

FREQUENCY ELECTRONICS INC
Form 10-Q
September 15, 2008

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

FORM 10-Q

(Mark one)

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

For the Quarterly Period ended July 31, 2008

OR

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

For the transition period from _____ to _____

Commission File No. 1-8061

FREQUENCY ELECTRONICS, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

11-1986657

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

55 CHARLES LINDBERGH BLVD., MITCHEL FIELD, N.Y.

(Address of principal executive offices)

11553

(Zip Code)

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

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

Indicate by check mark whether the registrant 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 Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of Registrant's Common Stock, par value \$1.00 as of September 11, 2008 - 8,065,462

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
Condensed Consolidated Balance Sheets

	July 31, 2008 (UNAUDITED)	April 30, 2008 (AUDITED) (NOTE A)
	(In thousands except share data)	
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 3,745	\$ 11,029
Marketable securities	10,616	4,414
Accounts receivable, net of allowance for doubtful accounts of \$185 at July 31 and April 30, 2008	13,729	10,271
Costs and estimated earnings in excess of billings	7,143	9,556
Inventories	30,930	30,218
Deferred income taxes	4,133	3,974
Income taxes receivable	469	151
Prepaid expenses and other	1,029	1,371
Total current assets	71,794	70,984
Property, plant and equipment, at cost, less accumulated depreciation and amortization	9,139	9,531
Deferred income taxes	2,990	2,990
Goodwill and other intangible assets, net	358	405
Cash surrender value of life insurance and cash held in trust	7,797	7,671
Investments in and loans receivable from affiliates	4,559	4,522
Other assets	817	817
Total assets	\$ 97,454	\$ 96,920
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Short-term credit obligations	\$ 6,723	\$ 5,168
Accounts payable - trade	2,166	2,215
Accrued liabilities and other	4,314	4,694
Total current liabilities	13,203	12,077
Lease obligation – noncurrent	856	911
Deferred compensation	9,591	9,467
Deferred gain and other liabilities	766	855
Total liabilities	24,416	23,310
Stockholders' equity:		
Preferred stock - \$1.00 par value	-	-
Common stock - \$1.00 par value	9,164	9,164
Additional paid-in capital	48,463	48,213
Retained earnings	12,785	13,558
	70,412	70,935
Common stock reacquired and held in treasury -at cost, 420,826 shares at July 31, 2008 and 427,366 shares at April 30, 2008	(2,217)	(2,175)
Accumulated other comprehensive income	4,843	4,850

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Total stockholders' equity	73,038	73,610
Total liabilities and stockholders' equity	\$ 97,454	\$ 96,920

See accompanying notes to condensed consolidated financial statements.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Condensed Consolidated Statements of Operations

Three Months Ended July 31,
(Unaudited)

	2008	2007
	(In thousands except share data)	
Net sales	\$ 13,063	\$ 15,557
Cost of sales	9,872	11,086
Gross margin	3,191	4,471
Selling and administrative expenses	3,116	3,086
Research and development expense	1,365	2,177
Operating loss	(1,290)	(792)
Other income (expense):		
Investment income	158	3,243
Equity income (loss)	37	(80)
Interest expense	(84)	(131)
Other income (expense), net	81	-
(Loss) Income before (benefit) provision for income taxes	(1,098)	2,240
(Benefit) Provision for income taxes	(325)	860
Net (loss) income	\$ (773)	\$ 1,380
Net (loss) income per common share:		
Basic	\$ (0.09)	\$ 0.16
Diluted	\$ (0.09)	\$ 0.16
Average shares outstanding:		
Basic	8,742,086	8,695,027
Diluted	8,742,086	8,783,676

See accompanying notes to condensed consolidated financial statements.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Three Months Ended July 31,
(Unaudited)

	2008	2007
	(In thousands)	
Cash flows from operating activities:		
Net (loss) income	\$ (773)	\$ 1,380
Gain on sale of investments	-	(3,015)
Other non-cash charges to earnings	811	1,015
Net changes in other assets and liabilities	(2,108)	(3,777)
Net cash used in operating activities	(2,070)	(4,397)
Cash flows from investing activities:		
Proceeds from sale of marketable securities and investments	-	5,643
Purchase of marketable securities	(6,586)	(174)
Capital expenditures	(111)	(559)
Net cash (used in) provided by investing activities	(6,697)	4,910
Cash flows from financing activities:		
Proceeds from short-term credit obligations	1,500	1,500
Payment of short-term credit and lease obligations	(52)	-
Payment of cash dividend	-	(869)
Stock transactions, net	(100)	(2)
Net cash provided by financing activities	1,348	629
Net (decrease) increase in cash and cash equivalents before effect of exchange rate changes	(7,419)	1,142
Effect of exchange rate changes on cash and cash equivalents	135	626
Net (decrease) increase in cash and cash equivalents	(7,284)	1,768
Cash and cash equivalents at beginning of period	11,029	1,336
Cash and cash equivalents at end of period	\$ 3,745	\$ 3,104
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 32	\$ 573
Income Taxes	-	-

See accompanying notes to condensed consolidated financial statements.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE A - CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management of Frequency Electronics, Inc. (“the Company”), the accompanying unaudited condensed consolidated interim financial statements reflect all adjustments (which include only normal recurring adjustments) necessary to present fairly, in all material respects, the consolidated financial position of the Company as of July 31, 2008 and the results of its operations and cash flows for the three months ended July 31, 2008 and 2007. The April 30, 2008 condensed consolidated balance sheet was derived from audited financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's April 30, 2008 Annual Report to Stockholders. The results of operations for such interim periods are not necessarily indicative of the operating results for the full year.

NOTE B - EARNINGS PER SHARE

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

	Three months ended July 31,	
	2008	2007
Basic EPS Shares outstanding (weighted average)	8,742,086	8,695,027
Effect of Dilutive Securities	***	88,649
Diluted EPS Shares outstanding	8,742,086	8,783,676

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

The computation of diluted earnings per share excludes those options and stock appreciation rights with an exercise price in excess of the average market price of the Company's common shares during the periods presented. The inclusion of such options in the computation of earnings per share would have been antidilutive. The number of excluded options for the three months ended July 31, 2008 and 2007 were 1,408,675 and 949,425, respectively.

NOTE C – COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS

At July 31, 2008 and April 30, 2008 costs and estimated earnings in excess of billings on uncompleted contracts accounted for on the percentage of completion basis were approximately \$7,143,000 and \$9,556,000, 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 \$6,219,000 and \$6,206,000 at July 31, 2008 and April 30, 2008, respectively, consist of the following:

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July 31, 2008 April 30, 2008
(In thousands)

Raw materials and Component parts	\$	12,776	\$	12,523
Work in progress		14,164		13,938
Finished Goods		3,990		3,757
	\$	30,930	\$	30,218

As of July 31, 2008 and 2007, approximately \$23.2 million and \$22.9 million, respectively, of total inventory is located in the United States, approximately \$6.4 million and \$5.8 million, respectively, is in Belgium and \$1.3 million and \$1.5 million, respectively, is in China.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE E – COMPREHENSIVE INCOME

For the three months ended July 31, 2008 and 2007, total comprehensive (loss) income was (\$780,000) and \$2,013,000, respectively. Comprehensive income or loss 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 – SEGMENT INFORMATION

The Company operates under three reportable segments:

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

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

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

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

	Three months ended July 31,	
	2008	2007
Net sales:		
FEI-NY	\$ 8,844	\$ 11,765
Gillam-FEI	2,619	2,288
FEI-Zyfer	2,303	2,022
less intercompany sales	(703)	(518)
Consolidated Sales	\$ 13,063	\$ 15,557
Operating (loss) profit:		
FEI-NY	\$ (1,228)	\$ (540)