



**ANNUAL REPORT
DECEMBER 31, 2021**

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Disclosure Statement Pursuant to the Pink Basic Disclosure Guidelines

ORBIT INTERNATIONAL CORP.

80 Cabot Court
Hauppauge, NY 11788

631-435-8300
www.orbitintl.com
orbit.investor-relations@orbitintl.com
SIC Code: 3679

Annual Report
For the Period Ending: 12/31/2021
(the "Reporting Period")

As of 12/31/2021, the number of shares outstanding of our Common Stock was: 3,446,522

As of 9/30/2021, the number of shares outstanding of our Common Stock was: 3,446,942

As of 12/31/2020, the number of shares outstanding of our Common Stock was: 3,511,072

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

Yes: No:

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

Yes: No:

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

Yes: No:

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

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

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

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

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

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

In answering this item, provide the current name of the issuer, any names used by predecessor entities, along with the dates of the name changes.

Orbit International Corp.

The state of incorporation or registration of the issuer and of each of its predecessors (if any) during the past five years. Please also include the issuer's current standing in its state of incorporation (e.g. active, default, inactive):

State of incorporation is Delaware

Current standing is active

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

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:

On January 3, 2022, the Company, through a newly formed subsidiary, Simulator Products Solutions LLC ("SPS"), completed the acquisition of the assets and business of Panel Products, Inc. ("Panel"), a Carson, CA based manufacturer of military simulation and training bezels, electronic control assemblies and multi-function displays.

The transaction valued Panel at approximately \$6,500,000, subject to adjustment, with \$4,000,000 of the purchase price paid in cash at closing, an aggregate of up to \$1,200,000 in performance related payments payable at the end of 2022 and 2023, and the issuance to Panel of a 19.9% ownership interest in SPS. In connection with the acquisition, SPS entered into a three-year employment agreement with the seller of Panel, who will be its President ("SPS President"). Upon the conclusion of the employment agreement with SPS' President, Orbit is obligated to purchase Panel's 19.9% interest in SPS for a minimum of \$1,300,000, which amount may be increased by a pre-determined formula based on the future operating results of SPS. SPS will become part of the Company's Orbit Electronics Group.

The address(es) of the issuer's principal executive office:

80 Cabot Court
Hauppauge, NY 11788

The address(es) of the issuer's principal place of business:

Check box if principal executive office and principal place of business are the same address:

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

Yes: No:

If this issuer or any of its predecessors have been the subject of such proceedings, please provide additional details in the space below:

N/A

2) Security Information

Trading symbol:	<u>ORBT</u>
Exact title and class of securities outstanding:	<u>Common Stock</u>
CUSIP:	<u>685559304</u>
Par or stated value:	<u>\$0.10</u>

Total shares authorized:	<u>10,000,000</u>	as of date: <u>12/31/2021</u>
Total shares outstanding:	<u>3,446,522</u>	as of date: <u>12/31/2021</u>
Number of shares in the Public Float ² :	<u>995,296</u>	as of date: <u>12/31/2021</u>
Total number of shareholders of record:	<u>108</u>	as of date: <u>12/31/2021</u>

All Additional class(es) of publicly traded securities (if any): None

Transfer Agent

Name: American Stock Transfer and Trust Company, LLC
Phone: 718-921-8200
Email: admin7@astfinancial.com
Address: 6201 15th Avenue, Brooklyn, NY 11219

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

3) Issuance History

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

Disclosure under this item shall include, in chronological order, all offerings and issuances of securities, including debt convertible into equity securities, whether private or public, and all shares or any other securities or options to acquire such securities, issued for services. Using the tabular format below, please describe these events.

A. Changes to the Number of Outstanding Shares

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

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

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

Shares outstanding as of the Second Most recent Fiscal Year End : <u>12/31/19</u>	<u>Opening Balance:</u> Common: <u>3,545,407</u> Preferred: <u>N/A</u>		*Right-click the rows below and select "Insert" to add rows as needed.						
Date of Transaction	Transaction type (e.g. new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at a discount to market price at the time of issuance? (Yes/No)	Individual/ Entity Shares were issued to (entities must have individual with voting / investment control disclosed).	Reason for share issuance (e.g. for cash or debt conversion) OR Nature of Services Provided	Restricted or Unrestricted as of this filing.	Exemption or Registration Type.
<u>1/1/20-12/31/20</u>	Shares returned to treasury	<u>(34,335)</u>	<u>Common</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>1/1/21-3/31/21</u>	<u>N/A</u>	<u>-</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>4/1/21-6/30/21</u>	Shares returned to treasury	<u>(39,173)</u>	<u>Common</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>7/1/21-9/30/21</u>	Shares returned to treasury	<u>(24,957)</u>	<u>Common</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>10/1/21-12/31/21</u>	Shares returned to treasury	<u>(420)</u>	<u>Common</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Shares Outstanding on <u>12/31/21</u>	<u>Ending Balance:</u> Common: <u>3,446,522</u> Preferred: <u>N/A</u>								

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

None

B. Debt Securities, Including Promissory and Convertible Notes

Use the chart and additional space below to list and describe all outstanding promissory notes, convertible notes, convertible debentures, or any other instruments that may be converted into class of the issuer's equity securities.

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

Date of Note Issuance	Outstanding Balance (\$)	Principal Amount at Issuance (\$)	Interest Accrued (\$)	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of Noteholder (entities must have individual with voting/investment control disclosed).	Reason for Issuance (e.g. Loan, Services, etc.)
_____	_____	_____	_____	_____	_____	_____	_____

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

N/A

4) Financial Statements

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

- U.S. GAAP
- IFRS

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

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

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

- C. Balance sheet;
- D. Statement of income;
- E. Statement of cash flows;
- F. Statement of Retained Earnings (Statement of Changes in Stockholders' Equity);
- G. Financial notes; and
- H. Audit letter, if audited

You may either (i) attach/append the financial statements to this disclosure statement or (ii) file the financial statements through OTCIQ as a separate report using the appropriate report name for the applicable period end (“Annual Report,” “Quarterly Report” or “Interim Report”).

If you choose to publish the financial statements in a separate report as described above, you must state in the accompanying disclosure statement that such financial statements are incorporated by reference. You may reference the document(s) containing the required financial statements by indicating the document name, period end date, and the date that it was posted to OTCIQ in the field below. Financial Statements must be compiled in one document.

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

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

5) Issuer's Business, Products and Services

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

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

Orbit International Corp. ("Orbit" or the "Company") conducts its operations through its Electronics and Power Groups. The Company's Electronics Group ("OEG") is comprised of its Orbit Instrument and Tulip Development Laboratory ("TDL") Divisions and its Q-Vio subsidiary. 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 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 and commercial-off-the-shelf ("COTS") power solutions. The Company and its divisions and subsidiaries are all located at 80 Cabot Court, Hauppauge, NY 11788 and can be contacted at 631-435-8300.

- B. Please list any subsidiaries, parents, or affiliated companies.

See 5) A. above for a description of the Company's subsidiaries and divisions and their contact information. Mitchell Binder, the Company's President and CEO, David Goldman, the Company's CFO and Karl Schmidt, the Company's COO, comprise all of the Directors and Officers of the Company's two subsidiaries-Behlman Electronics Inc. and Q-Vio Corp.

- C. Describe the issuers' principal products or services.

The OEG's principal products include remote control units ("RCU"), intercommunication panels, displays, keyboards, keypads and pointing devices, operator control trays, command display units ("CDUs") and the design and enhancement of LCD display modules. These products are used primarily in support of military programs. The OPG's principal products include power supplies, frequency converters, uninterruptible power supply products, armament systems and inverters. These products are primarily used in commercial applications and in support of military programs.

6) Issuer's Facilities

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

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 75% of capacity. In March 2001, we entered into a twelve-year net lease for this facility and effective January 1, 2011, we entered into an amendment to that lease which extended the expiration date to December 31, 2021. Since January 2017, our lease payments have been \$38,600 per month and continued at that amount through December 2021. In June 2021, we entered into another amendment to the lease which extended the lease expiration date to December 31, 2027 and modified the lease payments as follows: approximately \$44,583 per month for January 2022 through December 2024 and approximately \$47,917 per month for January 2025 through December 2027. In connection with the lease amendment, our landlord agreed, at its sole expense, to make certain improvements to the facility.

During April 2019, we entered into an eighteen-month lease for a 1,264 square foot facility located at 5207 26th Street West, Unit #104, Bradenton, FL to be used as a selling office for the Electronics Group. The lease had a monthly payment of \$1,250 and an original termination date of October 31, 2020. In August 2020, the Company and the landlord agreed to terminate the lease effective August 31, 2020.

7) Company Insiders (Officers, Directors, and Control Persons)

The goal of this section is to provide an investor with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant or beneficial shareholders.

Using the tabular format below, please provide information, as of the period end date of this report, regarding any person or entity owning 5% or more of any class of the issuer's securities, as well as any officer, and any director of the company, or any person that performs a similar function, regardless of the number of shares they own. **If any insiders listed are corporate shareholders or entities, provide the name and address of the person(s) beneficially owning or controlling such corporate shareholders, or the name and contact information (City, State) of an individual representing the corporation or entity in the note section.**

Name of Officer/Director and Control Person	Affiliation with Company (e.g. Officer/Director/Owner of more than 5%)	Residential Address (City / State Only)	Number of shares owned	Share type/class	Ownership Percentage of Class Outstanding	Note
<u>Mitchell Binder</u>	<u>President, CEO, and Director</u>	<u>Hauppauge, NY</u>	<u>167,302</u>	<u>Common</u>	<u>4.85%</u>	_____
<u>David Goldman</u>	<u>CFO, Treasurer, Assistant Secretary, and Director</u>	<u>Hauppauge, NY</u>	<u>19,742</u>	<u>Common</u>	<u>0.57%</u>	_____
<u>Karl Schmidt</u>	<u>COO</u>	<u>Hauppauge, NY</u>	<u>30,250</u>	<u>Common</u>	<u>0.88%</u>	_____
<u>Wayne Cadwallader</u>	<u>Director</u>	<u>Hauppauge, NY</u>	<u>1,200</u>	<u>Common</u>	<u>0.03%</u>	_____
<u>William Collins</u>	<u>Director</u>	<u>Hauppauge, NY</u>	<u>162,508</u>	<u>Common</u>	<u>4.72%</u>	<u>Ownership amount includes shares owned by Brencourt Capital Management LLC, a family office in which Mr. Collins serves as CEO.</u>
<u>Bernard Karcinell</u>	<u>Director</u>	<u>Hauppauge, NY</u>	<u>7,224</u>	<u>Common</u>	<u>0.21%</u>	_____
<u>Marcus Bryant</u>	<u>Secretary</u>	<u>Hauppauge, NY</u>	<u>-</u>	<u>N/A</u>	<u>N/A</u>	_____
<u>Elkhorn Partners Limited Partnership – Alan S. Parsow, General Partner 8405 Indian Hills Drive, #2A8 Omaha, NE 68114</u>	<u>Owner of more than 5%</u>	<u>Omaha, NE</u>	<u>2,063,000</u>	<u>Common</u>	<u>59.86%</u>	<u>Ownership based on information provided to the Company in March 2022. Includes shares owned individually by the partnership's general partner.</u>

8) Legal/Disciplinary History

A. Please identify whether any of the persons or entities listed above have, in the past 10 years, been the subject of:

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

None

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

None

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

None

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

None

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

None

9) Third Party Providers

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

Securities Counsel

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

Accountant or Auditor

Name: Michael Monahan
Firm: CohnReznick LLP
Address 1: 1305 Walt Whitman Road
Address 2: Melville, NY 11747
Phone: 516-336-5509
Email: michael.monahan@cohnreznick.com

Investor Relations Consultant

N/A

Other Service Providers

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

N/A

10) Issuer Certification

Principal Executive Officer:

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles but having the same responsibilities) in each Quarterly Report or Annual Report

The certifications shall follow the format below:

I, Mitchell Binder certify that:

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

March 31, 2022
/s/ Mitchell Binder
CEO

Principal Financial Officer:

I, David Goldman certify that:

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

March 31, 2022
/s/ David Goldman
CFO

Independent Auditor's Report

To the Board of Directors and Stockholders
Orbit International Corp.

Opinion

We have audited the consolidated financial statements of Orbit International Corp. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Orbit International Corp. and Subsidiaries as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Orbit International Corp. and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Orbit International Corp. and Subsidiaries' ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include

examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Orbit International Corp. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Orbit International Corp. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Information Included in the Annual Report

Management is responsible for the other information included in the Disclosure Statement Pursuant to the Pink Basic Disclosure Guidelines and Annual Report for 2021 (collectively the “Annual Report”). The other information in the Annual Report does not include the consolidated financial statements and our auditor’s report thereon. Our opinion on the consolidated financial statements does not cover the other information in the Annual Report, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the Annual Report and consider whether a material inconsistency exists between the other information in the Annual Report and the consolidated financial statements, or the other information in the Annual Report otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

/s/ CohnReznick LLP

Melville, New York
March 31, 2022

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31,	2021	2020
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 9,215,000	\$ 7,501,000
Accounts receivable, less allowance for doubtful accounts of \$110,000 and \$115,000 at 2021 and 2020, respectively	2,438,000	2,751,000
Inventories	8,540,000	9,396,000
Contract assets	648,000	403,000
Income tax receivable	-	290,000
Other current assets	416,000	301,000
Total current assets	21,257,000	20,642,000
Property and equipment, net	265,000	351,000
Right of use assets, operating leases	3,013,000	501,000
Goodwill	901,000	901,000
Deferred tax assets, net	545,000	545,000
Other assets	30,000	30,000
Total Assets	\$26,011,000	\$22,970,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 504,000	\$ 1,779,000
Accrued expenses	1,014,000	934,000
Lease liabilities, operating leases	473,000	478,000
Contingent liability	96,000	256,000
Customer advances	866,000	155,000
Total current liabilities	2,953,000	3,602,000
Notes payable, PPP loan	-	1,606,000
Contingent liability, net of current portion	208,000	318,000
Lease liabilities, operating leases	2,596,000	53,000
Total liabilities	5,757,000	5,579,000
Commitments and contingencies		
Stockholders' Equity:		
Common stock, \$0.10 par value, 10,000,000 shares authorized, 3,511,000 and 3,615,000 shares issued at 2021 and 2020, respectively, and 3,447,000 and 3,511,000 shares outstanding at 2021 and 2020, respectively	351,000	361,000
Additional paid-in capital	17,109,000	17,667,000
Treasury stock, at cost, 64,000 and 104,000 shares at 2021 and 2020, respectively	(384,000)	(569,000)
Retained earnings (accumulated deficit)	3,178,000	(68,000)
Stockholders' equity	20,254,000	17,391,000
Total Liabilities and Stockholders' Equity	\$26,011,000	\$22,970,000

See Notes to Consolidated Financial Statements

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31,	2021	2020
Net sales	\$22,217,000	\$25,924,000
Cost of sales	14,036,000	18,833,000
Gross profit	8,181,000	7,091,000
Acquisition costs	363,000	-
Selling, general and administrative expenses	6,122,000	6,276,000
PPP loan forgiveness	(1,618,000)	-
Interest expense	-	11,000
Investment and other expense (income), net	5,000	142,000
Total expenses, net	4,872,000	6,429,000
Income before income tax expense	3,309,000	662,000
Income tax expense	63,000	21,000
Net income	\$ 3,246,000	\$ 641,000
Net income per common share:		
Basic and diluted	\$ 0.93	\$ 0.18
Weighted average number of common shares outstanding:		
Basic and diluted	3,478,000	3,514,000

See Notes to Consolidated Financial Statements

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2021 and 2020

	Common Stock 10,000,000 Shares Authorized		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock		Total
	Shares Issued	Amount			Shares	Amount	
Balance at January 1, 2020	3,615,000	\$361,000	\$17,667,000	\$ (533,000)	70,000	\$ (380,000)	\$17,115,000
Purchase of treasury stock	-	-	-	-	34,000	(189,000)	(189,000)
Cash dividends	-	-	-	(176,000)	-	-	(176,000)
Net income	-	-	-	641,000	-	-	641,000
Balance at December 31, 2020	3,615,000	361,000	17,667,000	(68,000)	104,000	(569,000)	17,391,000
Purchase of treasury stock	-	-	-	-	64,000	(383,000)	(383,000)
Retirement of treasury stock	(104,000)	(10,000)	(558,000)		(104,000)	568,000	-
Net income	-	-	-	3,246,000	-	-	3,246,000
Balance at December 31, 2021	3,511,000	\$351,000	\$17,109,000	\$ 3,178,000	64,000	\$ (384,000)	\$ 20,254,000

See Notes to Consolidated Financial Statements

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,	2021	2020
Cash flows from operating activities:		
Net income	\$ 3,246,000	\$ 641,000
Adjustments to reconcile net income to net cash provided by operating activities:		
PPP loan forgiveness	(1,618,000)	-
Depreciation and amortization	107,000	90,000
Changes in operating assets and liabilities:		
Decrease in accounts receivable	313,000	100,000
Decrease in inventories	856,000	1,146,000
(Increase) decrease in contract asset	(245,000)	229,000
Increase in other current assets	(115,000)	(36,000)
Decrease in income tax receivable	290,000	305,000
(Increase) decrease in right of use asset	(2,512,000)	422,000
Decrease in other assets	-	1,000
(Decrease) increase in accounts payable	(1,275,000)	343,000
Increase (decrease) in customer advances	711,000	(70,000)
Increase (decrease) in lease liability	2,538,000	(453,000)
Increase in accrued expenses	92,000	17,000
(Decrease) increase in contingent liability	(9,000)	158,000
Net cash provided by operating activities	2,379,000	2,893,000
Cash flows from investing activities:		
Purchase of property and equipment	(21,000)	(166,000)
Net cash used in investing activities	(21,000)	(166,000)
Cash flows from financing activities:		
Purchase of treasury stock	(383,000)	(189,000)
Notes payable – PPP Loan	-	1,606,000
Cash dividends paid	-	(212,000)
Payment of contingent liability	(261,000)	-
Net cash (used in) provided by financing activities	(644,000)	1,205,000

(continued)

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(continued)

Years ended December 31,	2021	2020
Net increase in cash and cash equivalents	\$ 1,714,000	\$ 3,932,000
Cash and cash equivalents at beginning of year	7,501,000	3,569,000
Cash and cash equivalents at end of year	\$ 9,215,000	\$ 7,501,000

Supplemental disclosures of cash flow information:

Cash paid (refunds received) during the year for income taxes, net	\$ (216,000)	\$ (284,000)
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Supplemental disclosures of noncash investing and financing activities:

Retirement of treasury stock	\$ 568,000	\$ -
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See Notes to Consolidated Financial Statements

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

- 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

General

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

Cash Equivalents

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

Allowance for Doubtful Accounts

Accounts receivable are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Company estimates doubtful accounts based on historical bad debts, factors related to specific customers' ability to pay and current economic trends. The Company writes off accounts receivable against the allowance when a balance is determined to be uncollectible.

Inventories

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

Property and Equipment

Property and equipment are 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.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Long-Lived Assets

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

Goodwill

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

Income Taxes

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

Revenue and Cost Recognition

The Company recognizes 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.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company recognizes revenue when control transfers to its customer. The Company has determined that control transfers to its customers over time when a contract contains an enforceable right to payment for performance completed to date, such as a termination for convenience provision, and when the manufactured product has no alternative use. The Company has determined that it has no alternative use for certain of its products when they reach 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. The timing of revenue recognition for all of the Company's contracts, which include revenue recognized at a point in time as well as over time, is primarily related to the customer delivery schedules outlined in its contracts. Revenue may be recognized sooner on contracts accounted for over time since product may be in the finished goods or top assembly stage for a short period of time before shipment is made. This may overlap a financial reporting period causing revenue to be recognized, if certain conditions are met, on certain finished goods or top assembly inventory.

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 \$14,356,000 at December 31, 2021. The period of performance for its backlog, pursuant to current delivery schedules, is estimated to be approximately \$13,760,000 in 2022 and \$596,000 in 2023.

The Company's contract liabilities at December 31, 2021 and 2020 consist of advance payments from customers in the amount of \$866,000 and \$155,000, respectively. 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. Most 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, 2021	\$ 403,000
Contract Assets-December 31, 2021	\$ 648,000
Change	\$ 245,000

The increase in the contract asset account from January 1, 2021 to December 31, 2021 was primarily the result of an increase in revenue recognized on finished good/top assembly inventory at December 31, 2021 primarily related to an effort to meet customer delivery schedules for the first quarter of 2022.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Advertising

The Company expenses advertising as incurred. The Company recorded \$71,000 and \$111,000 of advertising expense during the years ended December 31, 2021 and 2020, respectively.

Stock-Based Compensation

The Company accounts for stock-based compensation awards, settled in stock, based on the fair value of the awards on the date of grant and expenses such compensation over the vesting periods of the awards. The Company accounts for stock-based compensation awards, settled in cash (e.g. Stock Appreciation Rights “SARS”), based on the fair value of such awards at each reporting period and expenses such compensation over the requisite service period.

Earnings Per Share

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

Freight and Delivery Costs

The Company's freight out and delivery costs were \$8,000 and \$26,000 for the years ended December 31, 2021 and 2020, respectively. These costs are included in selling, general and administrative expenses.

Research and Development Expenses

Research and development expenses are expensed when incurred. The Company expensed approximately \$1,284,000 and \$1,468,000 for research and development during the years ended December 31, 2021 and 2020, respectively, which is included in selling, general and administrative expenses.

Leases

The Company accounts for its leases in accordance with ASC Topic 842, *Leases*.

Fair Value Measurement

The Company measures the fair value of certain financial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. GAAP specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect management's market assumptions. These two types of inputs have created the following fair-value hierarchy:

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Level 1— Quoted prices for identical instruments in active markets;

Level 2— Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3— Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

As of December 31, 2021 and 2020, the carrying amounts reflected in the accompanying consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, and the PPP Loan approximated their carrying value due to their short-term nature. The only recurring assets or liabilities recorded at fair value are the Company's contingent liability and stock-based compensation settled in cash (SARS) which are included in Accrued Expenses in the consolidated balance sheet at December 31, 2021.

3. INVENTORIES: Inventories consist of the following:

December 31,	2021	2020
Raw materials	\$ 5,186,000	\$ 5,628,000
Work-in-process	3,111,000	3,417,000
Finished goods	243,000	351,000
	<u>\$ 8,540,000</u>	<u>\$ 9,396,000</u>

4. GOODWILL: At December 31, 2021 and 2020, the Company's goodwill was \$901,000.

At December 31, 2021, in connection with the annual impairment testing pursuant to ASC 350, the Company performed a qualitative assessment of Behlman and Q-Vio's goodwill. Based on the assessment, the Company concluded at December 31, 2021 that the fair value of Behlman and Q-Vio was more likely than not greater than its carrying amount. The Company's conclusion was based on certain factors, such as: i) Behlman and Q-Vio's bookings and revenue in 2021, (ii) Behlman's net income in 2021, (iii) Behlman and Q-Vio's backlog at December 31, 2021 and (iv) Behlman and Q-Vio's projected bookings, revenue and net income in 2022. At December 31, 2020, in connection with the annual impairment testing pursuant to ASC 350, the Company performed a qualitative assessment of Behlman and Q-Vio's goodwill. Based on the assessment, the Company concluded at December 31, 2020 that the fair value of Behlman and Q-Vio was more likely than not greater than its carrying amount. The Company's conclusion was based on certain factors, such as: i) Behlman and Q-Vio's bookings and revenue in 2020, (ii) Behlman and Q-Vio's net income in 2020, (iii) Behlman and Q-Vio's backlog at December 31, 2020 and (iv) Behlman and Q-Vio's projected bookings, revenue and net income in 2021.

5. LEASES: The Company accounts for its operating leases under ASC 842. As a practical expedient, the Company has determined that certain leases are immaterial if at lease commencement, the term is less than one (1) year and/or the present value of the lease payments are under a certain threshold considered to be material to the Company's consolidated balance sheet.

The Company's leases include its manufacturing facility located in Hauppauge, NY, certain office equipment and certain other leases deemed immaterial.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's weighted average lease term was 5.93 and 1.12 years at December 31, 2021 and 2020, respectively. The Company's weighted average discount rate was 3.29% and 5.50% at December 31, 2021 and 2020, respectively. The discount rate within the Company's leases is not generally determinable; therefore, the Company uses its incremental borrowing rate.

The Company's lease expense for all operating leases for the years ended December 31, 2021 and 2020 were \$531,000 and \$483,000, respectively.

Future minimum lease payments as of December 31, 2021 under all operating lease agreements are as follows:

Year	Minimum Lease Payments
2022	\$ 577,000
2023	569,000
2024	545,000
2025	585,000
2026	578,000
Thereafter	575,000
Total minimum lease payments-undiscounted	\$3,429,000

Reconciliation of the undiscounted cash flows in the maturity analysis above and the lease liabilities recognized in the consolidated balance sheet as of December 31, 2021, is as follows:

Total minimum lease payments-undiscounted	\$3,429,000
Immaterial leases	(44,000)
Discount effect of cash flows	(316,000)
Lease liabilities	\$3,069,000

6. PROPERTY AND EQUIPMENT:

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

December 31,	2021	2020
Leasehold improvements	\$ 239,000	\$ 232,000
Computer equipment	885,000	874,000
Machinery and equipment	1,779,000	1,779,000
Autos	21,000	21,000
Furniture and fixtures	737,000	734,000
	3,661,000	3,640,000
Accumulated depreciation and amortization	(3,396,000)	(3,289,000)
	\$ 265,000	\$ 351,000

The Company recognized, on a straight-line basis, depreciation and amortization expense of \$107,000 and \$90,000 for the years ended December 31, 2021 and 2020, respectively.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. DEBT:

The Company has a committed line of credit (“Credit Agreement”) with People United Bank (“Peoples”) for up to \$6,000,000. This line of credit is for the Company’s general working capital needs. In June 2021, the Company’s Credit Agreement was amended whereby the expiration date on its credit facility was extended to August 1, 2024.

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 (3.25% at December 31, 2021) and/or (ii) 2% over LIBOR (or the LIBOR replacement rate) for one or three month LIBOR (or the LIBOR replacement rate) maturities, at the Company’s sole discretion. The minimum LIBOR rate is 1.0%. The line of credit is collateralized by a first priority security interest in all of the Company’s tangible and intangible assets. The Company had no borrowings under the line of credit at December 31, 2021. The Company had \$4,000,000 of availability under its line of credit at December 31, 2021.

The Credit Agreement contains customary affirmative and negative covenants and certain financial covenants. Additionally, available borrowings under the line of credit are subject to a borrowing base of eligible accounts receivable and inventory. All outstanding borrowings under the line of credit are accelerated and become immediately due and payable (and the line of credit terminates) in the event of a default, as defined, under the Credit Agreement. The Company was in compliance with the financial covenants contained in its Credit Agreement at December 31, 2021.

During April 2020, the Company closed on a \$1,606,000 loan (“PPP Loan”) from Peoples under the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). The loan was evidenced by a promissory note (“Note”), bore interest at 1.00% per annum with principal and interest deferred until the amount of loan forgiveness was determined by the Small Business Administration (“SBA”), had an initial term of two years from the date of the Note, could have been prepaid at any time and was unsecured and guaranteed by the SBA. The Credit Agreement and the PPP Loan both contained cross default provisions whereby a default on one loan would create a default on the other loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of such loans based on the use of such loan proceeds for payment of payroll costs, mortgage interest, rent and utilities. In January 2021, the Company’s application for forgiveness was approved by the SBA for the full principal amount of the PPP Loan (\$1,606,000) along with associated accrued interest of \$12,000. The forgiveness of the PPP Loan and accrued interest are recognized in the Company’s consolidated financial statements for the year ended December 31, 2021.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- 8. STOCK-BASED COMPENSATION PLANS:** The Company has two stock-based employee compensation arrangements with an executive officer. The arrangements were effective January 1, 2021 upon the renewal of the executive officer's employment contract. One arrangement entitles the executive officer to discretionary annual grants of up to 10,000 shares of restricted stock based upon the attainment of certain strategic goals and objectives as determined by the Company's Compensation Committee. The second arrangement granted SARS to the executive as follows: 50,000 have an exercise price of seven (\$7.00) dollars per share and 100,000 have an exercise price of eight (\$8.00) dollars per share. All SARS were granted on January 1, 2021 and fully vest and become exercisable on the third anniversary date (January 1, 2024) following the effective date (January 1, 2021). Exercise date ends on the earlier of June 30, 2024 or a change in control. All SARS will be settled in cash.

The Company will record stock-based compensation expense relating to the restricted stock grant when and if restricted stock is granted to the executive. For the year ended December 31, 2021, the Company recorded \$77,000 of stock-based compensation expense relating to the SARS grant. The Company also recorded a corresponding liability of \$77,000, which is included in Accrued Expenses in the Company's consolidated balance sheet at December 31, 2021. The liability is based on the fair value of the SARS grant and the executive's requisite service rendered through December 31, 2021. The executive's requisite service period is from January 1, 2021 through December 31, 2023.

The Company estimated the fair value of the SARS grant at December 31, 2021 using the Black-Scholes-Merton valuation model. The assumptions used to calculate the fair value of the SARS grant at December 31, 2021 were as follows: expected volatility (52.13%), risk-free interest rate (0.73%), expected term (2 years) and dividend yield (N/A). Expected volatility assumptions were based on the volatility of the Company's stock price for 2 years prior to December 31, 2021. The risk-free rate is derived from the two year U.S. treasury yield as of December 31, 2021. The expected term of the SARS is based on the remaining vesting period of the grant as of December 31, 2021. There is no dividend yield since the SARS will be settled in cash.

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

The Company contributed approximately \$109,000 and \$120,000 to the plan during the years ended December 31, 2021 and 2020, respectively.

- 10. INCOME TAXES:** The Company is subject to federal income taxes and files a consolidated U.S. federal income tax return. In addition to the federal tax return, the Company files income tax returns in various state jurisdictions on a combined or separate basis.

During 2018, the Company recorded a \$573,000 deferred tax benefit relating to the full reduction of the valuation allowance placed on its Alternative Minimum Tax ("AMT") credit. This reduction was a result of the Tax Cuts and Jobs Act of 2017 which eliminated the corporate AMT credit but allows for refunds of credits not utilized. During the years ended December 31, 2021 and 2020, the Company received a federal tax refund for approximately \$289,000 and \$287,000, respectively, which represented the full refund of its AMT credit. The Company's pre-tax effected federal net operating loss carryforwards amounted to approximately \$6,415,000 at December 31, 2021.

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31,	2021	2020
Tax at U.S. statutory rates	21.0%	21.0%
State income and federal minimum taxes	2.0%	3.0%
Change in valuation allowance	(21.0)%	(21.0)%
	2.0%	3.0%

Deferred tax assets are comprised of the following:

December 31,	2021	2020
Net operating loss carryforwards	\$1,386,000	\$1,669,000
Temporary differences in bases of assets and liabilities:		
Accounts receivable	24,000	25,000
Inventory	370,000	446,000
Contract assets	(54,000)	(35,000)
Property and equipment	(13,000)	(11,000)
Accrued expenses	120,000	102,000
Goodwill	(137,000)	(81,000)
Intangible assets	32,000	63,000
Total temporary differences	342,000	509,000
Total deferred tax assets, net	1,728,000	2,178,000
Valuation allowance	(1,183,000)	(1,633,000)
Net deferred tax assets	\$ 545,000	\$ 545,000

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

	<u>2021</u>	<u>2020</u>
Current income tax expense (benefit):		
Federal	\$ -	\$ -
State	63,000	21,000
Total	63,000	21,000
Deferred income tax expense (benefit), net:		
Federal	428,000	217,000
State	22,000	4,000
Change in valuation allowance	(450,000)	(221,000)
Total	-	-
Total	\$ 63,000	\$ 21,000

As of December 31, 2021 and 2020, the Company had no material uncertain tax positions. The Company is subject to routine income tax audits in various jurisdictions and tax returns from December 31, 2018 remain open to examination by such taxing authorities. The Company did not record any tax related penalties but did record \$2,000 and \$7,000 of interest income relating to its 2020 and 2019 federal tax refunds, respectively, which was recorded in Other income (expense), net in the consolidated statements of income for the years ended December 31, 2021 and 2020, respectively. If the Company had any penalties relating to taxes, they would be recorded in income tax expense (benefit).

ORBIT INTERNATIONAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- 11. SIGNIFICANT CUSTOMERS AND CONCENTRATIONS OF CREDIT RISK:** Sales to significant customers accounted for approximately 36% (25% and 11%) of the Company's consolidated net sales for the year ended December 31, 2021 and sales to significant customers accounted for 35% (25% and 10%) of the Company's consolidated net sales for the comparable 2020 period. At December 31, 2021, the Company had approximately 54% (27% and 27%) of its accounts receivable balance due from two customers. The majority of the Company's consolidated sales are related to programs procured by the Department of Defense.

For the years ended December 31, 2021 and 2020, significant customers of the Company's Electronics Group accounted for approximately 47% (36% and 11%) and 56% (22%, 18%, and 16%), respectively, of the Electronics Group's net sales. At December 31, 2021, the Company's Electronics Group had approximately 48% (37% and 11%) of its accounts receivable balance due from two customers.

A significant customer of the Company's Power Group accounted for approximately 18% and 45% of the Power Group's net sales for the years ended December 31, 2021 and 2020, respectively. At December 31, 2021, the Company's Power Group had approximately 66% of its accounts receivable balance due from one customer.

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

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

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

- 12. COMMITMENTS:** The Company has employment agreements with three executive officers and one key employee. At December 31, 2021, the total contractual obligations under these agreements over the next three years are approximately \$2,197,000. Two of the executive officers are entitled to bonuses based on certain performance criteria, as defined. One other executive officer and seven key employees are entitled to bonuses based on a percentage of earnings before taxes. Total bonus compensation expense was approximately \$169,000 and \$100,000 for years ended December 31, 2021 and 2020, respectively.

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

- 13. 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 and Tulip Development Laboratory ("TDL") Divisions and Q-Vio Corp. ("Q-Vio") subsidiary. Through its Orbit Instrument and TDL Divisions, the Company is engaged in the design, manufacture and sale of customized electronic components and subsystems. Through its Q-Vio subsidiary, the Company is engaged in the design and enhancement of LCD display modules. 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,

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uninterruptible power supplies, armament systems and commercial-off-the-shelf (“COTS”) power solutions.

The Company's reportable segments are business units that offer different products with each segment utilizing its own direct labor personnel. The Company's reportable segments are each managed separately as they manufacture and distribute distinct products with different production processes. Management and the Company's Chief Executive Officer, who is also the Chief Operating Decision Maker, evaluate performance of the Company's reportable segments based on each segment's revenue and profitability.

The following is the Company's reporting segment information as of and for the years ended December 31, 2021 and 2020:

Year ended December 31,	2021	2020
Net sales:		
Electronics Group:		
Domestic	\$ 12,629,000	\$ 11,598,000
Foreign	901,000	375,000
Total Electronics Group	13,530,000	11,973,000
Power Group:		
Domestic	8,375,000	13,277,000
Foreign	312,000	674,000
Total Power Group	8,687,000	13,951,000
Total net sales	\$22,217,000	\$25,924,000

Year ended December 31,	2021	2020
Income before income tax expense:		
Electronics Group	\$2,332,000	\$ 846,000
Power Group	226,000	631,000
General corporate expenses not allocated	(499,000)	(662,000)
Interest expense	-	(11,000)
PPP loan forgiveness	1,618,000	-
Investment and other (expense) income, net	(5,000)	(142,000)
Acquisition costs	(363,000)	-
Income before income tax expense	\$ 3,309,000	\$ 662,000

December 31,	2021	2020
Assets:		
Electronics Group (1)	\$ 6,664,000	\$ 7,587,000
Power Group (2)	5,643,000	5,615,000
General corporate assets not allocated	13,704,000	9,768,000
Total assets	\$26,011,000	\$ 22,970,000

(1) Includes property and equipment, net of \$163,000 and \$219,000 at December 31, 2021 and 2020, respectively.

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(2) Includes property and equipment, net of \$102,000 and \$132,000 at December 31, 2021 and 2020, respectively.

Year ended December 31,	2021	2020
<hr/>		
Depreciation and amortization:		
Electronics Group	\$ 74,000	\$ 56,000
Power Group	33,000	34,000
<hr/>		
Total depreciation and amortization	\$ 107,000	\$ 90,000

14. NET INCOME PER COMMON SHARE:

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

Year Ended December 31,	2021	2020
<hr/>		
Denominator:		
Denominator for basic net income per share - weighted average common shares	3,478,000	3,514,000
Effect of dilutive securities:		
Unearned restricted stock to employees	-	-
<hr/>		
Denominator for diluted net income per share – weighted average common shares and assumed conversions	3,478,000	3,514,000

The numerator for basic and diluted net income per share for the years ended December 31, 2021 and 2020 is the net income for each year.

There were no shares of restricted common stock outstanding at December 31, 2021 and 2020, respectively.

15. EQUITY:

In March 2019, the Company’s Board of Directors authorized management to enter into a 10b5-1 Plan (“2019 10b5-1 Plan”), effective July 1, 2019. The 2019 10b5-1 Plan allowed the Company to purchase up to \$850,000 of its common stock from July 1, 2019 through June 30, 2020, with the maximum dollar amount reduced by the amount of any cash dividends paid. Through June 30, 2020, the Company purchased 53,424 shares of its common stock under the 2019 10b5-1 Plan (19,089 in 2019 and 34,335 in 2020), for total cash consideration of approximately \$300,000 at an average price of \$5.62 per share. In addition, during that same period, the Company paid cash dividends of approximately \$284,000.

In April 2020, the Company’s Board of Directors decided to suspend the Company’s share repurchase program due to the economic uncertainty related to the COVID-19 pandemic.

In June 2021, the Company’s Board of Directors decided to recommence its stock repurchase program and authorized management to enter into a new 10b5-1 Plan (“2021 10b5-1 Plan”), effective June 1, 2021. The 2021 10b5-1 Plan allows the Company to purchase up to \$600,000 of its common stock from July 1, 2021 through June 30, 2022. In December 2021, the Company’s Board of Directors increased the amount the Company can repurchase under the 2021 10b5-1 Plan to approximately \$784,000. Through March 31, 2022, the Company purchased 64,550 shares of its common stock under the 2021 10b5-1 Plan, for total cash consideration of approximately \$384,000 at an average price of \$5.95 per share.

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16. CASH DIVIDENDS: In March 2020, the Company's Board of Directors declared two cash dividends: 1) a quarterly cash dividend of \$0.01 per share and 2) a special annual cash dividend of \$0.04 per share. Both cash dividends were paid April 7, 2020. The total cash dividend amounted to approximately \$176,000.

In April 2020, the Company's Board of Directors decided to suspend the Company's \$0.01 quarterly cash dividend due to the economic uncertainty related to the COVID-19 pandemic.

In March 2022, the Company's Board of Directors authorized the Company to recommence its quarterly cash dividend payments and declared a quarterly cash dividend of \$0.01 per share payable to stockholders of record as of March 31, 2022 with a payment date of April 7, 2022.

17. ACQUISITION: On January 3, 2022, the Company, through a newly formed subsidiary, Simulator Product Solutions LLC ("SPS"), completed the acquisition of the assets and business of Panel Products, Inc. ("Panel"), a Carson, CA based company.

The transaction valued Panel at approximately \$6,500,000, subject to adjustment, with \$4,000,000 of the purchase price paid in cash at closing, an aggregate of up to \$1,200,000 in performance related payments payable at the end of 2022 and 2023, and the issuance to Panel of a 19.9% ownership interest in SPS. In connection with the acquisition, SPS entered into a three-year employment agreement with the seller of Panel, who will be its President ("SPS President"). The agreement is subject to a three-year extension at the option of SPS' President. In addition, prior to its expiration, the agreement may be terminated by either party under certain circumstances. Upon the conclusion of the employment agreement with SPS' President, Orbit is obligated to purchase Panel's 19.9% interest in SPS for a minimum of \$1,300,000, which amount may be increased by a pre-determined formula based on the future operating results of SPS.

The reason for the acquisition was principally to attain accretion to earnings, cross-marketing opportunities and the expansion of both customer and product bases. The acquisition will be accounted for as a business combination in accordance with ASC Topic 805, *Business Combinations*. Accordingly, the Company is required to determine and record the fair value of the assets acquired, including any potential intangible assets, and liabilities assumed at the date of acquisition. The Company's results of operations for the year ended December 31, 2021 and its statement of financial position at December 31, 2021 do not include the financial results of SPS. The Company will start incorporating SPS' financial results beginning with the first quarter of 2022.

18. COVID-19 PANDEMIC: On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) (the "Pandemic") a global pandemic and recommended containment and mitigation measures worldwide. The Company was classified as an essential business by New York State and, therefore, was exempt from the state's mandate that all non-essential businesses close their business locations until further notice. Moreover, as a member of the Defense Industrial Base ("DIB"), the Company was mandated by the Secretary of Defense to continue working. The Company, in response to the Pandemic and to comply with the New York State on PAUSE executive order issued by the Governor of New York State, made several changes throughout its organization to deal with the health and safety of its employees. These changes protected the Company's employees but also negatively impacted productivity, particularly in its first and second quarters of 2020. In addition, the Company has experienced issues with its supply chain, which could impact future customer deliveries. The Company's

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bookings and revenue have been impacted by the Pandemic, especially at the Power Group's commercial division. Furthermore, the Company's Q-Vio subsidiary is also experiencing delays for most of its commercial and industrial opportunities. Consequently, the Company cannot reasonably estimate the length or severity of the ramifications of this Pandemic and therefore cannot be certain if and how long its business, supply chain, financial position, results of operations, and cash flows could be negatively impacted.