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FREQUENCY ELECTRONICS INC

Form 10-Q

December 15, 2006

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 October 31, 2006

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
incorporation or organization)

(I.R.S. Employer Identification No.)

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 December 8, 2006 - 8,600,659

Page 1 of 25

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

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INDEX

| | |
|---|----------|
| Part I. Financial Information: | Page No. |
| Item 1 - Financial Statements: | |
| Condensed Consolidated Balance Sheets - October 31, 2006 and April 30, 2006 | 3 |
| Condensed Consolidated Statements of Operations Six Months Ended October 31, 2006 and 2005 | 4 |
| Condensed Consolidated Statements of Operations Three Months Ended October 31, 2006 and 2005 | 5 |
| Condensed Consolidated Statements of Cash Flows Six Months Ended October 31, 2006 and 2005 | 6 |
| Notes to Condensed Consolidated Financial Statements | 7-12 |
| Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations | 13-19 |
| Item 3- Quantitative and Qualitative Disclosures about Market Risk | 19 |
| Item 4- Controls and Procedures | 20 |
| Part II. Other Information: | |
| Items 1, 1A, 2, 3 and 5 are omitted because they are not applicable | |
| Item 4 - Submission of Matters to a Vote of Security Holders | 20 |
| Item 6 - Exhibits | 20 |
| Signatures | 21 |
| Exhibits | 22-25 |

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES Condensed Consolidated Balance Sheets

| | October 31, 2006 ---- | April 30, 2006 ---- |
|---|-----------------------------|---------------------------|
| | (UNAUDITED) | (NOTE A) |
| | (In thousands) | |
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,794 | \$ 2,639 |
| Marketable securities | 19,049 | 21,836 |
| Accounts receivable, net of allowance for doubtful accounts of \$276 at October 31 and April 30, 2006 | 13,754 | 15,868 |
| Inventories | 26,476 | 22,971 |

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| | | |
|--|-----------|-----------|
| Deferred income taxes | 1,902 | 2,135 |
| Income tax receivable | 88 | 68 |
| Prepaid expenses and other | 1,434 | 1,246 |
| | ----- | ----- |
| Total current assets | 67,497 | 66,763 |
| Property, plant and equipment, at cost, less accumulated depreciation and amortization | 6,899 | 6,663 |
| Deferred income taxes | 2,719 | 2,842 |
| Goodwill and other Intangible assets, net | 483 | 513 |
| Cash surrender value of life insurance | 6,558 | 6,318 |
| Other assets | 3,847 | 3,642 |
| | ----- | ----- |
| Total assets | \$ 88,003 | \$ 86,741 |
| | ===== | ===== |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | |
| Current liabilities: | | |
| Accounts payable - trade | \$ 2,780 | \$ 2,202 |
| Accrued liabilities and other | 3,323 | 3,929 |
| Income taxes payable | - | - |
| Dividend payable | 860 | 857 |
| | ----- | ----- |
| Total current liabilities | 6,963 | 6,988 |
| Deferred compensation | 8,375 | 8,122 |
| Deferred gain and other liabilities | 824 | 998 |
| | ----- | ----- |
| Total liabilities | 16,162 | 16,108 |
| | ----- | ----- |
| Stockholders' equity: | | |
| Preferred stock - \$1.00 par value | - | - |
| Common stock - \$1.00 par value | 9,164 | 9,164 |
| Additional paid-in capital | 46,174 | 45,688 |
| Retained earnings | 15,752 | 15,527 |
| | ----- | ----- |
| | 71,090 | 70,379 |
| Common stock reacquired and held in treasury -at cost, 565,581 shares at October 31, 2006 and 592,194 shares at April 30, 2006 | (2,356) | (2,437) |
| Accumulated other comprehensive income | 3,107 | 2,691 |
| | ----- | ----- |
| Total stockholders' equity | 71,841 | 70,633 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 88,003 | \$ 86,741 |
| | ===== | ===== |

See accompanying notes to condensed consolidated financial statements.

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

Six Months Ended October 31,
(Unaudited)

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| | 2006 ---- | 2005 ---- |
|--|--------------------------------------|--------------|
| | (In thousands except per share data) | |
| Net sales | \$28,634 | \$22,556 |
| Cost of sales | 18,441 | 14,361 |
| | ----- | ----- |
| Gross margin | 10,193 | 8,195 |
| Selling and administrative expenses | 5,455 | 5,077 |
| Research and development expense | 4,028 | 2,951 |
| | ----- | ----- |
| Operating profit | 710 | 167 |
| Other income (expense): | | |
| Investment income | 579 | 2,666 |
| Equity in Morion | 274 | 229 |
| Interest expense | (57) | (59) |
| Other income, net | 100 | 767 |
| | ----- | ----- |
| Income before provision for income taxes | 1,606 | 3,770 |
| Provision for income taxes | 521 | 1,296 |
| | ----- | ----- |
| Net income | \$ 1,085 | \$ 2,474 |
| | ===== | ===== |
| Net income per common share | | |
| Basic | \$ 0.13 | \$ 0.29 |
| | ===== | ===== |
| Diluted | \$ 0.12 | \$ 0.29 |
| | ===== | ===== |
| Average shares outstanding | | |
| Basic | 8,584,409 | 8,525,629 |
| | ===== | ===== |
| Diluted | 8,732,393 | 8,665,810 |
| | ===== | ===== |

See accompanying notes to consolidated condensed financial statements.

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

Three Months Ended October 31,
(Unaudited)

| | 2006 ---- | 2005 ---- |
|--|--------------------------------------|--------------|
| | (In thousands except per share data) | |

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| | | |
|--|-----------|-----------|
| Net sales | \$14,320 | \$11,499 |
| Cost of sales | 8,980 | 7,401 |
| | ----- | ----- |
| Gross margin | 5,340 | 4,098 |
| Selling and administrative expenses | 2,674 | 2,533 |
| Research and development expense | 2,647 | 1,509 |
| | ----- | ----- |
| Operating profit | 19 | 56 |
| Other income (expense): | | |
| Investment income | 280 | 1,341 |
| Equity in Morion | 71 | 85 |
| Interest expense | (21) | (31) |
| Other income, net | 19 | 698 |
| | ----- | ----- |
| Income before provision for income taxes | 368 | 2,149 |
| Provision for income taxes | 181 | 817 |
| | ----- | ----- |
| Net income | \$ 187 | \$ 1,332 |
| | ===== | ===== |
| Net income per common share | | |
| Basic | \$ 0.02 | \$ 0.16 |
| | ===== | ===== |
| Diluted | \$ 0.02 | \$ 0.15 |
| | ===== | ===== |
| Average shares outstanding | | |
| Basic | 8,592,113 | 8,531,238 |
| | ===== | ===== |
| Diluted | 8,744,852 | 8,674,280 |
| | ===== | ===== |

See accompanying notes to condensed consolidated financial statements.

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

Six Months Ended October 31,
(Unaudited)

| | 2006 | 2005 |
|---|----------------|----------|
| | ---- | ---- |
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 1,085 | \$ 2,474 |
| Non-cash charges (income) to earnings, net | 1,785 | (1,512) |
| Net changes in other assets and liabilities | (2,163) | (2,863) |
| | ----- | ----- |

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| | | |
|--|----------|----------|
| Net cash provided by (used in) operating activities | 707 | (1,901) |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Payment for acquisition | - | (103) |
| Proceeds from sale of marketable securities | 4,104 | 12,568 |
| Purchase of marketable securities | (935) | (8,802) |
| Purchase of fixed assets | (1,013) | (933) |
| Other - net | 45 | - |
| | ----- | ----- |
| Net cash provided by investing activities | 2,201 | 2,730 |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Payment of cash dividend | (857) | (852) |
| Proceeds from stock option exercises | 62 | - |
| Other - net | - | 21 |
| | ----- | ----- |
| Net cash used in financing activities | (795) | (831) |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents before effect of exchange rate changes | 2,113 | (2) |
| Effect of exchange rate changes on cash and cash equivalents | 42 | 113 |
| | ----- | ----- |
| Net increase in cash | 2,155 | 111 |
| Cash at beginning of period | 2,639 | 6,701 |
| | ----- | ----- |
| Cash at end of period | \$ 4,794 | \$ 6,812 |
| | ===== | ===== |

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 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 October 31, 2006 and the results of its operations and cash flows for the six and three months ended October 31, 2006 and 2005. 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

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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:

| | Six months | | Three months | |
|--|---------------------------|-----------|--------------|-----------|
| | Periods ended October 31, | | | |
| | 2006 | 2005 | 2006 | 2005 |
| Basic EPS Shares outstanding (weighted average) | 8,584,409 | 8,525,629 | 8,592,113 | 8,531,238 |
| Effect of Dilutive Securities | 147,984 | 140,181 | 152,739 | 143,042 |
| Diluted EPS Shares outstanding | 8,732,393 | 8,665,810 | 8,744,852 | 8,674,280 |

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:

| | Six months | | Three months | |
|------------------------------|---------------------------|---------|--------------|---------|
| | Periods ended October 31, | | | |
| | 2006 | 2005 | 2006 | 2005 |
| Outstanding Options excluded | 571,550 | 570,550 | 571,550 | 570,550 |

NOTE C - ACCOUNTS RECEIVABLE

Accounts receivable at October 31, 2006 and April 30, 2006 include costs and estimated earnings in excess of billings on uncompleted contracts accounted for on the percentage of completion basis of approximately \$1,725,000 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 \$4,326,000 and \$3,923,000 at October 31, 2006 and April 30, 2006, respectively, consist of the following:

| | October 31, 2006 | April 30, 2006 |
|-----------------------------------|------------------|----------------|
| | (In thousands) | |
| Raw materials and Component parts | \$13,336 | \$11,172 |
| Work in progress | 13,140 | 11,799 |
| | \$26,476 | \$22,971 |

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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(Unaudited)

NOTE E - -COMPREHENSIVE INCOME

For the six months ended October 31, 2006 and 2005, total comprehensive income was \$1,501,000 and \$755,000, 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 - 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 method. Under the modified prospective transition method, compensation cost of \$277,000 and \$162,000 was recognized during the six and three months ended October 31, 2006, 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 October 31, 2006, unrecognized compensation cost for all the Company's stock-based compensation awards was approximately \$1.5 million. The unrecognized compensation cost for stock-based compensation awards at October 31, 2006 is expected to be recognized over a weighted average period of 3.1 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 six and three months ended October 31, 2006, stock-based compensation expense was \$140,000 and \$87,000, respectively, in cost of sales and \$137,000 and \$75,000, respectively, in selling, general and administrative expense.

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 six and three months ended October 31, 2006, 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).

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Effect of Adoption of FAS 123(R)

The application of FAS 123(R) had the following effect on the reported amounts for the six and three months ended October 31, 2006, relative to amounts that would have been reported using the intrinsic value method under previous accounting (in thousands, except for per share amounts.)

| | Using Intrinsic Value Method | FAS 123(R) Adjustments | As Reported |
|---|---------------------------------|---------------------------|----------------|
| ----- | ----- | ----- | ----- |
| Six Months ended October 31, 2006: | | | |
| ----- | | | |
| Operating Profit | \$ 987 | (\$277) | \$ 710 |
| Income before provision for income taxes | \$1,883 | (\$277) | \$1,606 |
| Net Income | \$1,362 | (\$277) | \$1,085 |
| Basic Earnings per Share | \$0.16 | (\$0.03) | \$0.13 |
| Diluted Earnings per Share | \$0.15 | (\$0.03) | \$0.12 |
| Three Months ended October 31, 2006: | | | |
| ----- | | | |
| Operating Profit | \$ 181 | (\$162) | \$ 19 |
| Income before provision for income taxes | \$530 | (\$162) | \$368 |
| Net Income | \$349 | (\$162) | \$187 |
| Basic Earnings per Share | \$0.04 | (\$0.02) | \$0.02 |
| Diluted Earnings per Share | \$0.04 | (\$0.02) | \$0.02 |

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 six and three months ended October 31, 2006, 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.

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 ("NQSO") 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 October 31, 2006, eligible employees had been granted awards to purchase 167,500 shares of Company stock under SARs, all of which are outstanding and are not exercisable. As of October 31, 2006, eligible employees had been granted options to purchase 1,182,500

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES Notes to Condensed Consolidated Financial Statements (Unaudited)

shares of Company stock under ISO plans of which approximately 392,000 options are outstanding and approximately 287,000 are exercisable. Through October 31, 2006, eligible employees have been granted options to acquire 1,090,000 shares of Company stock under NQSO plans. Of the NQSO options, approximately 732,000 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 three months ended October 31, 2006, the Company recorded compensation charges of approximately \$65,000 with respect to the fiscal year 2007 SARs grant. Unrecognized compensation charges for nonvested awards relating to the SARs grant is approximately \$968,000 which will be recognized over a weighted average period of 3.8 years. Unrecognized compensation charges for nonvested awards relating to the ISO plan is approximately \$552,000 which will be recognized over a weighted average period of 1.6 years. For the six and three months ended October 31, 2006, the Company recorded compensation charges related to the ISO plans of approximately \$212,000 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:

| | Six months ended October 31, 2006 | |
|--------------------------------------|-----------------------------------|---------------|
| | Shares | Wtd Avg Price |
| | ----- | ----- |
| Outstanding at beginning of period | 1,133,387 | \$11.32 |
| Granted | 167,500 | \$11.95 |
| Exercised | (9,000) | \$6.90 |
| Expired or canceled | - | - |
| | ----- | |
| Outstanding at end of period | 1,291,887 | \$11.43 |
| | ===== | |
| Exercisable at end of period | 1,019,637 | \$11.29 |
| | ===== | |
| Available for grant at end of period | 231,500 | |
| | ===== | |

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Weighted average fair value
of options granted during the period \$6.54
=====

The following table summarizes information about stock-based awards outstanding at October 31, 2006:

| Actual Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|------------------------------------|--------------------------------------|---|--|--------------------------------------|--|
| | Number Outstanding at 10/31/06 | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable at 10/31/06 | Weighted Average Exercise Price |
| \$6.615 - 9.970 | 479,700 | 3.9 | \$ 7.65 | 449,075 | \$ 7.55 |
| 10.167 - 16.625 | 730,187 | 5.5 | 12.53 | 488,562 | 12.63 |
| 23.75 | 82,000 | 3.8 | 23.75 | 82,000 | 23.75 |

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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 six and three months ended October 31, 2005 as if stock-based compensation had been computed under FAS 123(R)

| | (in thousands, except per share data): | |
|-----------------------------------|--|--------------|
| | Six months | Three months |
| | ----- | ----- |
| | Periods ended October 31, 2005 | |
| Net income, as reported | \$2,474 | \$1,332 |
| Cost of stock options, net of tax | (146) | (93) |
| | ----- | ----- |
| Net income - pro forma | \$2,328 | \$1,239 |
| | ===== | ===== |
| Earnings per share, as reported: | | |
| Basic | \$ 0.29 | \$ 0.16 |
| | ===== | ===== |
| Diluted | \$ 0.29 | \$ 0.15 |
| | ===== | ===== |
| Earnings per share- pro forma | | |
| Basic | \$ 0.27 | \$ 0.15 |
| | ===== | ===== |
| Diluted | \$ 0.27 | \$ 0.14 |
| | ===== | ===== |

NOTE G - SEGMENT INFORMATION

The Company operates under three reportable segments:

- (1) FEI-NY - consists principally of precision time and frequency control

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

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.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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):

| | Six months | | Three months | |
|--------------------------|---------------------------|----------|--------------|----------|
| | ----- | | ----- | |
| | Periods ended October 31, | | | |
| | 2006 | 2005 | 2006 | 2005 |
| | ---- | ---- | ---- | ---- |
| Net sales: | | | | |
| FEI-NY | \$20,205 | \$14,579 | \$ 9,540 | \$ 7,723 |
| Gillam-FEI | 4,451 | 4,059 | 2,421 | 1,844 |
| FEI-Zyfer | 4,738 | 5,132 | 2,831 | 2,687 |
| less intersegment sales | (760) | (1,214) | (472) | (755) |
| | ----- | ----- | ----- | ----- |
| Consolidated sales | \$28,634 | \$22,556 | \$14,320 | \$11,499 |
| | ===== | ===== | ===== | ===== |
| Operating profit (loss): | | | | |
| FEI-NY | \$ 448 | \$ 206 | \$ (413) | \$ 272 |
| Gillam-FEI | 162 | (428) | 170 | (362) |

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| | | | | |
|-------------------------------|--------|--------|-------|-------|
| FEI-Zyfer | 371 | 715 | 429 | 382 |
| Corporate | (271) | (326) | (167) | (236) |
| | ----- | ----- | ----- | ----- |
| Consolidated operating profit | \$ 710 | \$ 167 | \$ 19 | \$ 56 |
| | ===== | ===== | ===== | ===== |

| | | |
|----------------------------------|------------------|----------------|
| | October 31, 2006 | April 30, 2006 |
| | ----- | ----- |
| Identifiable assets: | | |
| FEI-NY | \$41,078 | \$44,111 |
| Gillam-FEI | 12,802 | 13,755 |
| FEI-Zyfer | 5,830 | 5,356 |
| less intercompany balances | (10,075) | (14,585) |
| Corporate | 38,368 | 38,104 |
| | ----- | ----- |
| Consolidated Identifiable Assets | \$88,003 | \$86,741 |
| | ===== | ===== |

NOTE H - 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.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Item 2

Management's Discussion and Analysis of Financial Condition 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

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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.

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 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.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES (Continued)

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 \$277,000 and \$162,000 was recognized during the six and three months ended October 31, 2006, 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.

RESULTS OF OPERATIONS

The table below sets forth for the respective periods of fiscal years 2006 and 2005 the percentage of consolidated net sales represented by certain items in the Company's consolidated statements of operations:

| | Six months | | Three months | |
|-------------------------------------|---------------------------|-------|--------------|-------|
| | Periods ended October 31, | | | |
| | 2006 | 2005 | 2006 | 2005 |
| | ---- | ---- | ---- | ---- |
| Net Sales | | | | |
| FEI-NY | 70.6% | 64.6% | 66.6% | 67.2% |
| Gillam-FEI | 15.5 | 18.0 | 16.9 | 16.0 |
| FEI-Zyfer | 16.5 | 22.8 | 19.8 | 23.4 |
| Less intersegment sales | (2.6) | (5.4) | (3.3) | (6.6) |
| | ----- | ----- | ----- | ----- |
| | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of Sales | 64.4 | 63.7 | 62.7 | 64.4 |
| | ----- | ----- | ----- | ----- |
| Gross Margin | 35.6 | 36.3 | 37.3 | 35.6 |
| Selling and administrative expenses | 19.0 | 22.5 | 18.7 | 22.0 |
| Research and development expenses | 14.1 | 13.1 | 18.5 | 13.1 |
| | ----- | ----- | ----- | ----- |
| Operating Profit | 2.5 | 0.7 | 0.1 | 0.5 |
| | ----- | ----- | ----- | ----- |
| Other income, net | 3.1 | 16.0 | 2.4 | 18.2 |
| | ----- | ----- | ----- | ----- |
| Pretax Income | 5.6 | 16.7 | 2.5 | 18.7 |
| Provision for income taxes | 1.8 | 5.7 | 1.2 | 7.1 |
| | ----- | ----- | ----- | ----- |
| Net Income | 3.8% | 11.0% | 1.3% | 11.6% |
| | ===== | ===== | ===== | ===== |

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

Net sales

(in millions)

| Segment | Six months | | | | Three months | | | |
|--------------------|---------------------------|--------|--------|------|--------------|--------|--------|-----|
| | Periods ended October 31, | | | | | | | |
| | 2006 | 2005 | Change | | 2006 | 2005 | Change | |
| ----- | ---- | ---- | ----- | | ---- | ---- | ----- | |
| FEI-NY | \$20.2 | \$14.6 | \$5.6 | 39% | \$ 9.5 | \$ 7.7 | \$1.8 | 24% |
| Gillam-FEI | 4.5 | 4.1 | 0.4 | 10% | 2.4 | 1.8 | 0.6 | 31% |
| FEI-Zyfer | 4.7 | 5.1 | (0.4) | (8%) | 2.8 | 2.7 | 0.1 | 5% |
| Intersegment sales | (0.8) | (1.2) | 0.5 | | (0.4) | (0.7) | 0.3 | |
| | ----- | ----- | ----- | | ----- | ----- | ----- | |
| | \$28.6 | \$22.6 | \$6.1 | 27% | \$14.3 | \$11.5 | \$2.8 | 25% |
| | ===== | ===== | ===== | | ===== | ===== | ===== | |

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

(Continued)

As illustrated in the table above, the 27% and 25% increases in revenues for the six and three month periods ended October 31, 2006, respectively, were driven by the 39% and 24%, respectively, improvement in revenues in the FEI-NY segment. Revenues from space programs were significantly higher than in the prior fiscal year while sales to wireless infrastructure equipment manufacturers also strengthened. Revenues in the Gillam-FEI segment also improved 10% and 31%, respectively, from the same periods of fiscal year 2006 due primarily to a significant increase in business from its major customer. Revenues for the FEI-Zyfer segment declined by 8% for the six months ended October 31, 2006 and improved by 5% for the three month period then ended as compared to the same periods of fiscal year 2006. The decrease in the fiscal year 2007 six month period is primarily due to customer delays in releasing orders for additional product during the first quarter of the year. Total revenues from U.S. Government related programs, which are recorded in both the FEI-NY and FEI-Zyfer segments, were lower in the six month period ended October 31, 2006, but were higher in the three month period then ended compared to the same periods of fiscal year 2006. As U.S. Government programs receive funding, the Company expects to realize increased revenues from such programs in the future periods of fiscal year 2007. In particular, the Company expects revenues from both U.S. Government and commercial satellite programs to show sequential growth in the second half of fiscal year 2007. Similarly, revenues from wireless equipment manufacturers are expected to increase, particularly when China and India make decisions regarding the implementation of their new networks.

Gross margin

| Six months | | | | Three months | | | |
|---------------------------|---------|---------|-----|--------------|---------|---------|-----|
| Periods ended October 31, | | | | | | | |
| 2006 | 2005 | Change | | 2006 | 2005 | Change | |
| ---- | ---- | ----- | | ---- | ---- | ----- | |
| \$10,193 | \$8,195 | \$1,998 | 24% | \$5,340 | \$4,098 | \$1,242 | 30% |

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GM Rate 35.6% 36.3% 37.3% 35.6%

The 24% and 30% improvement in gross margin for the six and three months ended October 31, 2006, respectively, is primarily due to the increase in revenues over the same periods of fiscal year 2006. The gross margin rate for the six month period ended October 31, 2006, was lower than that for the same period of the prior year reflecting high engineering costs applied to certain of the Company's long-term contracts primarily during the first quarter of fiscal year 2007. The level of engineering effort applied to such contracts decreased in the second quarter of fiscal year 2007 which led to the improved gross margin rate for the three months ended October 31, 2006. 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 six and three months ended October 31, 2006, gross margin was reduced by \$140,000 and \$87,000, 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

| Six months | | | | Three months | | | |
|------------|---------|---------------------------|----|--------------|---------|--------|----|
| | | Periods ended October 31, | | | | | |
| 2006 | 2005 | Change | | 2006 | 2005 | Change | |
| \$5,455 | \$5,077 | \$378 | 7% | \$2,674 | \$2,533 | \$141 | 6% |

For the six and three months ended October 31, 2006, selling and administrative expenses were 19% of revenues which achieved the Company's target for such expenses. For the comparable periods of fiscal year 2006, selling and administrative expenses were 22% of revenues, reflecting the lower level of sales for those periods compared to the administrative structure of the Company. The primary increases in expenses in the fiscal year 2007 periods were related to compensation, including additional personnel, accruals for incentive compensation, 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.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES (Continued)

Included in selling and administrative expenses for the six and three months ended October 31, 2006, is \$137,000 and \$75,000, respectively, related to stock compensation expense as described above and in the footnotes to the financial statements.

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

Research and development expense

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| Six months | | | | Three months | | | |
|------------|---------|---------------------------|-----|--------------|---------|---------|-----|
| | | Periods ended October 31, | | | | | |
| 2006 | 2005 | Change | | 2006 | 2005 | Change | |
| \$4,028 | \$2,951 | \$1,077 | 36% | \$2,647 | \$1,509 | \$1,138 | 75% |

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 quarter 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 36% and 75% increases in R&D spending for the six and three months ended October 31, 2006, 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 monitoring equipment and software.

Research and development spending for the six and three months ended October 31, 2006, was 14.1% and 18.5% of revenues, respectively, compared to 13.1% of revenues 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 Profit

| Six months | | | | Three months | | | |
|------------|-------|---------------------------|------|--------------|------|--------|-------|
| | | Periods ended October 31, | | | | | |
| 2006 | 2005 | Change | | 2006 | 2005 | Change | |
| \$710 | \$167 | \$543 | 325% | \$19 | \$56 | (\$37) | (66%) |

The improvement in operating profit for the six months ended October 31, 2006, compared to the same period of fiscal year 2006 is due to increased revenues of \$6.1 million (27%). The operating profit was reduced by increased spending on research and development. Such increased spending on research and development is also the primary reason that operating profits were lower for the three month period ended October 31, 2006, compared to fiscal year 2006 even though revenues were 25% higher in the fiscal year 2007 period.

Other income (expense)

| Six months | | | | Three months | | | |
|-------------------|-------|---------------------------|-----------------|--------------|---------|-----------------|--|
| | | Periods ended October 31, | | | | | |
| 2006 | 2005 | Change | | 2006 | 2005 | Change | |
| Investment income | \$579 | \$2,666 | (\$2,087) (78%) | \$280 | \$1,341 | (\$1,061) (79%) | |
| Equity in Morion | 274 | 229 | 45 20% | 71 | 85 | (14) (16%) | |
| Interest expense | (57) | (59) | 2 3% | (21) | (31) | 10 32% | |

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| | | | | | | | | |
|--------------|-------|---------|-----------|-------|-------|---------|-----------|-------|
| Other income | 100 | 767 | (667) | (87%) | 19 | 698 | (679) | (97%) |
| | ---- | ----- | ----- | | ---- | ----- | ----- | |
| | \$896 | \$3,603 | (\$2,707) | (75%) | \$349 | \$2,093 | (\$1,744) | (83%) |

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES (Continued)

The decrease in investment income for the six and three months ended October 31, 2006, is due to realized gains of approximately \$2.1 million and \$1.1 million, respectively, recorded in the prior fiscal year periods 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.

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 six months ended October 31, 2006 but lower profits recorded for the three months then ended as compared to the same periods of fiscal year 2006. Morion recorded higher revenues in each of the fiscal year 2007 periods than the prior year but higher costs in the second quarter of fiscal year 2007 reduced its profitability compared to the same period of fiscal year 2006.

The increase in interest expense for the six month period ended October 31, 2006 resulted primarily from an increase in borrowings under the Company's line of credit during the first quarter of fiscal year 2007. The line was repaid in the second quarter thus reducing interest expense during the fiscal year 2007 quarter as compared to the three month period ended October 31, 2005.

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 \$176,000 and \$88,000 for the six and three months ended October 31, 2006 and 2005, respectively. Offsetting the gain in the fiscal year 2007 periods is realized foreign exchange losses at the Company's European subsidiary. In the second quarter of fiscal year 2006, the European subsidiary recorded a \$680,000 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

| Six months | | | | Three months | | | |
|------------|---------|-------------------------------------|-------|--------------|---------|-----------|-------|
| ----- | | | | ----- | | | |
| 2006 | 2005 | Periods ended October 31, Change | | 2006 | 2005 | Change | |
| ---- | ---- | ----- | ----- | ---- | ---- | ----- | ----- |
| \$1,085 | \$2,474 | (\$1,389) | (56%) | \$187 | \$1,332 | (\$1,145) | (86%) |

Net income for the six and three months ended October 31, 2006, was lower than that realized in the same periods of fiscal year 2006 primarily as the result of gains recognized in the prior year. As indicated above, the Company recognized gains of \$2.1 million and \$1.1 million, respectively, on the sale of certain marketable securities during the six and three months ended October 31, 2005 and, in the three month period then ended, recorded a gain of \$680,000 on the sale of a subsidiary's building. Excluding the effects of those gains, net

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income for the six months ended October 31, 2006, was higher than the same period of fiscal year 2006 largely on the basis of the 27% increase in revenues. For the three month period ended October 31, 2006, net income was approximately the same as the prior year period exclusive of the gains. Although revenues were 25% higher in the fiscal year 2007 three month period, increased investment in research and development reduced profitability compared to the same period of fiscal year 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.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES (Continued)

LIQUIDITY AND CAPITAL RESOURCES

The Company's balance sheet continues to reflect a strong working capital position of \$61 million at October 31, 2006, which is comparable to working capital at April 30, 2006. Included in working capital at October 31, 2006 is \$23.8 million of cash, cash equivalents and marketable securities. The Company's current ratio at October 31, 2006 is 9.7 to 1.

For the six months ended October 31, 2006, the Company generated \$707,000 in cash from operating activities compared to \$1.9 million used by operations in the comparable fiscal year 2006 period. The most significant use of cash in the fiscal year 2007 period was for the acquisition of additional parts inventory to support large programs currently in process and expected to be booked in the near future. Cash was generated by the collection of accounts receivable as well as by an increase in accounts payable. In the six month period ended October 31, 2005, the significant decrease in operating cash flow was due primarily to the payment of income taxes related to the investment gains realized in the previous fiscal year as well as increases in the value of the Company's accounts receivable and inventory. For the full fiscal year 2007, the Company expects to generate positive cash flow from operating activities, particularly as billing milestones are achieved on certain of its large production contracts.

Net cash provided by investing activities for the six months ended October 31, 2006, was \$2.2 million compared to \$2.7 million for the same period of fiscal year 2006. The principal source of cash in the fiscal year 2007 period was the sale or redemption of certain marketable securities, net of purchases, aggregating \$3.2 million. In the same period of the prior year, \$3.8 million was recognized on the net sales of marketable securities, including REIT units as described above in the Results of Operations section. During the six months ended October 31, 2006 and 2005, the Company also acquired capital equipment for approximately \$1.0 million and \$933,000, respectively. 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 aggregate approximately \$2.5 million. Internally generated cash is adequate to acquire this level of capital equipment.

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Net cash used in financing activities for the six months ended October 31, 2006, was \$795,000 compared to \$852,000 during the comparable fiscal year 2006 period. Included in both fiscal periods is payment of the Company's semiannual dividend in the amount of \$857,000 and \$852,000, respectively. During the three months ended July 31, 2006, the Company borrowed \$1.6 million under its line of credit to fund current operations rather than liquidating additional marketable securities. Such borrowings were repaid early in the second quarter of fiscal year 2007.

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 October 31, 2006, the Company did not acquire any shares of its stock under this authorization.

The Company will continue to expend resources to develop and improve products for wireless and wireline communication systems which management believes will result in future growth and continued profitability. 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 U.S. Government, commercial space and commercial communications marketplaces and 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 October 31, 2006, the Company's backlog amounted to approximately \$37 million compared to \$36 million at April 30, 2006. Of this backlog, approximately 80% is realizable in the next twelve months.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES (Continued)

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

As of October 31, 2006

| Contractual Obligations | Total (in thousands) | Less than 1 Year | 1 to 3 Years | 3 to 5 Years | More than 5 Years |
|-----------------------------|-------------------------|---------------------|--------------|--------------|----------------------|
| Operating Lease Obligations | \$1,264 | \$ 584 | \$ 572 | \$ 72 | \$ 3 |
| Deferred Compensation | 8,375* | 317 | 332 | 191 | 7,53 |
| Total | \$9,639 | \$ 901 | \$ 904 | \$ 263 | \$7,57 |

=====

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 \$19.0 million and \$87,000, respectively, at October 31, 2006. 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 October 31, 2006, 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.

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 October 31, 2006, the amount related to foreign currency exchange rates is a \$3,333,000 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.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
(Continued)

Item 4.

Controls and Procedures

Disclosure Controls and Procedures.

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.

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 and 5 are omitted because they are not applicable.

ITEM 4 Submission of Matters to a Vote of Security Holders

On September 27, 2006, at the Annual Meeting of Stockholders, the following matters were approved by the shareholders of the Company:

1. Election of the following six directors:

| DIRECTOR ----- | FOR --- | WITHHELD ----- | BROKER NON-VOTES ----- |
|----------------------|------------|-------------------|---------------------------|
| Joseph P. Franklin | 6,524,723 | 1,278,834 | 0 |
| Martin B. Bloch | 6,550,769 | 1,252,788 | 0 |
| Joel Girskey | 6,551,396 | 1,252,161 | 0 |
| E. Donald Shapiro | 7,704,510 | 99,047 | 0 |
| S. Robert Foley, Jr. | 7,706,609 | 96,948 | 0 |
| Richard Schwartz | 7,605,235 | 198,322 | 0 |

2. Ratification of the appointment of Holtz Rubenstein Reminick LLP as independent auditors for fiscal year 2007. The results of the voting were as follows:

| FOR ----- | AGAINST ----- | ABSTAIN ----- | BROKER NON-VOTES ----- |
|--------------|------------------|------------------|---------------------------|
| 7,737,922 | 48,180 | 17,455 | 0 |

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.

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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: December 15, 2006

BY /s/ Alan Miller

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

Exhibit 31.1

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

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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
 - (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

December 15, 2006

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

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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
 - (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

December 15, 2006

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

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In connection with the Quarterly Report of Frequency Electronics, Inc. (the "Company") on Form 10-Q for the period ended October 31, 2006 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

December 15, 2006

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 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 October 31, 2006 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:

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- (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

December 15, 2006

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.

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.