

FREQUENCY ELECTRONICS INC  
Form 10-Q  
September 14, 2009

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period ended July 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-8061

FREQUENCY ELECTRONICS, INC.  
(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

11-1986657  
(I.R.S. Employer Identification No.)

55 CHARLES LINDBERGH BLVD., MITCHEL FIELD, N.Y.  
(Address of principal executive offices)

11553  
(Zip Code)

Registrant's telephone number, including area code: 516-794-4500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No  (the registrant is not yet required to submit Interactive Data)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and smaller reporting

Edgar Filing: FREQUENCY ELECTRONICS INC - Form 10-Q

company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company   
(do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of Registrant's Common Stock, par value \$1.00 as of September 11, 2009 –  
8,175,550

---

---

---

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

INDEX

	Page No.
<b>Part I. Financial Information:</b>	
Item 1 - Financial Statements:	
Condensed Consolidated Balance Sheets - July 31, 2009 and April 30, 2009	3
Condensed Consolidated Statements of Operations Three Months Ended July 31, 2009 and 2008	4
Condensed Consolidated Statements of Cash Flows Three Months Ended July 31, 2009 and 2008	5
Notes to Condensed Consolidated Financial Statements	6-11
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	12-17
Item 4T- Controls and Procedures	17-18
<b>Part II. Other Information:</b>	
Items 1, 1A, 2, 3, 4 and 5 are omitted because they are not applicable	
Item 6 - Exhibits	18
Signatures	19
Exhibits	

## FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

## Condensed Consolidated Balance Sheets

	July 31, 2009 (UNAUDITED)	April 30, 2009 (AUDITED) (NOTE A)
	(In thousands except share data)	
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 5,662	\$ 4,911
Marketable securities	10,321	9,998
Accounts receivable, net of allowance for doubtful accounts of \$285 at July 31 and April 30, 2009	10,778	10,775
Costs and estimated earnings in excess of billings	3,083	2,193
Inventories	26,589	26,051
Income taxes refundable	788	886
Prepaid expenses and other	992	1,257
Total current assets	58,213	56,071
Property, plant and equipment, at cost, less accumulated depreciation and amortization	7,693	7,961
Goodwill and other intangible assets, net	218	218
Cash surrender value of life insurance and cash held in trust	8,543	8,423
Investments in and loans receivable from affiliates	4,386	4,430
Other assets	817	817
Total assets	\$ 79,870	\$ 77,920
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
Current liabilities:		
Short-term credit obligations	\$ 1,336	\$ 1,327
Accounts payable - trade	3,167	2,305
Accrued liabilities and other	3,868	4,408
Total current liabilities	8,371	8,040
Lease obligation – noncurrent	626	684
Deferred compensation	9,561	9,546
Other liabilities	547	484
Total liabilities	19,105	18,754
Stockholders' equity:		
Preferred stock - \$1.00 par value	-	-
Common stock - \$1.00 par value	9,164	9,164
Additional paid-in capital	49,133	48,997
Retained earnings	3,176	2,522
	61,473	60,683
	(4,858)	(4,972)

Edgar Filing: FREQUENCY ELECTRONICS INC - Form 10-Q

Common stock reacquired and held in treasury -at cost, 988,389 shares at July 31, 2009 and 1,021,159 shares at April 30, 2009		
Accumulated other comprehensive income	4,150	3,455
Total stockholders' equity	60,765	59,166
Total liabilities and stockholders' equity	\$ 79,870	\$ 77,920

See accompanying notes to condensed consolidated financial statements.

## FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

## Condensed Consolidated Statements of Operations

Three Months Ended July 31,  
(Unaudited)

	2009	2008
	(In thousands except share data)	
Net revenues	\$ 12,442	\$ 13,063
Cost of revenues	8,141	9,872
Gross margin	4,301	3,191
Selling and administrative expenses	2,567	3,116
Research and development expense	1,075	1,365
Operating profit (loss)	659	(1,290)
Other income (expense):		
Investment income	128	158
Equity (loss) income	(49)	37
Interest expense	(44)	(84)
Other (expense) income, net	(40)	81
Income (Loss) before benefit for income taxes	654	(1,098)
Benefit for income taxes	-	(325)
Net income (loss)	\$ 654	\$ (773)
Net income (loss) per common share:		
Basic	\$ 0.08	\$ (0.09)
Diluted	\$ 0.08	\$ (0.09)
Average shares outstanding:		
Basic	8,164,627	8,742,086
Diluted	8,172,080	8,742,086

See accompanying notes to condensed consolidated financial statements.

## FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows

Three Months Ended July 31,  
(Unaudited)

	2009	2008
	(In thousands)	
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 654	\$ (773)
Non-cash charges to earnings	1,024	811
Net changes in other assets and liabilities	(495)	(2,108)
Net cash provided by (used in) operating activities	1,183	(2,070)
<b>Cash flows from investing activities:</b>		
Purchase of marketable securities	-	(6,586)
Capital expenditures	(175)	(111)
Net cash used in investing activities	(175)	(6,697)
<b>Cash flows from financing activities:</b>		
Proceeds from short-term credit obligations	-	1,500
Payment of short-term credit and lease obligations	(70)	(52)
Stock transactions, net	-	(100)
Net cash (used in) provided by financing activities	(70)	1,348
Net increase (decrease) in cash and cash equivalents before effect of exchange rate changes	938	(7,419)
Effect of exchange rate changes on cash and cash equivalents	(187)	135
Net increase (decrease) in cash and cash equivalents	751	(7,284)
Cash and cash equivalents at beginning of period	4,911	11,029
Cash and cash equivalents at end of period	\$ 5,662	\$ 3,745
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ 55	\$ 32
Income Taxes	-	-

See accompanying notes to condensed consolidated financial statements.

## FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements  
(Unaudited)

## NOTE A - CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management of Frequency Electronics, Inc. (“the Company”), the accompanying unaudited condensed consolidated interim financial statements reflect all adjustments (which include only normal recurring adjustments) necessary to present fairly, in all material respects, the consolidated financial position of the Company as of July 31, 2009 and the results of its operations and cash flows for the three months ended July 31, 2009 and 2008. The April 30, 2009 condensed consolidated balance sheet was derived from audited financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's April 30, 2009 Annual Report to Stockholders. The results of operations for such interim periods are not necessarily indicative of the operating results for the full year.

## NOTE B - EARNINGS PER SHARE

Reconciliation of the weighted average shares outstanding for basic and diluted Earnings Per Share are as follows:

	Three months ended July 31,	
	2009	2008
Basic EPS Shares outstanding (weighted average)	8,164,627	8,742,086
Effect of Dilutive Securities	7,453	***
Diluted EPS Shares outstanding	8,172,080	8,742,086

\*\*\*Dilutive securities are excluded for the three-month period ended July 31, 2008 since the inclusion of such shares would be antidilutive due to the net loss for the period then ended.

The computation of diluted earnings per share excludes those options and stock appreciation rights with an exercise price in excess of the average market price of the Company’s common shares during the periods presented. The inclusion of such options in the computation of earnings per share would have been antidilutive. The number of excluded options for the three months ended July 31, 2009 and 2008 were 1,325,525 and 1,408,675, respectively.

## NOTE C – COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS

At July 31, 2009 and April 30, 2009 costs and estimated earnings in excess of billings on uncompleted contracts accounted for on the percentage of completion basis were approximately \$3,083,000 and \$2,193,000, respectively. Such amounts represent revenue recognized on long-term contracts that had not been billed at the balance sheet dates. Such amounts are billed pursuant to contract terms.

## NOTE D - INVENTORIES

Inventories, which are reported net of reserves of \$4,701,000 and \$4,596,000 at July 31, 2009 and April 30, 2009, respectively, consist of the following:

July 31, 2009	April 30, 2009
(In thousands)	



Raw materials and Component parts	\$	12,879	\$	12,542
Work in progress		11,440		10,613
Finished Goods		2,270		2,896
	\$	26,589	\$	26,051

As of July 31, 2009 and April 30, 2009, approximately \$18.1 million and \$18.0 million, respectively, of total inventory is located in the United States, approximately \$7.4 million and \$6.8 million, respectively, is in Belgium and \$1.1 million and \$1.2 million, respectively, is in China.

## FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements  
(Unaudited)

## NOTE E – COMPREHENSIVE INCOME

For the three months ended July 31, 2009 and 2008, comprehensive income (loss) is composed of:

	Three months ended July 31, (in thousands)	
	2009	2008
Net income (loss)	\$ 654	\$ ( 773)
Foreign currency translation adjustment	372	223
Change in market value of marketable securities	323	(384)
Deferred tax effect of change in market value of marketable securities (net of valuation allowance on deferred tax assets)	-	154
Comprehensive income (loss)	\$ 1,349	\$ ( 780)

## NOTE F – SEGMENT INFORMATION

The Company operates under three reportable segments:

- (1) FEI-NY – consists principally of precision time and frequency control products used in three principal markets: communication satellites (both commercial and U.S. Government-funded); terrestrial cellular telephone or other ground-based telecommunication stations and other components and systems for the U.S. military.
- (2) Gillam-FEI - the Company's Belgian subsidiary primarily sells wireline synchronization and network management systems.
- (3) FEI-Zyfer - the products of the Company's subsidiary incorporate Global Positioning System (GPS) technologies into systems and subsystems for secure communications, both government and commercial, and other locator applications. Beginning in fiscal year 2009, this segment assumed responsibility for marketing, sales and support of the Company's wireline synchronization products for the U.S. telecommunications market.

The FEI-NY segment also includes the operations of the Company's wholly-owned subsidiary, FEI-Asia, which functions primarily as a manufacturing facility for the FEI-NY segment.

The Company's Chief Executive Officer measures segment performance based on total revenues and profits generated by each geographic center rather than on the specific types of customers or end-users or types of markets served.

The table below presents information about reported segments with reconciliation of segment amounts to consolidated amounts as reported in the statement of operations or the balance sheet for each of the periods (in thousands):

	Three months ended July 31,	
	2009	2008
Net revenues:		
FEI-NY	\$ 7,065	\$ 8,844
Gillam-FEI	2,474	2,619
FEI-Zyfer	4,249	2,303
less intercompany revenues	(1,346)	(703)
Consolidated Revenues	\$ 12,442	\$ 13,063
Operating profit (loss):		

Edgar Filing: FREQUENCY ELECTRONICS INC - Form 10-Q

FEI-NY	\$	87	\$	(1,228)
Gillam-FEI		(20)		(55)
FEI-Zyfer		656		74
Corporate		(64)		(81)
Consolidated Operating Profit (Loss)	\$	659	\$	(1,290)

7 of 19

---

## FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements  
(Unaudited)

	July 31, 2009	April 30, 2009
<b>Identifiable assets:</b>		
FEI-NY	\$ 40,469	\$ 39,658
Gillam-FEI	19,379	17,615
FEI-Zyfer	8,931	8,672
less intercompany balances	(18,955)	(17,853)
Corporate	30,046	29,828
<b>Consolidated Identifiable Assets</b>	<b>\$ 79,870</b>	<b>\$ 77,920</b>

## NOTE G – RELATED PARTY TRANSACTIONS

The Company has an equity interest in two strategically important companies: Elcom Technologies, Inc. (“Elcom”) and Morion Inc. (“Morion”). During the three month periods ended July 31, 2009 and 2008, the Company acquired technical services from Elcom, purchased crystal oscillator products from Morion and sold certain of its products to both companies. The Company also receives interest from Elcom under a convertible note receivable. The table below summarizes these transactions:

	Three months ended July 31,	
	2009	2008
	(in thousands)	
<b>Purchases from:</b>		
Elcom	\$ 6	\$ 75
Morion	166	291
<b>Sales to:</b>		
Elcom	\$ 25	\$ 13
Morion	8	18
Interest on Elcom note receivable	\$ 12	\$ 19

## NOTE H – FAIR VALUE OF FINANCIAL INSTRUMENTS

The cost, gross unrealized gains, gross unrealized losses and fair market value of available-for-sale securities at July 31, 2009 and April 30, 2009 are as follows (in thousands):

	July 31, 2009			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Fixed income securities	\$ 10,165	\$ 234	\$ (391)	\$ 10,008
Equity securities	450	-	(137)	313
	<b>\$ 10,615</b>	<b>\$ 234</b>	<b>\$ (528)</b>	<b>\$ 10,321</b>

April 30, 2009			
	Gross Unrealized	Gross Unrealized	Fair Market

Edgar Filing: FREQUENCY ELECTRONICS INC - Form 10-Q

	Cost	Gains	Losses	Value
Fixed income securities	\$ 10,165	\$ 278	\$ (803)	\$ 9,640
Equity securities	450	-	(92)	358
	\$ 10,615	\$ 278	\$ (895)	\$ 9,998

8 of 19

---

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements  
(Unaudited)

The following table presents the fair value and unrealized losses, aggregated by investment type and length of time that individual securities have been in a continuous unrealized loss position:

Less than 12 months		12 Months or more		Total
Fair	Unrealized	Fair	Unrealized	Fair