

Edgar Filing: FREQUENCY ELECTRONICS INC - Form 10-Q

FREQUENCY ELECTRONICS INC  
Form 10-Q  
March 19, 2007

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 January 31, 2007

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 11-1986657  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

55 CHARLES LINDBERGH BLVD., MITCHEL FIELD, N.Y. 11553  
(Address of principal executive offices) (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 is a large accelerated filer, an  
accelerated filer, or a non-accelerated filer. See definition of "accelerated  
filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check  
one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 March 9, 2007 - 8,676,884

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## FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

### INDEX

| Part I. Financial Information:  | Page No. |
|---|----------|
| Item 1 - Financial Statements:  |          |
| Condensed Consolidated Balance Sheets -<br>January 31, 2007 and April 30, 2006                    | 3        |
| Condensed Consolidated Statements of Operations<br>Nine Months Ended January 31, 2007 and 2006    | 4        |
| Condensed Consolidated Statements of Operations<br>Three Months Ended January 31, 2007 and 2006   | 5        |
| Condensed Consolidated Statements of Cash Flows<br>Nine Months Ended January 31, 2007 and 2006    | 6        |
| Notes to Condensed Consolidated Financial Statements  | 7-13     |
| Item 2 - Management's Discussion and Analysis of<br>Financial Condition and Results of Operations | 13-19    |
| Item 3- Quantitative and Qualitative Disclosures about Market Risk                                | 19-20    |
| Item 4- Controls and Procedures   | 20       |
| Part II. Other Information:   |          |
| Items 1, 2, 3, 4 and 5 are omitted because they are not applicable                                |          |
| Item 6 - Exhibits   | 20       |
| Signatures  | 21       |
| Exhibits  | 22-25    |

## FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

### Condensed Consolidated Balance Sheets

|   | January 31,<br>2007<br>-----<br>(UNAUDITED) | April 30,<br>2006<br>-----<br>(NOTE A) |
|---|---|--|
| (In thousands)                            |   |  |
| ASSETS:                                   |   |  |
| Current assets:                           |   |  |
| Cash and cash equivalents                 | \$ 2,481                                    | \$ 2,639                               |
| Marketable securities                     | 15,457                                      | 21,836                                 |
| Accounts receivable, net of allowance for |   |  |

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|  |           |           |
|--|-----------|-----------|
| doubtful accounts of \$276 at January 31, 2007<br>and April 30, 2006   | 10,985    | 15,868    |
| Inventories  | 30,546    | 22,971    |
| Deferred income taxes  | 1,747     | 2,135     |
| Income tax receivable  | 397       | 68        |
| Prepaid expenses and other   | 1,953     | 1,246     |
|  | -----     | -----     |
| Total current assets   | 63,566    | 66,763    |
| Property, plant and equipment, at cost,<br>less accumulated depreciation and<br>amortization   | 7,152     | 6,663     |
| Deferred income taxes  | 2,825     | 2,842     |
| Goodwill and other Intangible assets, net  | 468       | 513       |
| Cash surrender value of life insurance   | 6,678     | 6,318     |
| Investment in and loans receivable from affiliates   | 7,212     | 2,825     |
| Other assets   | 1,008     | 817       |
|  | -----     | -----     |
| Total assets   | \$ 88,909 | \$ 86,741 |
|  | =====     | =====     |
| LIABILITIES AND STOCKHOLDERS' EQUITY:  |           |           |
| Current liabilities:   |           |           |
| Accounts payable - trade   | \$ 2,910  | \$ 2,202  |
| Accrued liabilities and other  | 4,287     | 3,929     |
| Dividend payable   | -         | 857       |
|  | -----     | -----     |
| Total current liabilities  | 7,197     | 6,988     |
| Deferred compensation  | 8,492     | 8,122     |
| Deferred gain and other liabilities  | 734       | 998       |
|  | -----     | -----     |
| Total liabilities  | 16,423    | 16,108    |
|  | -----     | -----     |
| Stockholders' equity:  |           |           |
| Preferred stock - \$1.00 par value   | -         | -         |
| Common stock - \$1.00 par value  | 9,164     | 9,164     |
| Additional paid-in capital   | 46,840    | 45,688    |
| Retained earnings  | 14,999    | 15,527    |
|  | -----     | -----     |
|  | 71,003    | 70,379    |
| Common stock reacquired and held in treasury<br>-at cost, 505,056 shares at January 31, 2007<br>and 592,194 shares at April 30, 2006 | (2,172)   | (2,437)   |
| Accumulated other comprehensive income   | 3,655     | 2,691     |
|  | -----     | -----     |
| Total stockholders' equity   | 72,486    | 70,633    |
|  | -----     | -----     |
| Total liabilities and stockholders' equity   | \$ 88,909 | \$ 86,741 |
|  | =====     | =====     |

See accompanying notes to condensed consolidated  
financial statements.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES  
Consolidated Condensed Statements of Operations

Nine Months Ended January 31,  
(Unaudited)

|  | 2007<br>----                         | 2006<br>---- |
|--|--------------------------------------|--------------|
|  | (In thousands except per share data) |              |
| Net sales                                | \$40,751                             | \$37,668     |
| Cost of sales                            | 26,781                               | 24,011       |
|  | -----                                | -----        |
| Gross margin                             | 13,970                               | 13,657       |
| Selling and administrative expenses      | 8,344                                | 8,154        |
| Research and development expenses        | 6,628                                | 4,124        |
|  | -----                                | -----        |
| Operating (loss) profit                  | (1,002)                              | 1,379        |
| Other income (expense):                  |                                      |              |
| Investment income                        | 785                                  | 2,951        |
| Equity in Morion                         | 566                                  | 423          |
| Interest expense                         | (74)                                 | (83)         |
| Other income, net                        | 270                                  | 928          |
|  | -----                                | -----        |
| Income before provision for income taxes | 545                                  | 5,598        |
| Provision for income taxes               | 213                                  | 1,876        |
|  | -----                                | -----        |
| Net income                               | \$ 332                               | \$ 3,722     |
|  | =====                                | =====        |
| Net income per common share              |                                      |              |
| Basic                                    | \$ 0.04                              | \$ 0.44      |
|  | =====                                | =====        |
| Diluted                                  | \$ 0.04                              | \$ 0.43      |
|  | =====                                | =====        |
| Average shares outstanding               |                                      |              |
| Basic                                    | 8,600,700                            | 8,530,926    |
|  | =====                                | =====        |
| Diluted                                  | 8,747,110                            | 8,668,685    |
|  | =====                                | =====        |

See accompanying notes to consolidated condensed  
financial statements.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES  
Condensed Consolidated Statements of Operations

Three Months Ended January 31,  
(Unaudited)

2007                      2006

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|  | ----                                 | ----      |
|--|--------------------------------------|-----------|
|  | (In thousands except per share data) |           |
| Net sales  | \$12,117                             | \$15,113  |
| Cost of sales  | 8,340                                | 9,651     |
|  | -----                                | -----     |
| Gross margin   | 3,777                                | 5,462     |
| Selling and administrative expenses                          | 2,889                                | 3,077     |
| Research and development expense                             | 2,600                                | 1,173     |
|  | -----                                | -----     |
| Operating (loss) profit                                      | (1,712)                              | 1,212     |
| Other income (expense):                                      |                                      |           |
| Investment income  | 206                                  | 285       |
| Equity in Morion   | 292                                  | 194       |
| Interest expense   | (17)                                 | (24)      |
| Other income (expense), net                                  | 169                                  | 161       |
|  | -----                                | -----     |
| (Loss) Income before (benefit) provision<br>for income taxes | (1,062)                              | 1,828     |
| (Benefit) Provision for income taxes                         | (308)                                | 580       |
|  | -----                                | -----     |
| Net (loss) income  | \$ (754)                             | \$ 1,248  |
|  | =====                                | =====     |
| Net (loss) income per common share                           |                                      |           |
| Basic  | \$ (0.09)                            | \$ 0.15   |
|  | =====                                | =====     |
| Diluted  | \$ (0.09)                            | \$ 0.14   |
|  | =====                                | =====     |
| Average shares outstanding                                   |                                      |           |
| Basic  | 8,633,283                            | 8,541,519 |
|  | =====                                | =====     |
| Diluted  | 8,633,283                            | 8,674,434 |
|  | =====                                | =====     |

See accompanying notes to condensed consolidated financial statements.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES  
Condensed Consolidated Statements of Cash Flows

Nine Months Ended January 31,

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(Unaudited)

|  | 2007           | 2006     |
|--|----------------|----------|
|  | ----           | ----     |
|  | (In thousands) |          |
| Cash flows from operating activities:  |                |          |
| Net income   | \$ 332         | \$ 3,722 |
| Non-cash charges to earnings   | 2,507          | (1,346)  |
| Net changes in other assets and liabilities                                      | (3,669)        | (4,224)  |
|  | -----          | -----    |
| Net cash used in operating activities  | (830)          | (1,848)  |
|  | -----          | -----    |
| Cash flows from investing activities:  |                |          |
| Payment for acquisitions   | (1,811)        | (103)    |
| Loan to affiliate  | (1,500)        | -        |
| Proceeds from sale of marketable securities                                      | 8,053          | 12,818   |
| Purchase of marketable securities  | (1,253)        | (11,518) |
| Purchase of fixed assets   | (1,675)        | (1,260)  |
|  | -----          | -----    |
| Net cash provided by (used in) investing activities                              | 1,814          | (63)     |
|  | -----          | -----    |
| Cash flows from financing activities:  |                |          |
| Payment of cash dividend   | (1,717)        | (1,706)  |
| Proceeds from short-term credit obligations                                      | -              | 1,000    |
| Other - net  | 158            | 17       |
|  | -----          | -----    |
| Net cash used in financing activities  | (1,559)        | (689)    |
|  | -----          | -----    |
| Net decrease in cash and cash equivalents before effect of exchange rate changes | (575)          | (2,600)  |
| Effect of exchange rate changes on cash and cash equivalents                     | 417            | 65       |
|  | -----          | -----    |
| Net decrease in cash   | (158)          | (2,535)  |
| Cash at beginning of period  | 2,639          | 6,701    |
|  | -----          | -----    |
| Cash at end of period  | \$ 2,481       | \$ 4,166 |
|  | =====          | =====    |

See accompanying notes to condensed consolidated financial statements.

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## FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

### Notes to Condensed Consolidated Financial Statements (Unaudited)

#### NOTE A - CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management of 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 January 31, 2007 and the results of its operations and cash flows for the nine and three months ended January 31, 2007 and 2006. The April 30, 2006 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, 2006 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:

|  | Nine months               |           | Three months |           |
|--|---------------------------|-----------|--------------|-----------|
|  | Periods ended January 31, |           |              |           |
|  | 2007                      | 2006      | 2007         | 2006      |
|  | -----                     | -----     | -----        | -----     |
| Basic EPS Shares outstanding<br>(weighted average) | 8,600,700                 | 8,530,926 | 8,633,283    | 8,541,519 |
| Effect of Dilutive Securities                      | 146,410                   | 137,759   | ***          | 132,915   |
|  | -----                     | -----     | -----        | -----     |
| Diluted EPS Shares outstanding                     | 8,747,110                 | 8,668,685 | 8,633,283    | 8,674,434 |
|  | =====                     | =====     | =====        | =====     |

\*\*\* Dilutive securities are excluded for the three month period ended January 31, 2007 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 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 were:

|                              | Nine months               |         | Three months |         |
|------------------------------|---------------------------|---------|--------------|---------|
|                              | Periods ended January 31, |         |              |         |
|                              | 2007                      | 2006    | 2007         | 2006    |
|                              | -----                     | -----   | -----        | -----   |
| Outstanding Options excluded | 571,550                   | 570,550 | 571,550      | 570,550 |
|                              | =====                     | =====   | =====        | =====   |

#### NOTE C - ACCOUNTS RECEIVABLE

Accounts receivable at January 31, 2007 and April 30, 2006 include costs and estimated earnings in excess of billings on uncompleted contracts accounted

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for on the percentage of completion basis of approximately \$3,108,000 and \$4,857,000, 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 \$4,356,000 and \$3,923,000 at January 31, 2007 and April 30, 2006, respectively, consist of the following:

|                                   | January 31, 2007 | April 30, 2006 |
|-----------------------------------|------------------|----------------|
|                                   | (In thousands)   |                |
| Raw materials and Component parts | \$14,950         | \$11,172       |
| Work in progress                  | 15,596           | 11,799         |
|                                   | -----            | -----          |
|                                   | \$30,546         | \$22,971       |
|                                   | =====            | =====          |

## FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

### Notes to Condensed Consolidated Financial Statements (Unaudited)

### NOTE E - COMPREHENSIVE INCOME

For the nine months ended January 31, 2007 and 2006 total comprehensive income was \$1,296,000 and \$1,821,000, respectively. Comprehensive income is composed of net income or loss for the period plus the impact of foreign currency translation adjustments and the change in the valuation allowance on marketable securities.

### NOTE F- INVESTMENT IN AFFILIATES

The Company's investment in affiliates consists of a 36% interest in Morion, Inc., a privately-held Russian crystal oscillator manufacturer, and a 20% interest in Elcom Technologies, Inc., a privately-held designer and manufacturer of high switching speed, low phase noise instruments and components. In addition to its initial investment, the Company has also extended a loan to Elcom in the form of a convertible note. Due to the timing of the Elcom investment in late December 2006, the transaction had no impact on the Company's financial results for any period. Summarized financial data for the operations of Morion for the nine and three month periods ended January 31, 2007 and 2006, are as follows: (in thousands)

|                    | Nine months               |         | Three months |         |
|--------------------|---------------------------|---------|--------------|---------|
|                    | Periods ended January 31, |         |              |         |
|                    | 2007                      | 2006    | 2007         | 2006    |
|                    | ----                      | ----    | ----         | ----    |
| Operating Revenues | \$11,417                  | \$8,795 | \$3,705      | \$2,674 |
| Operating Income   | 1,587                     | 1,288   | 872          | 694     |
| Net Income         | 1,312                     | 1,056   | 720          | 584     |

### NOTE G - EQUITY-BASED COMPENSATION

Effective May 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("FAS 123(R)"), using the modified prospective transition



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method. Under the modified prospective transition method, compensation cost of \$438,000 and \$162,000 was recognized during the nine and three months ended January 31, 2007, respectively, and includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of May 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FAS 123, and (b) compensation cost for all share-based payments granted subsequent to May 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of FAS 123(R). Results for prior periods have not been restated.

Upon adoption of FAS 123(R), the Company elected to continue to value its share-based payment transactions using the Black-Scholes valuation model, which was previously used by the Company for purposes of preparing the pro forma disclosures under FAS 123. Such value is recognized as expense on a straight-line basis over the service period of the awards, which is generally the vesting period, net of estimated forfeitures. This is the same attribution method that was used by the Company for purposes of its pro forma disclosures under FAS 123.

At January 31, 2007, unrecognized compensation cost for all the Company's stock-based compensation awards was approximately \$1.4 million. The unrecognized compensation cost for stock-based compensation awards at January 31, 2007 is expected to be recognized over a weighted average period of 2.9 years.

In addition, the Company applied the provisions of Staff Accounting Bulletin No. 107 ("SAB 107"), issued by the Securities and Exchange Commission in March 2005 in its adoption of FAS 123(R). SAB 107 requires stock-based compensation to be classified in the same expense line items as cash compensation. Accordingly, during the nine and three months ended January 31, 2007, stock-based compensation expense was \$226,000 and \$87,000, respectively, in cost of sales and \$212,000 and \$75,000, respectively, in selling, general and administrative expense.

### FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

#### Notes to Condensed Consolidated Financial Statements (Unaudited)

Prior to the adoption of FAS 123(R), the Company presented all tax benefits resulting from tax deductions associated with the exercise of stock options by employees as cash flows from operating activities in the Consolidated Statements of Cash Flows. Under FAS 123(R) "excess tax benefits" are to be classified as cash flows from financing activities in the Consolidated Statement of Cash Flows. For this purpose, the excess tax benefits are tax benefits related to the difference between the total tax deduction associated with the exercise of stock options by employees and the amount of compensation cost recognized for those options. For the nine and three months ended January 31, 2007, there were no excess tax benefits to be included within Other Financing Activities of the Cash Flows from Financing Activities pursuant to this requirement of FAS 123(R).

#### Effect of Adoption of FAS 123(R)

-----  
The application of FAS 123(R) had the following effect on the reported amounts for the nine and three months ended January 31, 2007, relative to amounts that would have been reported using the intrinsic value method under previous accounting (in thousands, except for per share amounts).

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|   | Using Intrinsic<br>Value Method | FAS 123(R)<br>Adjustments | As<br>Reported |
|---|---------------------------------|---------------------------|----------------|
| Nine Months ended January 31, 2007:<br>-----  |                                 |                           |                |
| Operating Loss                                | (\$ 564)                        | (\$438)                   | (\$ 1,002)     |
| Income before provision<br>for income taxes   | \$983                           | (\$438)                   | \$545          |
| Net Income                                    | \$770                           | (\$438)                   | \$332          |
| Basic Earnings per Share                      | \$0.09                          | (\$0.05)                  | \$0.04         |
| Diluted Earnings per Share                    | \$0.09                          | (\$0.05)                  | \$0.04         |
| Three Months ended January 31, 2007:<br>----- |                                 |                           |                |
| Operating Loss                                | (\$1,550)                       | (\$162)                   | (\$ 1,712)     |
| Loss before benefit<br>for income taxes       | (\$900)                         | (\$162)                   | (\$1,062)      |
| Net Loss                                      | (\$592)                         | (\$162)                   | (\$754)        |
| Basic Earnings per Share                      | (\$0.07)                        | (\$0.02)                  | (\$0.09)       |
| Diluted Earnings per Share                    | (\$0.07)                        | (\$0.02)                  | (\$0.09)       |

The weighted average fair value of each option has been estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions used for grants in the nine and three months ended January 31, 2007, and each of the years ended April 30, 2006 and 2005: dividend yield of 1.4%, 1.4%, and 1.1%; expected volatility of 59%; risk free interest rate of 5.0%, 4.1%, and 3.9%; and expected lives of six and one-half years, respectively.

The expected life assumption was determined based on the Company's historical experience. For purposes of both FAS 123 and FAS 123(R), the expected volatility assumption was based on the historical volatility of the Company's common stock. The dividend yield assumption was determined based upon the Company's past history of dividend payments and its intention to make future dividend payments. The risk-free interest rate assumption was determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the stock options.

### FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

#### Notes to Condensed Consolidated Financial Statements (Unaudited)

#### Employee Stock Option Plans -----

The Company has various stock option plans for key management employees, including officers and directors who are employees. The plans include Nonqualified Stock Option ("NQS0") plans, Incentive Stock Option ("ISO") plans,

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and Stock Appreciation Rights ("SARs"). Under these plans, options and awards are granted at the discretion of the Stock Option committee at an exercise price not less than the fair market value of the Company's common stock on the date of grant. Under one NQSO plan the options are exercisable one year after the date of grant. Under the remaining plans the options/awards are exercisable over a four-year period beginning one year after the date of grant. The options/awards expire ten years after the date of grant and are subject to certain restrictions on transferability of the shares obtained on exercise. As of January 31, 2007, eligible employees had been granted awards to acquire 167,500 shares of Company stock under SARs, all of which are outstanding and are not exercisable. As of January 31, 2007, eligible employees had been granted options to purchase 1,182,500 shares of Company stock under ISO plans of which approximately 389,000 options are outstanding and approximately 284,000 are exercisable. Through January 31, 2007, eligible employees have been granted options to acquire 1,090,000 shares of Company stock under NQSO plans. Of the NQSO options, approximately 722,000 are both outstanding and exercisable (see tables below).

The excess of the consideration received over the par value of the common stock or cost of treasury stock issued under both types of option plans has been recognized as an increase in additional paid-in capital prior to the adoption of FAS 123(R). During the nine and three months ended January 31, 2007, the Company recorded compensation charges of approximately \$129,000 and \$65,000, respectively, with respect to the fiscal year 2007 SARs grant. Unrecognized compensation charges for nonvested awards relating to the SARs grant is approximately \$903,000 which will be recognized over a weighted average period of 3.5 years. Unrecognized compensation charges for nonvested awards relating to the ISO plan is approximately \$455,000 which will be recognized over a weighted average period of 1.7 years. For the nine and three months ended January 31, 2007, the Company recorded compensation charges related to the ISO plans of approximately \$309,000 and \$97,000, respectively, using the fair value method.

Although the Company continues to maintain a stock repurchase program, no stock repurchases will be necessary to process stock exercises during the fiscal year. Shares issued to individuals during stock exercises will be taken from available treasury stock.

Transactions under these stock award plans, including the weighted average exercise prices of the options, are as follows:

|   | Nine months ended January 31, 2007 |               |
|---|------------------------------------|---------------|
|   | Shares                             | Wtd Avg Price |
|   | -----                              | -----         |
| Outstanding at beginning of period                                  | 1,133,387                          | \$11.32       |
| Granted   | 167,500                            | \$11.95       |
| Exercised   | (22,300)                           | \$7.07        |
| Expired or canceled   | -                                  | -             |
|   | -----                              |               |
| Outstanding at end of period  | 1,278,587                          | \$11.48       |
|   | =====                              |               |
| Exercisable at end of period  | 1,006,337                          | \$11.34       |
|   | =====                              |               |
| Available for grant at end of period                                | 231,500                            |               |
|   | =====                              |               |
| Weighted average fair value<br>of options granted during the period | \$6.54                             |               |
|   | =====                              |               |

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (Unaudited)

The following table summarizes information about stock-based awards outstanding at January 31, 2007:

| Actual Range of<br>Exercise Prices<br>----- | Options Outstanding                          |   |   | Options Exercisable                          |   |
|---|--|---|---|--|---|
|   | Number<br>Outstanding<br>at 1/31/07<br>----- | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>---- | Weighted<br>Average<br>Exercise<br>Price<br>----- | Number<br>Exercisable<br>at 1/31/07<br>----- | Weighted<br>Average<br>Exercise<br>Price<br>----- |
| \$6.615 - 9.970                             | 466,400                                      | 3.7   | \$ 7.66   | 435,775                                      | \$ 7.56   |
| 10.167 - 16.625                             | 730,187                                      | 5.3   | 12.53   | 488,562                                      | 12.63   |
| 23.75                                       | 82,000                                       | 3.5   | 23.75   | 82,000                                       | 23.75   |

### Fiscal year 2006 -----

Stock-based compensation in fiscal year 2006 was determined using the intrinsic value method. The following table provides supplemental information for the nine and three months ended January 31, 2006 as if stock-based compensation had been computed under FAS 123(R).

|                                   | (in thousands, except per share data):        |                           |
|-----------------------------------|---|---------------------------|
|                                   | Nine months<br>Periods ended January 31, 2006 | Three months              |
| Net income, as reported           | \$3,722                                       | \$1,248                   |
| Cost of stock options, net of tax | (240)   | (59)                      |
| Net income - pro forma            | -----<br>\$3,482<br>=====                     | -----<br>\$1,189<br>===== |
| Earnings per share, as reported:  |   |                           |
| Basic                             | \$ 0.44<br>=====                              | \$ 0.15<br>=====          |
| Diluted                           | \$ 0.43<br>=====                              | \$ 0.14<br>=====          |
| Earnings per share- pro forma     |   |                           |
| Basic                             | \$ 0.41<br>=====                              | \$ 0.14<br>=====          |
| Diluted                           | \$ 0.40<br>=====                              | \$ 0.14<br>=====          |

### NOTE H - 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 monitoring systems.
- (3) FEI-Zyfer - the products of the Company's subsidiary incorporate Global

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Positioning System (GPS) technologies into systems and subsystems for secure communications, both government and commercial, and other locator applications.

### FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

#### Notes to Condensed Consolidated Financial Statements (Unaudited)

Beginning with the first quarter of fiscal year 2007, the Company is reporting its segment information on a geographic basis. The former Commercial Communications and U.S. Government segments, which operate out of the Company's New York headquarters facility, have been combined into the new segment, FEI-NY. This 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.

Previously, the Company identified its New York-based U.S. Government business as a separate segment even though that segment shared the same facility, equipment and personnel with the Commercial Communications segment. With the acquisition of FEI-Zyfer in fiscal year 2004, the Company now does business on U.S. Government programs out of two separate subsidiaries. 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. Consequently, the Company determined that limiting the number of segments to the three indicated above more appropriately reflects the way the Company's management views the business.

Prior year segment information has been reclassified to conform to the new segment presentation. This includes reclassifying the property, plant and equipment located in the New York facility to the FEI-NY segment and not to corporate assets.

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):

|                          | Nine months               |          | Three months |          |
|--------------------------|---------------------------|----------|--------------|----------|
|                          | Periods ended January 31, |          |              |          |
|                          | 2007                      | 2006     | 2007         | 2006     |
|                          | ----                      | ----     | ----         | ----     |
| Net sales:               |                           |          |              |          |
| FEI-NY                   | \$28,449                  | \$24,934 | \$ 8,244     | \$10,355 |
| Gillam-FEI               | 7,470                     | 6,206    | 3,019        | 2,147    |
| FEI-Zyfer                | 6,155                     | 7,895    | 1,417        | 2,763    |
| less intersegment sales  | (1,323)                   | (1,367)  | (563)        | (152)    |
|                          | -----                     | -----    | -----        | -----    |
| Consolidated sales       | \$40,751                  | \$37,668 | \$12,117     | \$15,113 |
|                          | =====                     | =====    | =====        | =====    |
| Operating (loss) profit: |                           |          |              |          |
| FEI-NY                   | \$(1,063)                 | \$ 1,404 | \$(1,511)    | \$ 1,198 |
| Gillam-FEI               | 344                       | (613)    | 182          | (185)    |
| FEI-Zyfer                | 53                        | 1,013    | (318)        | 298      |
| Corporate                | (336)                     | (425)    | (65)         | (99)     |

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|                                      |           |          |           |          |
|--------------------------------------|-----------|----------|-----------|----------|
|                                      | -----     | -----    | -----     | -----    |
| Consolidated operating (loss) profit | \$(1,002) | \$ 1,379 | \$(1,712) | \$ 1,212 |
|                                      | =====     | =====    | =====     | =====    |

|                                  | January 31, 2007 | April 30, 2006 |
|----------------------------------|------------------|----------------|
|                                  | -----            | -----          |
| Identifiable assets:             |                  |                |
| FEI-NY                           | \$42,990         | \$44,111       |
| Gillam-FEI                       | 14,167           | 13,755         |
| FEI-Zyfer                        | 4,895            | 5,356          |
| less intercompany balances       | (10,523)         | (14,585)       |
| Corporate                        | 37,380           | 38,104         |
|                                  | -----            | -----          |
| Consolidated Identifiable Assets | \$88,909         | \$86,741       |
|                                  | =====            | =====          |

### FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

#### Notes to Condensed Consolidated Financial Statements (Unaudited)

#### NOTE I - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109." ("FIN 48") This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes recognition thresholds and measurement attributes for tax positions taken in a tax return. FIN 48 is effective for the Company beginning in fiscal year 2008. The Company will comply with the provisions of FIN 48 but the impact of such adoption is not determinable at this time.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements." ("FAS 157") This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP") and expands disclosures about fair value measurements. FAS 157 does not require any new fair value measurements but simplifies and codifies related guidance. The Company will comply with the provisions of FAS 157 when it becomes effective in fiscal year 2009. The impact of such adoption is not expected to have a material impact on the Company's financial statements since the Company utilizes fair value measures wherever required by current GAAP.

The SEC issued Staff Accounting Bulletin No. 108 ("SAB 108") in September 2006. SAB 108 expresses the views of the SEC staff regarding the process of quantifying the materiality of financial misstatements. SAB 108 requires both the balance sheet (iron curtain) and income statement (rollover) approaches be used when quantifying the materiality of misstatement amounts. In addition, SAB 108 contains guidance on correcting errors under the dual approach and provides transition guidance for correcting errors existing in prior years. SAB 108 is effective in the Company's quarter and fiscal year ending April 30, 2007. The Company is in the process of determining the impact of this bulletin on the Company's consolidated financial statements.

#### Item 2

#### Management's Discussion and Analysis of Financial Condition

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## and Results of Operations

### "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:

The statements in this quarterly report on Form 10-Q regarding future earnings and operations and other statements relating to the future constitute "forward-looking" statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements inherently involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products in the marketplace, competitive factors, new products and technological changes, product prices and raw material costs, dependence upon third-party vendors, competitive developments, changes in manufacturing and transportation costs, changes in contractual terms, the availability of capital, and other risks detailed in the Company's periodic report filings with the Securities and Exchange Commission. By making these forward-looking statements, the Company undertakes no obligation to update these statements for revisions or changes after the date of this report.

### Critical Accounting Policies and Estimates

The Company's significant accounting policies are described in Note 1 to the consolidated financial statements included in the Company's April 30, 2006 Annual Report to Stockholders. The Company believes its most critical accounting policies to be the recognition of revenue and costs on production contracts and the valuation of inventory. Each of these areas requires the Company to make use of reasoned estimates including estimating the cost to complete a contract, the realizable value of its inventory or the market value of its products. Changes in estimates can have a material impact on the Company's financial position and results of operations.

## FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES (Continued)

### Revenue Recognition

Revenues under larger, long-term contracts, which generally require billings based on achievement of milestones rather than delivery of product, are reported in operating results using the percentage of completion method. On fixed-price contracts, which are typical for commercial and U.S. Government satellite programs and other long-term U.S. Government projects, and which require initial design and development of the product, revenue is recognized on the cost-to-cost method. Under this method, revenue is recorded based upon the ratio that incurred costs bear to total estimated contract costs with related cost of sales recorded as the costs are incurred. Each month management reviews estimated contract costs. The effect of any change in the estimated gross margin percentage for a contract is reflected in revenues in the period in which the change is known. Provisions for anticipated losses on contracts are made in the period in which they become determinable.

On production-type contracts, revenue is recorded as units are delivered with the related cost of sales recognized on each shipment based upon a percentage of estimated final contract costs. Changes in job performance may result in revisions to costs and income and are recognized in the period in which revisions are determined to be required. Provisions for anticipated losses

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on contracts are made in the period in which they become determinable.

For contracts in the Company's Gillam-FEI and FEI-Zyfer segments, smaller contracts or orders in the FEI-NY segment and sales of products and services to customers are reported in operating results based upon shipment of the product or performance of the services pursuant to contractual terms. When payment is contingent upon customer acceptance of the installed system, revenue is deferred until such acceptance is received and installation completed.

### Costs and Expenses

-----

Contract costs include all direct material, direct labor, manufacturing overhead and other direct costs related to contract performance. Selling, general and administrative costs are charged to expense as incurred.

### Inventory

-----

In accordance with industry practice, inventoried costs contain amounts relating to contracts and programs with long production cycles, a portion of which will not be realized within one year. Inventory reserves are established for slow-moving and obsolete items and are based upon management's experience and expectations for future business. Any changes in reserves arising from revised expectations are reflected in cost of sales in the period the revision is made.

### Stock-based Compensation

-----

Effective May 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("FAS 123(R)"), using the modified prospective transition method. Under the modified prospective transition method, compensation cost of \$438,000 and \$162,000 was recognized during the nine and three months ended January 31, 2007, respectively, and includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of May 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FAS 123, and (b) compensation cost for all share-based payments granted subsequent to May 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of FAS 123(R). Results for prior periods have not been restated.

## FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

(Continued)

### RESULTS OF OPERATIONS

The table below sets forth for the respective periods of fiscal years 2007 and 2006 the percentage of consolidated net sales represented by certain items in the Company's consolidated statements of operations:

|                         | Nine months               |       | Three months |       |
|-------------------------|---------------------------|-------|--------------|-------|
|                         | Periods ended January 31, |       |              |       |
|                         | 2007                      | 2006  | 2007         | 2006  |
|                         | ----                      | ----  | ----         | ----  |
| Net Sales               |                           |       |              |       |
| FEI-NY                  | 69.8%                     | 66.2% | 68.0%        | 68.5% |
| Gillam-FEI              | 18.3                      | 16.5  | 24.9         | 14.2  |
| FEI-Zyfer               | 15.1                      | 21.0  | 11.7         | 18.3  |
| Less intersegment sales | (3.2)                     | (3.7) | (4.6)        | (1.0) |
|                         | -----                     | ----- | -----        | ----- |
|                         | 100.0                     | 100.0 | 100.0        | 100.0 |



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|                                      |       |       |        |       |
|--------------------------------------|-------|-------|--------|-------|
| Cost of Sales                        | 65.7  | 63.7  | 68.8   | 63.9  |
|                                      | ----- | ----- | -----  | ----- |
| Gross Margin                         | 34.3  | 36.3  | 31.2   | 36.1  |
| Selling and administrative expenses  | 20.5  | 21.6  | 23.8   | 20.3  |
| Research and development expenses    | 16.3  | 11.0  | 21.5   | 7.8   |
|                                      | ----- | ----- | -----  | ----- |
| Operating (Loss) Profit              | (2.5) | 3.7   | (14.1) | 8.0   |
| Other income, net                    | 3.8   | 11.2  | 5.4    | 4.1   |
|                                      | ----- | ----- | -----  | ----- |
| Pretax Income (Loss)                 | 1.3   | 14.9  | (8.7)  | 12.1  |
| Provision (Benefit) for income taxes | 0.5   | 5.0   | (2.5)  | 3.8   |
|                                      | ----- | ----- | -----  | ----- |
| Net Income (Loss)                    | 0.8%  | 9.9%  | (6.2)% | 8.3%  |
|                                      | ===== | ===== | =====  | ===== |

(Note: All dollar amounts in following tables are in thousands, except Net Sales which are in millions)

Net sales (in millions)

|                    | Nine months |        |               |       | Three months |        |         |       |
|--------------------|-------------|--------|---------------|-------|--------------|--------|---------|-------|
|                    | 2007        | 2006   | Periods ended |       | January 31,  |        |         |       |
|                    |             |        | Change        |       | 2007         | 2006   | Change  |       |
|                    | -----       | -----  | -----         |       | -----        | -----  | -----   | ----- |
| FEI-NY             | \$28.4      | \$24.9 | \$3.5         | 14%   | \$8.2        | \$10.3 | (\$2.1) | (20%) |
| Gillam-FEI         | 7.5         | 6.2    | 1.3           | 20%   | 3.0          | 2.1    | 0.9     | 41%   |
| FEI-Zyfer          | 6.2         | 7.9    | (1.7)         | (22%) | 1.4          | 2.8    | (1.4)   | (49%) |
| Intersegment sales | (1.3)       | (1.3)  | 0.0           |       | (0.5)        | (0.1)  | (0.4)   |       |
|                    | -----       | -----  | -----         |       | -----        | -----  | -----   |       |
|                    | \$40.8      | \$37.7 | \$3.1         | 8%    | \$12.1       | \$15.1 | (\$3.0) | (20%) |
|                    | =====       | =====  | =====         |       | =====        | =====  | =====   |       |

Revenues for the nine month period ended January 31, 2007 increased by 8% over the same period of fiscal year 2006 principally on the strength of increased revenues from commercial and US Government-related satellite payload programs. Such revenue growth was not sustained during the three month period ended January 31, 2007, after the Company increased its estimate of costs to complete two major satellite programs. Such increased cost estimates had the effect of delaying recognition of revenue into subsequent periods when the work is completed. Similarly, revenues from wireless infrastructure have increased during the nine month period ended January 31, 2007 compared to the same period of fiscal year 2006. However, in the third quarter of fiscal year 2007, such revenues declined both sequentially from the second quarter of the year and compared to the same period of fiscal year 2006. The Gillam-FEI segment continued to grow its fiscal year 2007 revenues, mainly in the network management market. The Company's FEI-Zyfer segment, which derives approximately two-thirds of its revenues from government sources, has recorded reduced revenues in fiscal year 2007 compared to the prior year as customer orders have been delayed. The Company expects fiscal year 2007 fourth quarter revenues to increase over the third quarter as the Company begins work on new satellite payload programs and as telecommunication infrastructure customers increase their orders. Based on its current backlog and expected new bookings, principally for satellite payloads, the Company expects to realize continued growth in revenues in fiscal year 2008.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES  
(Continued)

Gross margin

|         | Nine months |          |                                     | Three months |         |                 |
|---------|-------------|----------|-------------------------------------|--------------|---------|-----------------|
|         | 2007        | 2006     | Periods ended January 31,<br>Change | 2007         | 2006    | Change          |
|         | \$13,970    | \$13,657 | \$313 2%                            | \$3,777      | \$5,462 | (\$1,685) (31%) |
| GM Rate | 34.3%       | 36.3%    |                                     | 31.2%        | 36.1%   |                 |

The decline in gross margin rate for the nine and three months ended January 31, 2007, compared to the same periods of fiscal year 2006, is due primarily to increased engineering costs on certain satellite payload programs. The 2% improvement in gross margin for the nine months of fiscal year 2007 compared to the same period ended January 31, 2006, is due to increased sales volume. Similarly, the decline in total gross margin for the three month period ended January 31, 2007 is due to both lower sales and to higher engineering costs compared to the same period of the prior year. As revenues increase and engineering costs return to more normal levels, the Company expects the gross margin rate to approach and exceed its target of 40%.

Also, for the nine and three months ended January 31, 2007, gross margin was reduced by \$226,000 and \$86,000, respectively, due to the inclusion in cost of sales of a charge for stock compensation expense. As disclosed in the footnotes to the financial statements, as of May 1, 2006, the Company is complying with the provisions of FAS 123(R), Accounting for Stock-Based Compensation. In the prior fiscal year, the Company applied the disclosure-only provisions of FAS No. 148, "Accounting for Stock-Based Compensation- Transition and Disclosure" and measured compensation cost in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees." This method did not result in compensation cost upon the grant of options under a qualified stock option plan.

Selling and administrative expenses

|  | Nine months |         |                                     | Three months |         |              |
|--|-------------|---------|-------------------------------------|--------------|---------|--------------|
|  | 2007        | 2006    | Periods ended January 31,<br>Change | 2007         | 2006    | Change       |
|  | \$8,344     | \$8,154 | \$190 2%                            | \$2,889      | \$3,077 | (\$188) (6%) |

For the nine and three months ended January 31, 2007, selling and administrative expenses were 20% and 24%, respectively, of fiscal year 2007 revenues compared to 22% and 20%, respectively, for the comparable periods of fiscal year 2006. These ratios primarily reflect the level of sales for those periods, which, on higher revenues, are typically in line with the Company's target of less than 20% of revenue. In periods when revenues temporarily decline compared to the administrative structure of the Company, the ratios are higher than target. The primary increases in expenses in the fiscal year 2007 periods were related to compensation, including additional personnel, normal salary increases and stock compensation costs as indicated in the next paragraph. Increased compensation expense in the United States operations were partially offset by decreases in personnel costs in the Company's European subsidiaries.

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Included in selling and administrative expenses for the nine and three months ended January 31, 2007, is \$212,000 and \$75,000, respectively, related to stock compensation expense as described above and in the footnotes to the financial statements.

As fiscal year 2007 and 2008 revenues increase from current levels, the Company expects selling and administrative expenses to be incurred at 20% or less of revenues.

### Research and development expense

| Nine months |         |                                     |       | Three months |         |         |       |
|-------------|---------|-------------------------------------|-------|--------------|---------|---------|-------|
| 2007        | 2006    | Periods ended January 31,<br>Change |       | 2007         | 2006    | Change  |       |
| -----       | -----   | -----                               | ----- | -----        | -----   | -----   | ----- |
| \$6,628     | \$4,124 | \$2,504                             | 61%   | \$2,600      | \$1,173 | \$1,427 | 122%  |

Research and development expenditures represent investments that keep the Company's products at the leading edge of time and frequency technology and enhance competitiveness for future sales. Particularly during the second and third quarters of fiscal year 2007, the Company incurred high engineering costs to design and substantially improve the manufacturability of certain products for current and anticipated satellite payload programs. Such efforts account for the 61% and 122% increases in R&D

### FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES (Continued)

spending for the nine and three months ended January 31, 2007, respectively, compared to the same periods of fiscal year 2006. The Company also spent development money on new initiatives to design a ruggedized rubidium clock for secure military communications, enhance and miniaturize products for wireless communications, upgrade its GPS-based synchronization product line, and to develop enhanced network management equipment and software.

Research and development spending for the nine and three months ended January 31, 2007, was 16% and 21% of revenues, respectively, compared to 11% and 8% of revenues, respectively, for the same periods of fiscal year 2006. The Company targets research and development spending at approximately 10% of sales, but the rate of spending can increase or decrease from quarter to quarter as new projects are identified and others are concluded. The Company will continue to devote significant resources to develop new products, enhance existing products and implement efficient manufacturing processes. Where possible, the Company attempts to obtain development contracts from its customers. For programs without such funding, internally generated cash and cash reserves are adequate to fund these development efforts.

### Operating (Loss) Profit

| Nine months |         |                                     |       | Three months |         |           |       |
|-------------|---------|-------------------------------------|-------|--------------|---------|-----------|-------|
| 2007        | 2006    | Periods ended January 31,<br>Change |       | 2007         | 2006    | Change    |       |
| -----       | -----   | -----                               | ----- | -----        | -----   | -----     | ----- |
| (\$1,002)   | \$1,379 | (\$2,381)                           | NM    | (\$1,712)    | \$1,212 | (\$2,924) | NM    |

During the nine and three month periods ended January 31, 2007, the Company recorded operating losses as compared to operating profits in the same periods of fiscal year 2006. This is primarily the result of the increased engineering

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costs discussed above which had the impact of increasing program costs and the level of research and development spending as well as delaying the recognition of revenue on certain long-term satellite payload programs. The Company expects that as such engineering costs abate its gross margins will improve, research and development spending will decline to its targeted rate and operating profits will increase.

Other income (expense)

|                   | Nine months |         |                                     |       | Three months |       |        |       |
|-------------------|-------------|---------|-------------------------------------|-------|--------------|-------|--------|-------|
|                   | 2007        | 2006    | Periods ended January 31,<br>Change |       | 2007         | 2006  | Change |       |
|                   | -----       | -----   | -----                               | ----- | -----        | ----- | -----  | ----- |
| Investment income | \$785       | \$2,951 | (\$2,166)                           | (73%) | \$206        | \$285 | (\$79) | (28%) |
| Equity in Morion  | 566         | 423     | 143                                 | 34%   | 292          | 194   | 98     | 51%   |
| Interest expense  | (74)        | (83)    | 9                                   | 11%   | (17)         | (24)  | 7      | 29%   |
| Other income      | 270         | 928     | (658)                               | (71%) | 169          | 161   | 8      | 5%    |
|                   | -----       | -----   | -----                               | ----- | -----        | ----- | -----  | ----- |
|                   | \$1,547     | \$4,219 | (\$2,672)                           | (63%) | \$650        | \$616 | \$34   | 6%    |

The decrease in investment income for the nine months ended January 31, 2007, is due to realized gains of approximately \$2.1 million recorded in the prior fiscal year on the sale of a portion of the shares of Reckson Associates Realty Corp. stock ("REIT"). Such shares were obtained during fiscal year 2005 upon the conversion of certain REIT units related to the Company's fiscal year 1998 sale and leaseback of its headquarters building. Similar gains were not recorded in the fiscal year 2007 periods or in the third quarter of fiscal year 2006. The decreased investment income in the three month period ended January 31, 2007 compared to the same period of fiscal 2006 is attributable to less cash invested in marketable securities.

The Company records equity income in Morion, Inc. based on its 36% ownership interest in Morion's outstanding shares. The fluctuation in equity income is due to higher profitability at Morion for the nine and three months ended January 31, 2007 as compared to the same periods of fiscal year 2006. Morion recorded higher revenues and increased profitability in each of the fiscal year 2007 periods compared to the same periods of fiscal year 2006.

The decrease in interest expense for the nine and three month periods ended January 31, 2007 primarily reflects a decrease in borrowings under the Company's line of credit during the fiscal year 2007 periods as compared to the same periods of fiscal year 2006.

### FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES (Continued)

Under the provisions of sale and leaseback accounting, a portion of the capital gain realized on the real estate transaction referred to above is deferred and recognized in income over the initial lease term. Under the caption "Other income" the Company recognized deferred gain of \$265,000 and \$88,000 for the nine and three months ended January 31, 2007 and 2006, respectively. In the second quarter of fiscal year 2006, a European subsidiary recorded a \$680,000

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gain on the sale of a building to the subsidiary's president. Other insignificant income and expense items are also recorded under this caption.

### Net income (loss)

| Nine months |         |                           |       | Three months |         |           |       |
|-------------|---------|---------------------------|-------|--------------|---------|-----------|-------|
|             |         | Periods ended January 31, |       |              |         |           |       |
| 2007        | 2006    | Change                    | (91)% | 2007         | 2006    | Change    |       |
| -----       | -----   | -----                     |       | -----        | -----   | -----     | ----- |
| \$332       | \$3,722 | (\$3,390)                 |       | (\$754)      | \$1,248 | (\$2,002) | NM    |

Net income (loss) for the nine and three months ended January 31, 2007, was lower than that realized in the same periods of fiscal year 2006 primarily as the result of the operating losses discussed above as well as nonoperating gains recognized in the prior year. As indicated above, the Company recognized a gain of \$2.1 million on the sale of certain marketable securities and recorded a gain of \$680,000 on the sale of a subsidiary's building during the nine months ended January 31, 2006. Higher than anticipated engineering costs and increased investment in research and development reduced profitability during the fiscal year 2007 periods compared to the same nine and three month periods ended January 31, 2006.

### Income Taxes

The Company is subject to taxation in several countries as well as the states of New York and California. The statutory federal rates vary from 34% in the United States to 35% in Europe. The effective rate is impacted by the income or loss of certain of the Company's European and Asian subsidiaries which are currently not taxed. In addition, the Company utilizes the availability of research and development tax credits in the United States to lower its tax rate. The Company's European subsidiaries have available net operating loss carryforwards of approximately \$2.4 million to offset future taxable income.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's balance sheet continues to reflect a strong working capital position of \$56 million at January 31, 2007, which is compared to \$60 million at April 30, 2006. Included in working capital at January 31, 2007 is \$17.9 million of cash, cash equivalents and marketable securities. The Company's current ratio at January 31, 2007 is 8.8 to 1.

For the nine months ended January 31, 2007, the Company used \$830,000 in cash from operating activities compared to \$1.8 million used in operations in the comparable fiscal year 2006 period. This decrease in cash used from operating activities is due primarily to increases in the value of the Company's inventory. This increase was partially offset by collections on accounts receivable. For the full fiscal year 2007, the Company expects to continue to use cash in operating activities but, based on increased revenues and improving margins, that it will generate positive operating cash flow in fiscal year 2008.

Net cash provided by investing activities for the nine months ended January 31, 2007, was \$1.8 million, compared to a use of cash of \$63,000 for the same period of fiscal year 2006. The principal source of cash was the sale or redemption of certain marketable securities aggregating \$6.8 million, net of purchases of other marketable securities. The redemption of marketable securities was used to fund operations as well as to make an investment in an engineering company to provide additional resources in support of current operations. The Company also acquired capital equipment for approximately \$1.7 million. The Company may continue to acquire or sell marketable securities as dictated by its investment strategies as well as by the cash requirements for its development activities. Capital equipment purchases for all of fiscal year 2007 are expected to be approximately \$2.0 million. Internally generated cash is

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adequate to acquire this level of capital equipment.

### FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES (Continued)

Net cash used in financing activities for the nine months ended January 31, 2007, was \$1.6 million compared to \$689,000 during the comparable fiscal year 2006 period. Included in both fiscal periods is payment of the Company's semiannual dividend in the amount of \$1.7 million. During the third quarter of fiscal year 2006, the Company obtained \$1.0 million from its line of credit which was repaid prior to the end of that fiscal year.

The Company has been authorized by its Board of Directors to repurchase up to \$5 million worth of shares of its common stock for treasury whenever appropriate opportunities arise but it has neither a formal repurchase plan nor commitments to purchase additional shares in the future. During the quarter ended January 31, 2007, the Company did not acquire any shares of its stock under this authorization.

During fiscal year 2007, the Company has made and intends to make a substantial investment of capital and technical resources to develop new products to meet the needs of the satellite payload market (both U.S. Government and commercial satellites), the telecommunication infrastructure market and the requirements for U.S. Government/DOD programs. The Company will continue to invest in more efficient product designs and manufacturing procedures. Where possible, the Company will secure partial customer funding for such development efforts but is targeting to spend its own funds at a rate of at least 10% of revenues to achieve its development goals. Internally generated cash will be adequate to fund these development efforts.

At January 31, 2007, the Company's backlog amounted to approximately \$42 million compared to \$36 million at April 30, 2006. Of this backlog, approximately 80% is realizable in the next twelve months.

#### Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

#### Contractual obligations

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As of January 31, 2007

| Contractual Obligations     | Total<br>(in thousands) | Less than<br>1 Year | 1 to 3 Years | 3 to 5 Years | More<br>5 Ye |
|-----------------------------|-------------------------|---------------------|--------------|--------------|--------------|
| Operating Lease Obligations | \$ 878                  | \$368               | \$403        | \$ 72        | \$           |
| Deferred Compensation       | 8,492*                  | 305                 | 321          | 177          | 7,           |
| Total                       | \$9,370                 | \$673               | \$724        | \$249        | \$7,         |
|                             | =====                   | =====               | =====        | =====        | =====        |

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\*Deferred Compensation liability reflects payments due to current retirees receiving benefits. The amount of \$7,689 in the more than 5 years column includes benefits due to participants in the plan who are not yet receiving benefits although some participants may opt to retire and begin receiving benefits within the next 5 years.

### Item 3.

#### Quantitative and Qualitative Disclosures about Market Risk

##### Interest Rate Risk

The Company is exposed to market risk related to changes in interest rates and market values of securities. The Company's investments in fixed income and equity securities were approximately \$15.4 million and \$96,000, respectively, at January 31, 2007. The investments are carried at fair value with changes in unrealized gains and losses recorded as adjustments to stockholders' equity. The fair value of investments in marketable securities is generally based on quoted market prices. Typically, the fair market value of investments in fixed interest rate debt securities will increase as interest rates fall and decrease as interest rates rise. Based on the Company's overall interest rate exposure at January 31, 2007, a 10% change in market interest rates would not have a material effect on the fair value of the Company's fixed income securities or results of operations.

#### FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES (Continued)

##### Foreign Currency Risk

The Company is subject to foreign currency translation risk. The Company does not have any near-term intentions to repatriate invested cash in any of its foreign-based subsidiaries. For this reason, the Company does not intend to initiate any exchange rate hedging strategies which could be used to mitigate the effects of foreign currency fluctuations. The effects of foreign currency rate fluctuations will be recorded in the equity section of the balance sheet as a component of other comprehensive income. As of January 31, 2007, the amount related to foreign currency exchange rates is a \$3,816,000 unrealized gain.

The results of operations of foreign subsidiaries, when translated into US dollars, will reflect the average rates of exchange for the periods presented. As a result, similar results of operations measured in local currencies can vary significantly upon translation into US dollars if exchange rates fluctuate significantly from one period to the next.

### Item 4.

#### Controls and Procedures

##### Disclosure Controls and Procedures.

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The Company's management, with the participation of the Company's chief executive officer and chief financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's chief executive officer and

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chief financial officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective (i) to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) to ensure that information required to be disclosed by the Company in the reports that it submits under the Exchange Act is accumulated and communicated to its management, including the Company's principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

### Internal Control Over Financial Reporting.

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There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II

ITEMS 1, 1A, 2, 3, 4 and 5 are omitted because they are not applicable.

### ITEM 6 - Exhibits

- 31.1 - Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 - Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 - Certification by the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 - Certification by the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FREQUENCY ELECTRONICS, INC.  
(Registrant)

Date: March 16, 2007

BY /s/ Alan Miller

-----  
Alan Miller  
Chief Financial Officer  
(principal financial officer  
and duly authorized officer)



CERTIFICATION PURSUANT TO  
SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002

Certification of CEO

I, Martin B. Bloch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Frequency Electronics, Inc.;
2. Based on my knowledge, this report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Martin Bloch

March 16, 2007

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Martin B. Bloch  
Chief Executive Officer

Exhibit 31.2

### CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

#### Certification of CFO

I, Alan L. Miller, certify that

1. I have reviewed this quarterly report on Form 10-Q of Frequency Electronics, Inc.;
2. Based on my knowledge, this report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Alan Miller

March 16, 2007

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Alan L. Miller  
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Certification of CEO

In connection with the Quarterly Report of Frequency Electronics, Inc. (the "Company") on Form 10-Q for the period ended January 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Martin B. Bloch, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Martin Bloch

March 16, 2007

-----  
Martin B. Bloch  
Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting

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the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Exhibit 32.2

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

### Certification of CFO

In connection with the Quarterly Report of Frequency Electronics, Inc. (the "Company") on Form 10-Q for the period ended January 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alan L. Miller, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Alan Miller

March 16, 2007

-----  
Alan L. Miller  
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.