

FREQUENCY ELECTRONICS INC
Form 10-Q
March 16, 2016

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, 2016

OR

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

For the transition period from _____ to _____

Commission File No. 1-8061

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

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

11553
(Zip Code)

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

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of Registrant's Common Stock, par value \$1.00 as of March 11, 2016 – 8,729,682

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Condensed Consolidated Balance Sheets

	January 31, 2016	April 30, 2015
	(UNAUDITED)	
	(In thousands except par value)	
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 7,079	\$ 7,222
Marketable securities	10,699	11,186
Accounts receivable, net of allowance for doubtful accounts of \$189 at January 31, 2016 and April 30, 2015	9,175	9,689
Costs and estimated earnings in excess of billings, net	12,345	12,929
Inventories	40,732	38,239
Deferred and prepaid income taxes	3,985	3,063
Prepaid expenses and other	1,133	1,271
Total current assets	85,148	83,599
Property, plant and equipment, at cost, less accumulated depreciation and amortization	12,425	12,686
Deferred income taxes	7,360	7,360
Goodwill and other intangible assets	617	617
Cash surrender value of life insurance and cash held in trust	12,591	11,825
Other assets	1,707	1,738
Total assets	\$ 119,848	\$ 117,825
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable - trade	\$ 2,358	\$ 1,720
Accrued liabilities	6,260	6,630
Total current liabilities	8,618	8,350
Long term debt- noncurrent	6,000	6,000
Deferred compensation	11,684	11,318
Deferred rent and other liabilities	337	347
Total liabilities	26,639	26,015
Commitments and contingencies		
Stockholders' equity:		
Preferred stock - \$1.00 par value	-	-
Common stock - \$1.00 par value, issued 9,164 shares	9,164	9,164
Additional paid-in capital	55,204	54,360
Retained earnings	28,632	27,528
	93,000	91,052

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Common stock reacquired and held in treasury - at cost (425 shares at January 31, 2016 and 465 shares at April 30, 2015)	(1,945)	(2,132)
Accumulated other comprehensive income	2,154	2,890
Total stockholders' equity	93,209	91,810
Total liabilities and stockholders' equity	\$ 119,848	\$ 117,825

See accompanying notes to condensed consolidated financial statements.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Condensed Consolidated Statements of Income and Comprehensive Income

Nine Months Ended January 31,
(Unaudited)

	2016	2015
	(In thousands except per share data)	
Condensed Consolidated Statements of Income		
Revenues	\$ 46,182	\$ 57,364
Cost of revenues	30,459	39,129
Gross margin	15,723	18,235
Selling and administrative expenses	10,067	10,548
Research and development expenses	4,395	3,965
Operating profit	1,261	3,722
Other income (expense):		
Investment income	408	754
Interest expense	(93)	(113)
Other income (expense), net	428	(28)
Income before provision for income taxes	2,004	4,335
Provision for income taxes	900	1,450
Net income	\$ 1,104	\$ 2,885
Net income per common share		
Basic	\$ 0.13	\$ 0.34
Diluted	\$ 0.12	\$ 0.33
Weighted average shares outstanding		
Basic	8,723	8,596
Diluted	8,948	8,864
Condensed Consolidated Statements of Comprehensive Income		
Net income	\$ 1,104	\$ 2,885
Other comprehensive (loss):		
Foreign currency translation adjustment	(210)	(779)
Unrealized (loss) gain on marketable securities:		
Change in market value of marketable securities before reclassification, net of tax of \$226 and (\$145)	(436)	282
Reclassification adjustment for realized gains included in net income, net of tax of \$45 and \$128	(90)	(249)
Total unrealized (loss) gain on marketable securities, net of tax	(526)	33
Total other comprehensive (loss)	(736)	(746)
Comprehensive income	\$ 368	\$ 2,139

See accompanying notes to consolidated condensed financial statements.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Condensed Consolidated Statements of Income and Comprehensive Income

Three Months Ended January 31,
(Unaudited)

	2016	2015
	(In thousands except per share data)	
Condensed Consolidated Statements of Income		
Revenues	\$ 13,498	\$ 18,381
Cost of revenues	8,773	12,485
Gross margin	4,725	5,896
Selling and administrative expenses	3,151	3,578
Research and development expenses	1,302	1,321
Operating profit	272	997
Other income (expense):		
Investment income	43	129
Interest expense	(37)	(32)
Other income (expense), net	24	(16)
Income before provision for income taxes	302	1,078
Provision for income taxes	20	200
Net income	\$ 282	\$ 878
Net income per common share		
Basic	\$ 0.03	\$ 0.10
Diluted	\$ 0.03	\$ 0.10
Weighted average shares outstanding		
Basic	8,736	8,609
Diluted	8,925	8,874
Condensed Consolidated Statements of Comprehensive Income		
Net income	\$ 282	\$ 878
Other comprehensive (loss):		
Foreign currency translation adjustment	(1,002)	(387)
Unrealized (loss) on marketable securities:		
Change in market value of marketable securities before reclassification, net of tax of \$76 and \$41	(147)	(78)
Total unrealized (loss) on marketable securities, net of tax	(147)	(78)
Total other comprehensive (loss)	(1,149)	(465)
Comprehensive (loss) income	\$ (867)	\$ 413

See accompanying notes to consolidated condensed financial statements.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Nine Months Ended January 31,
(Unaudited)

	2016	2015
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 1,104	\$ 2,885
Non-cash charges to earnings	2,907	3,636
Net changes in operating assets and liabilities	(2,023)	(7,312)
Net cash provided (used in) by operating activities	1,988	(791)
Cash flows from investing activities:		
Proceeds on redemption of marketable securities	1,167	5,630
Purchase of marketable securities	(1,356)	(1,436)
Purchase of fixed assets and other assets	(1,640)	(3,586)
Net cash (used in) provided by investing activities	(1,829)	608
Cash flows from financing activities:		
Proceeds from credit line borrowings	-	2,300
Repayment of credit line borrowings	-	(4,000)
Tax benefit from exercise of stock-based compensation	8	38
Net cash provided (used in) by financing activities	8	(1,662)
Net increase (decrease) in cash and cash equivalents before effect of exchange rate changes	167	(1,845)
Effect of exchange rate changes on cash and cash equivalents	(310)	217
Net decrease in cash and cash equivalents	(143)	(1,628)
Cash and cash equivalents at beginning of period	7,222	7,698
Cash and cash equivalents at end of period	\$ 7,079	\$ 6,070
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 93	\$ 114
Income Taxes	\$ 1,155	\$ 1,701

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 – CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management of Frequency Electronics, Inc. (“the Company”), the accompanying unaudited condensed consolidated interim financial statements reflect all adjustments (which include only normal recurring adjustments) necessary to present fairly, in all material respects, the consolidated financial position of the Company as of January 31, 2016 and the results of its operations and cash flows for the nine and three months ended January 31, 2016 and 2015. The April 30, 2015 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 in the United States 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 Annual Report on Form 10-K for the year ended April 30, 2015, filed on July 29, 2015. The results of operations for such interim periods are not necessarily indicative of the operating results for the full fiscal 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	
	2016	2015	2016	2015
Weighted average shares outstanding:				
Basic	8,722,500	8,595,558	8,736,186	8,609,486
Effect of dilutive securities	225,247	268,903	188,752	264,249
Diluted	8,947,747	8,864,461	8,924,938	8,873,735

The computation of diluted earnings per share excludes those options and stock appreciation rights (“SARS”) 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 and SARS in the computation of earnings per share would have been antidilutive. The number of excluded options and SARS were:

	Nine months		Three months	
	2016	2015	2016	2015
Outstanding options and SARS excluded	390,125	190,000	548,125	227,875

NOTE C – COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS, NET

At January 31, 2016 and April 30, 2015, costs and estimated earnings in excess of billings, net, consist of the following:

January 31, 2016 (In thousands)	April 30, 2015
---------------------------------------	----------------

Costs and estimated earnings in excess of billings	\$	12,640	\$	14,057
Billings in excess of costs and estimated earnings		(295)		(1,128)
Net asset	\$	12,345	\$	12,929

Such amounts represent revenue recognized on long-term contracts that had not been billed at the balance sheet dates or represent a liability for amounts billed in excess of the revenue recognized. Amounts are billed to customers pursuant to contract terms, whereas the related revenue is recognized on the percentage of completion basis at the measurement date. In general, the recorded amounts will be billed and collected or revenue recognized within twelve months of the balance sheet date. Revenue on these long-term contracts is accounted for on the percentage of completion basis. During the nine and three months ended January 31, 2016, revenue recognized under percentage of completion contracts was approximately \$26.0 million and \$7.5 million, respectively. During the nine and three months ended January 31, 2015, such revenue was approximately \$35.3 million and \$10.8 million, respectively.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE D – TREASURY STOCK TRANSACTIONS

During the nine and three month periods ended January 31, 2016, the Company made contributions of 34,189 shares and 8,457 shares, respectively, of its common stock held in treasury to the Company's profit sharing plan and trust under section 401(k) of the Internal Revenue Code. Such contributions are in accordance with the Company's discretionary match of employee voluntary contributions to this plan. During the same periods, the Company issued 6,473 shares and 1,300 shares, respectively, from treasury for employment anniversary gift awards and upon the exercise of SARs by certain officers and employees of the Company.

NOTE E - INVENTORIES

Inventories, which are reported at the lower of cost or market, consist of the following:

	January 31, 2016	April 30, 2015
	(In thousands)	
Raw Materials and Component Parts	\$ 24,999	\$ 24,274
Work in Progress	11,489	9,948
Finished Goods	4,244	4,017
	\$ 40,732	\$ 38,239

As of January 31, 2016 and April 30, 2015, approximately \$34.1 million and \$32.0 million, respectively, of total inventory is located in the United States, approximately \$5.7 million and \$5.4 million, respectively, is located in Belgium and \$0.9 million and \$0.8 million, respectively, is located in China.

NOTE F – SEGMENT INFORMATION

The Company operates under three reportable segments based on the geographic locations of its subsidiaries:

- (1) FEI-NY – operates out of New York and its operations consist 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 – operates out of Belgium and France and primarily sells wireline synchronization and network management systems in non-U.S. markets. All sales from Gillam-FEI to the United States are to other segments of the Company.
- (3) FEI-Zyfer – operates out of California and its products incorporate Global Positioning System (GPS) technologies into systems and subsystems for secure communications, both government and commercial, and other locator applications. This segment also provides sales and support for the Company's wireline telecommunications family of products, including US5G, which are sold in the United States market.

The FEI-NY segment also includes the operations of the Company's wholly-owned subsidiaries, FEI-Elcom Tech ("FEI-Elcom") and FEI-Asia. FEI-Asia functions primarily as a manufacturing facility for the Company's commercial

product subsidiaries with historically minimal sales to outside customers. Beginning in late fiscal year 2014, FEI-Asia began shipping higher volumes of product to third parties as a contract manufacturer. FEI-Elcom, in addition to its own product line, provides design and technical support for the FEI-NY segment's satellite business.

The Company's chief executive officer (the chief operating decision maker) measures segment performance based on total revenues and profits generated by each geographic location rather than on the specific types of customers or end-users. Consequently, the Company determined that the segments indicated above most appropriately reflect the way the Company's management views the business.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(Unaudited)

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

	Nine months		Three months	
	2016	2015	2016	2015
Periods ended January 31,				
Revenues:				
FEI-NY	\$ 35,306	\$ 45,962	\$ 9,719	\$ 14,025
Gillam-FEI	3,862	6,511	1,577	1,963
FEI-Zyfer	7,979	7,110	2,482	2,930
less intersegment revenues	(965)	(2,219)	(280)	(537)
Consolidated revenues	\$ 46,182	\$ 57,364	\$ 13,498	\$ 18,381
Operating profit (loss):				
FEI-NY	\$ 1,181	\$ 3,857	\$ 237	\$ 578
Gillam-FEI	(631)	(707)	(70)	(194)
FEI-Zyfer	1,088	850	256	691
Corporate	(377)	(278)	(151)	(78)
Consolidated operating profit	\$ 1,261	\$ 3,722	\$ 272	\$ 997
Identifiable assets:	January 31,		April 30, 2015	
	2016			
FEI-NY (approximately \$2.2 million in China)	\$ 61,452	\$	\$ 63,541	
Gillam-FEI (all in Belgium or France)	9,774		9,878	
FEI-Zyfer	11,703		11,088	
less intersegment balances	(6,120)		(8,775)	
Corporate	43,039		42,093	
Consolidated identifiable assets	\$ 119,848	\$	\$ 117,825	

NOTE G – INVESTMENT IN MORION, INC.

The Company has an investment in Morion, Inc., (“Morion”) a privately-held Russian company, which manufactures high precision quartz resonators and crystal oscillators. The Company’s investment consists of 4.6% of Morion’s outstanding shares, accordingly, the Company accounts for its investment in Morion on the cost basis. This investment is included in other assets in the accompanying condensed consolidated balance sheets.

During the nine months ended January 31, 2016 and 2015, the Company acquired product from Morion in the aggregate amount of approximately \$74,000 and \$145,000, respectively, and the Company sold product and training services to Morion in the aggregate amount of approximately \$435,000 and \$457,000, respectively. (See discussion of revenues recognized under the license agreement in the paragraph below.) During the three months ended January 31, 2016 and 2015, the Company acquired product from Morion in the aggregate amount of approximately \$13,000 and \$49,000, respectively, and the Company sold product and training services to Morion in the aggregate amount of

approximately \$0 and \$168,000, respectively. At January 31, 2016, approximately \$0 was payable to Morion and accounts receivable from Morion was approximately \$15,000.

On October 22, 2012, the Company entered into an agreement to license its rubidium oscillator production technology to Morion. The agreement required the Company to sell certain fully-depreciated production equipment previously owned by the Company and to provide training to Morion employees to enable Morion to produce a minimum of 5,000 rubidium oscillators per year. Morion will pay the Company approximately \$2.7 million for the license and the equipment plus 5% royalties on third party sales for a 5-year period following an initial production run. During the same 5-year period, the Company commits to purchase from Morion a minimum of approximately \$400,000 worth of rubidium oscillators per year although Morion is not obligated to sell that amount to the Company. During the nine months ended January 31, 2016, sales to Morion included \$375,000 for product and training services under this agreement. Per the amended agreement, the balance of \$1 million for the transfer of the license will be due once the United States Department of State (“State Department”) approves the removal of certain provisions of the original agreement. The State Department has approved the technology transfer called for under the agreement.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE H – FAIR VALUE OF FINANCIAL INSTRUMENTS

The cost, gross unrealized gains, gross unrealized losses and fair market value of available-for-sale securities at January 31, 2016 and April 30, 2015 are as follows (in thousands):

	January 31, 2016			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Fixed income securities	\$ 3,510	\$ 73	\$ (25)	\$ 3,558
Equity securities	7,197	834	(890)	7,141
	\$ 10,707	\$ 907	\$ (915)	\$ 10,699

	April 30, 2015			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Fixed income securities	\$ 3,379	\$ 104	\$ (16)	\$ 3,467
Equity securities	7,018	834	(133)	7,719
	\$ 10,397	\$ 938	\$ (149)	\$ 11,186

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

	Less than 12 months		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
January 31, 2016						
Fixed Income Securities						
	\$ 291	\$ (1)	\$ 547	\$ (24)	\$ 838	\$ (25)
Equity Securities						
	1,854	(416)	1,611	(474)	3,465	(890)
	\$ 2,145	\$ (417)	\$ 2,158	\$ (498)	\$ 4,303	\$ (915)
April 30, 2015						
Fixed Income Securities						
	\$ 96	\$ (1)	\$ 461	\$ (15)	\$ 557	\$ (16)
Equity Securities						
	3,323	(133)	-	-	3,323	(133)
	\$ 3,419	\$ (134)	\$ 461	\$ (15)	\$ 3,880	\$ (149)

The Company regularly reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. The Company does not believe that its investments in marketable securities with unrealized losses at January 31, 2016 are other-than-temporary due to market volatility of the security's fair value, analysts' expectations and the Company's ability to hold the securities for a period of time sufficient to allow for any anticipated recoveries in market value.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(Unaudited)

During the nine months ended January 31, 2016 and 2015, the Company sold or redeemed available-for-sale securities in the amounts of \$1.2 million and \$5.6 million, respectively, realizing gains of approximately \$131,000 and \$377,000, respectively.

Maturities of fixed income securities classified as available-for-sale at January 31, 2016 are as follows, at cost (in thousands):

Current	\$1,102
Due after one year through five years	617
Due after five years through ten years	1,791
	\$3,510

The fair value accounting framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. All of the Company's investments in marketable securities are valued on a Level 1 basis.

NOTE I - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 eliminates most of the existing industry-specific revenue recognition guidance and significantly expands related disclosures. The required disclosures will include both quantitative and qualitative information about the amount, timing and uncertainty of revenue from contracts with customers and the significant judgments used. Entities can retrospectively apply ASU 2014-09 or use

an alternative transition method. In August 2015, the FASB issued ASU 2015-14 which provides a one-year deferral of the effective date of ASU 2014-09. ASU 2014-09 is now effective for public companies for annual reporting periods beginning on or after December 15, 2017 and for the Company, must be adopted for its fiscal year 2019 beginning on May 1, 2018. The Company is in the process of determining the effect that ASU 2014-09 may have on its consolidated financial statements.

In July 2015, the Financial Accounting Standards Board issued Accounting Standards Update 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory (“ASU 2015-11”) which changes the measurement principle for inventory from the lower of cost or market to the lower of cost or net realizable value. ASU 2015-11 defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The new guidance must be applied on a prospective basis and is effective for periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the effect that the new guidance will have on its consolidated financial statements.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(Unaudited)

In November 2015, Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. ASU 2015-17 simplifies current guidance and requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet. ASU 2015-17 can be applied either prospectively or retrospectively and is effective for periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the effect that the new guidance will have on its consolidated financial statements.

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2016-02 Leases (Topic 842). The objective of the update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments of the ASU 2016-02 are effective for fiscal years beginning after December 31, 2018 and early adoption is permitted. The Company is currently evaluating the impact of this standard on our consolidated financial statements.

NOTE J – CREDIT FACILITY

The Company has a credit facility (the “Facility”) with JPMorgan Chase Bank, N.A. (“JPMorgan”) pursuant to a credit agreement (the “Credit Agreement”) between the Company and JPMorgan. Under the Facility the Company may make borrowings from either Tranche A or Tranche B or a combination of both, not to exceed \$25.0 million. Pursuant to the Credit Agreement, the amount of Tranche A borrowings may not exceed the value of the Pledged Investments (as defined in the Credit Agreement). The amount of Tranche B borrowings may not exceed the lesser of (i) \$15.0 million and (ii) the Borrowing Base (as defined in the Credit Agreement). Current outstanding borrowings of \$6.0 million under the Facility are all under Tranche A. The Facility is fully guaranteed by certain of the Company’s subsidiaries and is secured by, among other things, a pledge of substantially all personal property of the Company and certain of the Company’s subsidiaries.

Borrowings under the Facility are evidenced by a line of credit note (the “Note”) and bear interest, payable monthly, at a rate equal to the LIBOR Rate, as determined from time to time by JPMorgan pursuant to the terms of the Note, plus a margin of 0.75% for Tranche A borrowings and 1.75% for Tranche B borrowings. The principal balance on the Note, along with any accrued and unpaid interest, is due and payable no later than June 5, 2018, which is the maturity date of the Facility. In addition, the Company is required to pay JPMorgan fees equal to 0.1% per annum on any unused portion of the Facility.

The Credit Agreement contains a number of affirmative and negative covenants, including limitations on the incurrence of additional debt, liens on property, acquisitions, loans and guarantees, mergers, consolidations, liquidations and dissolutions, asset sales, and distributions and other payments in respect of the Company’s capital stock. The Credit Agreement also contains certain events of default customary for credit facilities of this type, including nonpayment of principal or interest when due, material incorrectness of representations and warranties when made, breach of covenants, bankruptcy and insolvency, unstayed material judgment beyond specified periods, and acceleration or payment default of other material indebtedness. The Credit Agreement requires the Company to maintain, as of the end of each fiscal quarter, a funded debt to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) ratio and an interest charge coverage ratio. The calculation of both ratios is defined in the Credit Agreement. For the period ended January 31, 2016, the Company met the required covenants for its borrowings under Tranche A.

NOTE K – VALUATION ALLOWANCE ON DEFERRED TAX ASSETS

In prior fiscal years, the Company reduced the valuation allowance on the deferred tax assets of its U.S. subsidiaries. Consequently, for the nine and three months ended January 31, 2016 and 2015, the Company recorded provisions for income taxes based on both current taxes due in the United States as well as the tax provision or benefit to be realized from temporary tax differences. As of January 31, 2016 and April 30, 2015, the remaining deferred tax asset valuation allowance is approximately \$2.4 million and is primarily related to deferred tax assets of the Company's non-U.S. based subsidiaries. Tax losses from the Company's foreign subsidiaries are not deductible for United States tax purposes.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

(Continued)

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. The words "believe," "may," "will," "could," "should," "would," "anticipate," "estimate," "expect," "project," "intend," "objective," "seek," "strive," "might," "likely result," "build," "grow," "plan," "goal," "expand," "position," or similar words, or the negatives of these words, or similar terminology, identify forward-looking statements. These statements are based on assumptions that the Company believes are reasonable, but are subject to a wide range of risks and uncertainties, and a number of factors could cause the Company's actual results to differ materially from those expressed in the forward-looking statements referred to above. 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. Readers are cautioned not to place undue reliance on these forward-looking statements, which relate only to events as of the date on which the statements are made and which reflect management's analysis, judgments, belief, or expectation only as of such date. 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 Annual Report on Form 10-K for the year ended April 30, 2015. 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 revenues recorded as the costs are incurred. Each month management reviews estimated contract costs through a process of aggregating actual costs incurred and estimating additional costs to completion based upon the current available information and status of the contract. 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.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

(Continued)

On production-type orders, revenue is recorded as units are delivered with the related cost of revenues recognized on each shipment based upon a percentage of estimated final program costs.

Changes in job performance on long-term contracts and production-type orders 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 customer orders are made in the period in which they become determinable.

For customer orders in the Company's Gillam-FEI and FEI-Zyfer segments or smaller contracts or orders in the FEI-NY segment, sales of products and services to customers are reported in operating results based upon (i) shipment of the product or (ii) performance of the services pursuant to terms of the customer order. 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 costs, 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 write downs are established for slow-moving, obsolete items and costs incurred on programs for which production-level orders cannot be determined as probable. Such write downs are based upon management's experience and expectations for future business. Any changes arising from revised expectations are reflected in cost of revenues in the period the revision is made.

Marketable Securities

All of the Company's investments in marketable securities are Level 1 securities which trade on public markets and have current prices that are readily available. In general, investments in fixed price securities are only in the commercial paper of financially sound corporations or the bonds of U.S. Government agencies. Although the value of such investments may fluctuate significantly based on economic factors, the Company's own financial strength enables it to wait for the securities to either recover their value or to mature such that any interim unrealized gains or losses are deemed to be temporary.

Foreign Operations and Foreign Currency Adjustments

The Company maintains manufacturing operations in Belgium and the People's Republic of China. The Company is vulnerable to currency risks in these countries. The local currency is the functional currency of each of the Company's non-U.S. subsidiaries. No foreign currency gains or losses are recorded on intercompany transactions since they are effected at current rates of exchange. The results of operations of foreign subsidiaries, when translated into U.S. dollars, reflect the average rates of exchange for the periods presented. The balance sheets of foreign subsidiaries, except for equity accounts which are translated at historical rates, are translated into U.S. dollars at the rates of exchange in effect on the date of the balance sheet. As a result, similar results in local currency can vary upon translation into U.S. dollars if exchange rates fluctuate significantly from one period to the next.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

(Continued)

RESULTS OF OPERATIONS

The table below sets forth for the respective periods of fiscal years 2016 and 2015 (which end on April 30, 2016 and 2015, respectively) the percentage of consolidated revenues represented by certain items in the Company's condensed consolidated statements of operations:

	Nine months		Three months			
			Periods ended January 31,			
	2016	2015	2016	2015	2016	2015
Revenues						
FEI-NY	76.4	80.1	72.0	76.3	%	%
Gillam-FEI	8.4	11.3	11.7	10.7		
FEI-Zyfer	17.3	12.4	18.4	15.9		
Less intersegment revenues	(2.1)	(3.8)	(2.1)	(2.9)		
	100.0	100.0	100.0	100.0		
Cost of revenues	66.0	68.2	65.0	67.9		
Gross margin	34.0	31.8	35.0	32.1		
Selling and administrative expenses	21.8	18.4	23.3	19.5		
Research and development expenses	9.5	6.9	9.6	7.2		
Operating profit	2.7	6.5	2.1	5.4		
Other income, net	1.6	1.1	0.2	0.4		
Pretax income	4.3	7.6	2.3	5.8		
Provision for income taxes	1.9	2.5	0.2	1.0		
Net income	2.4	5.1	2.1	4.8	%	%

Revenues

Segment	Nine months			Three months		
	2016	2015	Change	2016	2015	Change
FEI-NY	\$ 35,306	\$ 45,962	\$(10,656)	\$ 9,719	\$ 14,025	\$(4,306)
Gillam-FEI	3,862	6,511	(2,649)	1,577	1,963	(386)
FEI-Zyfer	7,979	7,110	869	2,482	2,930	(448)
Intersegment revenues	(965)	(2,219)	1,254	(280)	(537)	257
	\$ 46,182	\$ 57,364	\$(11,182)	\$ 13,498	\$ 18,381	\$(4,883)

For the nine and three months ended January 31, 2016 and 2015, revenues from commercial and U.S. Government satellite programs accounted for approximately 60% of consolidated revenues. For the nine and three months ended

January 31, 2016 satellite payload revenue has decreased by over \$8 million and \$3 million respectively, compared to the same periods in fiscal 2015, due primarily to delays in new contract awards for many of which the Company is the sole-source provider. This is due to unanticipated shifts in U.S. Government/DOD authorization and funding decisions during the current budget year. Revenues on these contracts are recognized primarily under the percentage of completion method and recorded in the FEI-NY segment.

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FREQUENCY ELECTRONICS, INC. AND SUBSIDIARIES

(Continued)

Revenues from non-space U.S. Government/DOD customers, which are recorded in both the FEI-NY and FEI-Zyfer segments, for the nine-month period ended January 31, 2016 and 2015, accounted for approximately 20% of consolidated revenues and for the three months then ended, were approximately 20% and 25% of consolidated revenues, respectively. The main factor affecting this segment is a delay in contract awards and shipments. Total revenues from U.S. Government satellite contracts and non-space programs for the nine and three months ended January 31, 2016 were approximately 60% and 55%, respectively, of consolidated revenues. Revenues from non-space U.S. Government/DOD customers are expected to increase, particularly for the FEI-Zyfer segment as it receives funding on several significant U.S. Government programs. Network infrastructure and other industrial revenues in the fiscal year 2016 periods accounted for approximately 20% of consolidated revenues which is similar to their share of consolidated revenues in the prior year. For the nine and three month periods ended January 31, 2016, these commercial revenues decreased by approximately \$3.6 million and \$0.6 million, respectively, as compared to the same periods of fiscal year 2015. The primary reasons for reduced revenue from this market area are due to lower third-party contract manufacturing revenues in the Company's FEI-Asia subsidiary which is part of the FEI-NY segment and reduced sales volume at the Gilliam-FEI segment. In addition in fiscal year 2016 periods, Gilliam-FEI recorded lower intersegment revenues as compared to the prior year. Such intersegment sales are eliminated in consolidation and have no effect on consolidated revenues.

For the nine and three months ended January 31, 2015, revenues from commercial and U.S. Government satellite programs accounted for approximately 60% of consolidated revenues. Compared to the same periods of fiscal year 2014, satellite revenues increased by 16% for the nine-month period and decreased by 2% for the three-month period. A delay in the timing of additional funding on a cost-plus-fee contract prevented third quarter revenues from matching or exceeding satellite revenues for the same period of fiscal year 2014. Revenues from additional funding under that contract has been recognized during the Company's fourth quarter of fiscal year 2015. Revenues on satellite program contracts are recognized primarily under the percentage of completion method. Revenues from the satellite market are recorded in the FEI-NY segment. Revenues from non-space U.S. Government/DOD customers, which are recorded in both the FEI-NY and FEI-Zyfer segments, accounted for approximately 20% of consolidated revenues for the nine months of both fiscal years 2015 and 2014. For the three-month period ended January 31, 2015, such revenues were approximately 25% of consolidated revenues and increased by 25% over non-space government revenues for the third quarter of fiscal year 2014. The primary reason for this growth during the third quarter of fiscal year 2015 was due to additional funding received by the FEI-Zyfer segment on an U.S. Government initiative to protect secure communications from jamming and multi-path in GPS systems. Total revenues from U.S. Government satellite contracts and non-space programs were approximately 45% of consolidated revenues for the nine months ended January 31, 2015 and were approximately 50% of revenues for the three-month period then ended. Network infrastructure and other industrial revenues in the fiscal year 2015 periods accounted for approximately 20% of consolidated revenues which is similar to their share of consolidated revenues in the prior year. These fiscal year 2015 commercial revenues increased by approximately 8% for the nine month period and declined by approximately 10% for the three-month period ended January 31, 2015, as compared to the same periods of fiscal year 2014. The primary reason for growth in this commercial, non-space market area is due to increased contract manufacturing revenues from third parties in the Company's FEI-Asia subsidiary which is part of the FEI-NY segment. In prior periods, third party revenues for the FEI-Asia subsidiary were insignificant as most of its manufacturing capacity was applied to intersegment production.

Based on the Company's current backlog, which reflects delays in awards of new project orders, which are the sole-sourced to the Company and consolidated revenues for the nine months ending January 31, 2016, fiscal year 2016 revenues are expected to be lower than the prior fiscal year. Satellite payload revenues comprise approximately 55% of the Company's backlog. Satellite payload revenues will remain the dominant portion of the Company's business and

represent the best long-term growth opportunity. Revenues from non-space U.S. Government/DOD customers are expected to increase, particularly for the FEI-Zyfer segment as it receives funding on several significant U.S. Government programs.

Gross margin

	Nine months			Three months		
	2016	2015	Change	2016	2015	Change
	\$ 15,723	\$ 18,235	\$ (2,512)	\$ 4,725	\$ 5,896	\$ (1,171)
GM Rate	34.0 %	31.8 %	(14 %)	35.0 %	32.1 %	(20 %)

Gross margin for the nine and three month ended January 31, 2016, decreased over the same period in fiscal year 2015 due primarily to lower revenues from the satellite payload market recorded in the FEI-NY segment. During the nine month period ended January 31, 2016, the Company received reimbursement from a vendor which partially offset higher engineering and production costs incurred on certain programs impacted by a defective part. The cost reimbursement improved the consolidated gross margin rate by approximately 1%. During the nine and three months ending January 31, 2016, product mix is also a contributing factor to the increased profit margin rate.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

(Continued)

Gross margin for the nine months ended January 31, 2015, decreased over the prior fiscal year due to product and contract mix and to lower revenues during the first quarter on non-space U.S. Government business and at the Gillam-FEI segment. During the three month period ended January 31, 2015, improved gross margin on higher sales volume at the FEI-Zyfer segment was offset by increased overhead and production costs at the FEI-NY segment and lower revenues in the Gillam-FEI segment as compared to fiscal year 2014. These factors accounted for the reduced gross margin rates in the fiscal year 2015 periods as compared to fiscal year 2014 rates.

Selling and administrative expenses

Nine months			Three months				
Periods ended January 31,							
2016	2015	Change	2016	2015	Change		
\$ 10,067	\$ 10,548	\$(481)	5 %	\$ 3,151	\$ 3,578	\$(427)	(12 %)

For the nine-month period ended January 31, 2016 and 2015, selling and administrative expenses (“SG&A”) were approximately 22% and 18%, respectively, of consolidated revenues and for the three months then ended, were approximately 23% and 20% of consolidated revenues, respectively. The higher expense ratios in fiscal year 2016 periods are mainly due to lower revenues. The lower SG&A expenses in the fiscal year 2016 periods compared to the same periods in fiscal year 2015 is due to decreased incentive compensation expenses and reduced selling expenses. For the remainder of fiscal year 2016, the Company expects SG&A expenses to be incurred at approximately the same rate.

Research and development expenses

Nine months			Three months				
Periods ended January 31,							
2016	2015	Change	2016	2015	Change		
\$ 4,395	\$ 3,965	\$430	11 %	\$ 1,302	\$ 1,321	\$(19)	(1 %)

Research and development (“R&D”) expenditures represent investments intended to keep the Company’s products at the leading edge of time and frequency technology and enhance competitiveness for future revenues. R&D spending for the nine months ended January 31, 2016, increased over the same period in fiscal year 2015 as the Company accelerated development on certain products for the satellite market as well as making product design and process improvements to enhance product manufacturability and reduce production costs. Internal R&D spending includes continued development of new satellite payload microwave receivers/converters from DC to Ka band, improvement of quartz-based and rubidium atomic clocks, development of new GPS-based synchronization products improvement of ultra low phase noise synthesizers and further enhancement of the capabilities of the Company’s line of low g-sensitivity and ruggedized rubidium oscillators.

In addition to internal research and development efforts, the Company continues to conduct development activities on customer-funded programs the cost of which appears in cost of revenues. The Company will continue to devote significant resources to develop new products, enhance existing products and implement efficient manufacturing processes. For fiscal year 2016, the Company is targeting to increase spending on certain space products but anticipates spending less than 10% of full year revenues on internal research and development projects. Internally generated cash and cash reserves are adequate to fund these development efforts.

Operating profit

Nine months				Three months		
Periods ended January 31,						
2016	2015	Change		2016	2015	Change
\$ 1,261	\$ 3,722	\$ (2,461)	(66 %)	\$ 272	\$ 997	\$ (725) (73 %)

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

(Continued)

Lower consolidated revenues during the nine and three months ended January 31, 2016 resulted in decreased operating profits, as compared to the same period of the prior fiscal year.

Other income (expense), net

	Nine months				Three months			
	2016	2015	Periods ended January 31, Change		2016	2015	Change	
Investment income	\$ 408	\$ 754	\$(346)	(46 %)	\$ 43	\$ 129	\$(86)	(67 %)
Interest expense	(93)	(113)	20	18 %	(37)	(32)	(5)	(16 %)
Other income (expense), net	428	(28)	456	NM	24	(16)	40	NM
	\$ 743	\$ 613	\$130	21 %	\$ 30	\$ 81	\$(51)	(63 %)

Investment income is derived primarily from the Company's holdings of marketable securities. Earnings on these securities may vary based on fluctuating interest rates and dividend payout levels and the timing of purchases or sales of securities. During the nine months ended January 31, 2016 and 2015, the Company recorded gains of approximately \$131,000 and \$377,000, respectively, on the sale of certain marketable securities. During the three months ended January 31, 2016 a loss of approximately \$6,000 was recorded and for the three months ended January 31, 2015 there was no gain or loss recorded.

The decrease in interest expense for the nine months ended January 31, 2016 compared to the same period of fiscal year 2015 is due to the reduced level of borrowings under the Company's credit facility from a bank. For the three month period ended January 31, 2016, interest expense was higher than the same period of fiscal year 2015 due to higher amortization of certain deferred compensation expense which is treated as interest.

During the first quarter of fiscal year 2016, the Company recognized a gain of approximately \$400,000 from the proceeds of a life insurance policy upon the death of a former officer of the Company.

Income tax provision

	Nine months				Three months			
	2016	2015	Periods ended January 31, Change		2016	2015	Change	
Effective tax rate on pre-tax book income:	\$ 900	\$ 1,450	\$(550)	(38 %)	\$ 20	\$ 200	\$(180)	(90 %)
	44.9 %	33.4 %			6.6 %	18.6 %		

The provision for income taxes for the nine and three months ended January 31, 2016 decreased as a result of lower pretax income as compared to the same periods of fiscal year 2015. During the first half of fiscal year 2016, losses at the Company's foreign subsidiaries as a proportion of consolidated pre-tax income were higher than expected to be realized during the balance of the fiscal years. These non-deductible losses caused the effective tax rate to increase to a level higher than statutory rates. During the three months ending January, 31 2016 and 2015, the U.S. Congress

reinstated the U.S. research and development tax credit (“R&D Credit”). As a result, the Company recorded the fiscal year to date cumulative effect of the R&D Credit in both fiscal quarters. As a result the three month provisions are disproportionate to the full year provision and the effective tax rate is lower than the expected annual tax rate.

The Company is subject to taxation in several countries as well as the states of New York, New Jersey and California. The statutory federal rates are 34% in the United States and Belgium. The effective rate is impacted by the income or loss of certain of the Company’s European and Asian subsidiaries for which no tax benefit is currently available. In addition, the Company utilizes the availability of the R&D Credit and the Domestic Production Activity Credit in the United States to lower its tax rate. The 2015 R&D Credit has been reinstated by the U.S. Congress. As of April 30, 2015, the Company’s European subsidiaries had available net operating loss carry forwards of approximately \$4.2 million, which will offset future taxable income. As a result of the FEI-Elcom acquisition, the Company has a federal net operating loss carry forward of \$5.1 million that may be applied in annually limited amounts to offset future U.S.-sourced taxable income over the next 17 years.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

(Continued)

Net income

		Nine months		Three months			
		Periods ended January 31,					
2016	2015	Change		2016	2015	Change	
\$ 1,104	\$ 2,885	\$(1,781)	(62 %)	\$ 282	\$ 878	\$(596)	(68 %)

As detailed above, operating profits and pretax income were lower in the fiscal year 2016 periods as compared to the same periods in fiscal year 2015 resulting in reduced net income for the periods ended January 31, 2016.

LIQUIDITY AND CAPITAL RESOURCES

The Company's balance sheet continues to reflect a strong working capital position of \$76.5 million at January 31, 2016, compared to working capital of \$75.2 million at April 30, 2015. Included in working capital at January 31, 2016 is \$17.7 million consisting of cash, cash equivalents and marketable securities. The Company's current ratio at January 31, 2016 is 9.9 to 1.

For the nine months ended January 31, 2016, the Company provided cash from operations in the amount of \$1,988,000 compared to cash used by operations of \$791,000 in the same fiscal period of the prior year. For the nine months ended January 31, 2016 cash increased before the effect of exchange rate changes, primarily from collection of accounts receivable. In fiscal year 2015 cash was reduced primarily from increased accounts receivables which will convert to cash in subsequent periods. For the nine-month periods ended January 31, 2016 and 2015, the Company incurred approximately \$2.9 million and \$3.6 million, respectively, of non-cash operating expenses, such as depreciation and amortization and accruals for employee benefit programs. For the balance of fiscal year 2016, as receivables are billed and collected, the Company expects to generate positive cash flow from operating activities.

Net cash used by investing activities for the nine months ended January 31, 2016, was \$1,829,000 compared to \$608,000 provided in the same period of fiscal year 2015. During the fiscal year 2016 period, marketable securities were sold or redeemed in the amount of \$1.2 million compared to \$5.6 million of such redemptions during the fiscal year 2015 period. Some of these proceeds and other cash were reinvested in additional marketable securities for the periods ended January 31, 2016 and 2015 in the amount of \$1.4 million. In the fiscal periods ended January 31, 2016 and 2015, the Company acquired property, plant and equipment in the amount of approximately \$1.6 million and \$3.6 million respectively. The Company may continue to invest cash in longer-term securities or to convert short-term investments to cash as dictated by its investment and acquisition strategies. In addition, the Company will continue to acquire more efficient equipment to automate its production process and intends to spend approximately \$2.0 million on capital equipment during fiscal year 2016. Internally generated cash or additional borrowings under the Company's credit facility will be used to acquire this level of capital equipment.

Net cash provided by financing activities for the nine months ended January 31, 2016 was \$8,000 compared to \$1.7 million used for the period ending January 31, 2015. For the nine months ended January 31, 2016 and 2015, the Company realized \$8,000 and \$38,000, respectively, from the tax benefits arising from the exercise of stock-based awards. In the fiscal year 2015 period, the Company borrowed \$2.3 million under its credit facility with a bank and also repaid \$4.0 million of such borrowings. Such funds were used for working capital and to finance the acquisition of certain fixed assets. There were no additional borrowings or repayments during fiscal year 2016.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
(Continued)

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. As of January 31, 2016, the Company has repurchased approximately \$4 million of its common stock out of the \$5 million authorization. For the nine month periods ended January 31, 2016 and 2015, there were no repurchase of shares.

The Company will continue to expend resources to develop, improve and acquire products for space applications, guidance and targeting systems, and communication systems which management believes will result in future growth and continued profitability. During fiscal year 2016, the Company intends to make a substantial investment in capital and technical resources to develop and acquire new products to meet the needs of the U.S. Government, commercial space and network infrastructure 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 less than 10% of revenues to achieve its development goals. Internally generated cash will be adequate to fund these development efforts. On an ongoing basis and as a normal part of its business, the Company investigates, considers, evaluates, discusses and, sometimes engages in acquisitions, dispositions or other strategic transactions to create shareholder value and enhance financial performance. Consistent with its fiduciary duties and to create shareholder value, the Company, from time-to-time, also considers, evaluates and discusses proposals received from potential acquirers. There can be no assurance that such transactions will occur.

As of January 31, 2016, the Company's consolidated funded backlog is approximately \$22 million compared to \$37 million at April 30, 2015. Approximately 80% of this backlog is expected to be realized in the next twelve months. The Company excludes from backlog contracts or awards for which it has not received authorization to proceed and on fixed price contracts excludes any unfunded portion. The Company expects these contracts to become fully funded over time and will add to its backlog at that time.

The Company believes that its liquidity is adequate to meet its operating and investment needs through at least March 16, 2017.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements, other than operating leases, 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.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
(Continued)

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

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. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on their evaluation, the Company's chief executive officer and chief financial officer have concluded that, as of January 31, 2016, the Company's disclosure controls and procedures were effective to ensure that information relating to the Company, including its consolidated subsidiaries, required to be included in its reports that it filed or submitted under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Control Over Financial Reporting. There were no 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 nine months ended January 31, 2016 to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 6. Exhibits

- 31.1 - Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 - Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 - Certifications by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101- The following materials from the Frequency Electronics, Inc. Quarterly Report on Form 10-Q for the quarter ended January 31, 2016 formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income and Comprehensive Income, (iii) Condensed Consolidated Statements of Cash Flows and (iv) Notes to Condensed Consolidated Financial Statements

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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: March 16, 2016

By: /s/ Alan Miller
Alan Miller
Chief Financial Officer and
Treasurer
Signing on behalf of the registrant
and as principal financial officer

