30 day LIBOR rate. Outstanding borrowings under the line of credit were \$1,410,000 at December 31, 2015 at an interest rate of 2.34% representing 2% plus the 30 day LIBOR rate. The Company had approximately \$2,720,000 of availability under its line of credit at March 31, 2016.

The Credit Agreement contains customary affirmative and negative covenants and certain financial covenants. Additionally, available borrowings under the line of credit are subject to a borrowing base of eligible accounts receivable and inventory. All outstanding borrowings under the line of credit are accelerated and become immediately due and payable (and the line of credit terminates) in the event of a default, as defined, under the Credit Agreement. The Company was in compliance with the financial covenants contained in its Credit Agreement at March 31, 2016.

(NOTE 4) - Net Income (Loss) Per Common Share:

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

	Three Months Ended	
	March 31,	
	2016	2015
Denominator:		
Denominator for basic net		
income (loss) per share -		
weighted-average common shares.....	4,291,000	4,339,000
Effect of dilutive securities:		
Nonvested restricted stock to employees	4,000	-
Denominator for diluted net income		
(loss) per share -		
weighted-average common		
shares and assumed conversion.....	4,295,000	4,399,000

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

(NOTE 4) - Net Income (Loss) Per Common Share (continued):

The numerator for basic and diluted net income (loss) per share for the three month periods ended March 31, 2016 and 2015 is the net income (loss) for each period.

Approximately 69,000 and 86,000 shares of common stock were outstanding at March 31, 2016 and 2015, respectively, but were not included in the computation of basic income (loss) per share. These shares were excluded because they represent the unvested portion of restricted stock awards.

(NOTE 5) - Cost of Sales:

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

(NOTE 6) - Inventories:

Inventories are comprised of the following:

	March 31, <u>2016</u>	December 31, <u>2015</u>
Raw Materials.....	\$ 6,251,000	\$ 6,502,000
Work-in-process.....	4,190,000	3,788,000
Finished goods.....	466,000	404,000
TOTAL	<u>\$10,907,000</u>	<u>\$10,694,000</u>

(NOTE 7) - Marketable Securities:

The following is a summary of the Company's available-for-sale marketable securities at March 31, 2016 and December 31, 2015:

<u>March 31, 2016</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Unrealized Holding Loss</u>
Corporate Bonds	<u>\$ 251,000</u>	<u>\$ 178,000</u>	<u>\$(73,000)</u>
<u>December 31, 2015</u>			
Corporate Bonds	<u>\$ 296,000</u>	<u>\$ 235,000</u>	<u>\$(61,000)</u>

(NOTE 8) - Fair Value of Financial Instruments:

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

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

(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 March 31, 2016 and December 31, 2015, of assets measured at fair value on a recurring basis by level within the hierarchy.

<u>March 31, 2016</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Corporate Bonds	\$ 178,000	\$ 178,000	\$ -	\$ -
<u>December 31, 2015</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Corporate Bonds	\$ 235,000	\$ 235,000	\$ -	\$ -

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, accounts payable and line of credit reasonably approximate their fair value due to their relatively short maturities. The fair value estimates presented herein were based on market or other information available to management. The use of different assumptions and/or estimation methodologies could have a significant effect on the estimated fair value amounts.

(NOTE 9) - Business Segments:

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

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

(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 three month periods ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	<u>2016</u>	<u>2015</u>
Net sales:		
Electronics Group.....		
Domestic.....	\$ 2,627,000	\$ 1,613,000
Foreign.....	<u>174,000</u>	<u>311,000</u>
Total Electronics	2,801,000	1,924,000
Power Group.....		
Domestic.....	1,928,000	2,226,000
Foreign.....	<u>80,000</u>	<u>64,000</u>
Total Power Group	2,008,000	2,290,000
Intersegment sales.....	(8,000)	-
Total	<u>\$ 4,801,000</u>	<u>\$ 4,214,000</u>
Income (loss) before income tax provision:		
Electronics Group.....	\$ 260,000	\$ (220,000)
Power Group.....	(29,000)	122,000
General corporate expenses not allocated.....	(186,000)	(202,000)
Interest expense.....	(8,000)	(9,000)
Investment and other income (expense), net.....	<u>6,000</u>	<u>4,000</u>
Income (loss) before income tax provision.....	<u>\$ 43,000</u>	<u>\$ (305,000)</u>

(NOTE 10) - Goodwill:

As of March 31, 2016 and December 31, 2015, the Company's goodwill consists of the following:

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

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

(NOTE 11) - Income Taxes:

For the three months ended March 31, 2016 and 2015, the Company recorded income tax expense of approximately \$8,000 and \$21,000, respectively, relating to state income and minimum tax expense. As of March 31, 2016, the Company has no material uncertain tax positions. At March 31, 2016, the Company continued to record a full valuation allowance on its net deferred tax asset.

(NOTE 12) - Equity:

During May 2015, the Company's Board of Directors authorized management to enter into a 10b5-1 Plan ("2015 10b5-1 Plan") through which the Company was permitted to purchase up to \$150,000 of its common stock. From May 14, 2015 to November 13, 2015, the Company purchased a total of 12,140 shares of its common stock under this Plan, for total cash consideration of approximately \$36,000 for an average price of \$2.97 per share.

In November 2015, the Company's Board of Directors terminated the 2015 10b5-1 Plan and authorized management to enter into a new 10b5-1 Plan ("2015 Revised 10b5-1 Plan"). The 2015 Revised 10b5-1 Plan allowed the Company to purchase up to approximately \$122,000 of its common stock during the term of the Plan which expires June 30, 2016. From November 19, 2015 to May 3, 2016, the Company purchased a total of 26,510 shares of common stock under this Plan for total cash consideration of approximately \$84,000 for an average price of \$3.18. On May 4, 2016, the Company's Board of Directors amended the 2015 Revised 10b5-1 Plan to increase to \$359,000 the amount of common stock that management is authorized to purchase under this Plan. This increased authorization includes the \$84,000 in common stock that had already been purchased pursuant to the 2015 Revised 10b5-1 Plan as originally adopted by the Board.

In May 2016, the Company's Board of Directors also authorized management to enter into a new 10b5-1 Plan ("2016 10b5-1 Plan"), effective July 1, 2016, the day following the expiration of the 2015 Revised 10b5-1 Plan. The 2016 10b5-1 Plan allows the Company to purchase up to approximately \$400,000 of its common stock through June 30, 2017.