

Edgar Filing: FREQUENCY ELECTRONICS INC - Form 11-K

FREQUENCY ELECTRONICS INC  
Form 11-K  
July 15, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549-1004  
FORM 11-K

(X) ANNUAL REPORT PURSUANT TO SECTION 15(D) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the fiscal year ended December 31, 2001

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 15(D) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the transition period from-----to-----

Commission file number 1-8061

FREQUENCY ELECTRONICS, INC. CASH OR DEFERRAL PROFIT SHARING PLAN AND TRUST

(Full title of the plan)

Frequency Electronics, Inc.  
55 Charles Lindbergh Blvd., Mitchel Field, NY 11553

(Name of issuer of the securities held pursuant to  
the plan and the address of its principal  
executive offices)

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

Notices and communications from the Securities and Exchange Commission  
relative to this report should be forwarded to:

Alan Miller  
Chief Financial Officer  
Frequency Electronics, Inc.  
55 Charles Lindbergh Blvd.  
Mitchel Field, NY 11553

FINANCIAL STATEMENTS AND EXHIBIT

(a)	FINANCIAL STATEMENTS:	Page No.
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SUPPLEMENTAL SCHEDULE:

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(b) EXHIBIT	
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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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

By: /s/ Alan L. Miller  
-----  
Alan L. Miller  
Chief Financial Officer  
and Controller

Dated: July 15, 2002

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Frequency Electronics, Inc. Cash or Deferral Profit Sharing Plan  
(Name of Plan)

Date: July 15, 2002

By:  
  
/s/Robert Klomp  
-----  
Robert Klomp, Trustee  
  
/s/Markus Hechler  
-----  
Markus Hechler, Trustee  
  
/s/Marvin Meirs  
-----  
Marvin Meirs, Trustee

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Independent Accountants Report

To the Trustees of  
Frequency Electronics, Inc.  
Cash or Deferral Profit Sharing  
Plan and Trust:

We have audited the accompanying statements of net assets available for benefits of Frequency Electronics, Inc. Cash or Deferral Profit Sharing Plan and Trust (the "Plan") as of December 31, 2001 and 2000, and the related statement of changes in net assets available for plan benefits for the year ended December 31, 2001. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2001 and 2000 and the changes in net assets available for benefits for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of Assets Held (at year end) is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HOLTZ RUBENSTEIN & CO., LLP

Melville, New York  
June 25, 2002

FREQUENCY ELECTRONICS, INC.

CASH OR DEFERRAL PROFIT SHARING PLAN AND TRUST

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

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	December 31,	
	----- 2001	----- 2000
	-----	-----
ASSETS:		
Cash and cash equivalents	\$ 47,572	\$ 1,643
Investments, at fair value	6,967,001	6,769,427
Loans receivable from participants	225,565	225,482
Contribution receivable - employer	94,256	75,630
Contribution receivable - participants	25,739	-
	-----	-----
Net assets available for benefits	\$ 7,360,133	\$ 7,072,182
	=====	=====

The accompanying notes are an integral part of the financial statements

FREQUENCY ELECTRONICS, INC.

CASH OR DEFERRAL PROFIT SHARING PLAN AND TRUST

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS

YEAR ENDED DECEMBER 31, 2001

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ADDITIONS TO NET ASSETS ATTRIBUTED TO:	
Participant contributions	\$ 726,352
Net losses from investment activity	(816,830)
Cash dividend on FEI stock	4,679
Interest on participant loans	20,388
Employer contributions	396,315
	-----
Total additions	330,904
	-----
DEDUCTIONS:	
Distributions to participants	42,953
	-----
NET INCREASE	287,951
NET ASSETS AVAILABLE FOR PLAN BENEFITS, beginning of year	7,072,182
	-----
NET ASSETS AVAILABLE FOR PLAN BENEFITS, end of year	\$ 7,360,133
	=====

The accompanying notes are an integral part of the financial statements

FREQUENCY ELECTRONICS, INC.

CASH OR DEFERRAL PROFIT SHARING PLAN AND TRUST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

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1. Plan Description:

The following brief description of The Frequency Electronics, Inc. Cash or Deferral Profit Sharing Plan and Trust (the "Plan") is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information. The Plan, adopted on January 1, 1985, is a defined contribution savings plan qualified under Section 401(k) of the Internal Revenue Code. Employees are eligible for membership in the Plan after completing six months of service.

All expenses of administering the Plan are paid by Frequency Electronics, Inc. (the "Company").

Contributions:

-----

Employee

Plan participants may contribute a maximum of 25% and 10% of compensation, as defined in the plan agreement, as employee salary savings contributions and voluntary deductible contributions, respectively, (collectively, "Savings Contributions"). Total employee salary reduction contributions are limited to the maximum deductible of \$11,000 and \$10,500 in 2001 and 2000, respectively, under the Internal Revenue Code. Savings contributions are immediately fully vested.

Each participant's account is credited with the participant's contribution allocated as requested. Allocations of Plan earnings are made to each participant's account based upon participant account balances, as defined. The benefit to which a participant is entitled is the amount that can be provided solely from the participant's account.

Employee contributions are to be transmitted to the Plan within fifteen business days after the end of the month in which the contributions are received by the employer.

Employer

During the period January 1, 1990 through December 31, 1999, the Company suspended its matching contribution. In 2000 the Company's Board of Directors approved a benefit policy under the Plan, effective January 1, 2000, wherein the Company will make a matching contribution in Company stock. This matching contribution is limited to 3% of the employee's earnings, to a maximum of \$2,500. In addition, every employee will receive an annual contribution of \$500, regardless of their own contribution.

The maximum Company contribution is \$3,000 per employee. Employees are eligible for both contributions after six months of employment. All contributions by the Company will be subject to the current vesting schedule.

1. Plan Description: (Cont'd)

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Participant loans

Loans are permitted against the total vested accrued benefit of a participant. The amount of the loan cannot be less than \$500 or exceed 50% of the

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participant's contributory account balance.

An outstanding loan is repayable, with interest at prevailing commercial rates, in full at any time or in monthly installments by means of a payroll deduction over a term not to exceed five years.

### 2. Summary of Significant Accounting Policies:

#### Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and are presented in conformity with generally accepted accounting principles, which require management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Risks and uncertainties

The Plan provides for various investment options in any combination of stocks, bonds, mutual funds, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risk in the near term would materially affect participant's account balances and the amounts reported in the statements of net assets available for plan benefits and the statement of changes in net assets available for plan benefits.

#### Investments

Contributions to the Plan are directed by the participants in any one or more of the investment funds available to them as of December 31, 2001. The available investment funds are as follows:

##### MFS High Income Fund

The fund's investment objective is to provide high current income by investing primarily in a professionally managed, diversified portfolio of fixed income securities, some of which may involve equity features.

##### MFS Total Return Fund

The primary investment objective of the fund is to obtain above-average income consistent with prudent employment of capital. The fund's secondary objective is to take advantage of opportunities for growth of capital and income.

### 2. Summary of Significant Accounting Policies: (Cont'd)

#### MFS Capital Opportunities Fund

The fund's investment objective is capital appreciation. The fund invests, under normal market conditions, at least 65% of its total assets in common stocks and related securities, such as preferred stocks, convertible securities and depositary receipts.

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### MFS Massachusetts Investors Trust

The fund's investment objective is reasonable current income and long-term growth of capital and income. The fund invests, under normal market conditions, at least 65% of its total assets in common stocks and related securities, such as preferred stocks, convertible securities and depositary receipts.

### MFS Emerging Growth Fund

The fund's investment objective is long-term growth of capital. The fund invests, under normal market conditions, at least 65% of its total assets in common stocks and related securities, such as preferred stocks, convertible securities and depositary receipts for those securities, of emerging growth companies.

### MFS New Discovery Fund

The fund's investment objective is capital appreciation. The fund invests, under normal market conditions, at least 65% of its total assets in companies that MFS believes to offer superior prospects for growth.

### MFS Global Equity Fund

The fund's investment objective is to seek capital appreciation. The fund invests, under normal market conditions, at least 65% of its total assets in common stocks and equity-related securities, such as preferred stock, convertible securities and depositary receipts, of U.S. and foreign (including emerging market) issuers.

### MFS Massachusetts Investors Growth Stock Fund

The fund's investment objective is to provide long-term growth of capital and future income rather than current income. The fund invests its assets, except for working cash balances, in the common stocks of securities convertible into common stocks of companies which MFS believes offer better than average prospects for long-term growth.

### MFS Research Fund

The fund's investment objective is to provide long-term growth of capital and future income. The fund's policy is to invest a substantial proportion of its assets in the common stocks or securities convertible into common stocks of companies believed to possess better than average prospects for long-term growth. A smaller portion of the assets may be invested in bonds, short-term obligations, preferred stocks or common stocks whose principal characteristic is income production rather than growth. Such securities may also offer opportunities for growth of capital as well as income.

## 2. Summary of Significant Accounting Policies: (Cont'd)

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### MFS Mid Cap Growth Fund

The fund's investment objective is long-term growth of capital. The fund, under normal market conditions, invests at least 65% of its total assets in equity securities of companies with medium market capitalization that are believed to have above average growth potential.



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### MFS Bond Fund

The fund's investment objective is to seek as high a level of current income as is believed to be consistent with prudent investment risk. As a secondary objective, the fund strives to protect shareholders' capital. The fund invests, under normal market conditions, at least 65% of its assets in investment-grade bonds, including U.S. government securities and high-grade corporate debt. The fund may invest up to 35% of its total assets in foreign securities including up to 10% in non-dollar denominated securities. The fund may invest up to 20% of its assets in high-yield securities.

### MFS Utilities Fund

The fund's investment objective is to seek capital growth and current income. The fund will invest a minimum of 65% but up to 100% of its assets in utility securities, both stocks and bonds. The fund may also invest up to 35% of its total assets in foreign securities.

### MFS Fixed Fund

The fund's investment objective is to seek current income and preservation of principal. The fund is an open-end collective investment trust that invests in a diversified pool of high quality stable value contracts, including guaranteed investment contracts, bank investment contracts, fixed-income investment contracts, and other fixed-income securities, including U.S. government securities.

In addition to the investments identified above, the Plan also maintains a participant loan account in the amounts of \$225,565 and \$225,482 as of December 31, 2001 and 2000, respectively. Interest rates on the loans range from 6.75% to 10.5%.

### Frequency Electronics, Inc. Common Stock Fund

All employer matching contributions that were made prior to January 1, 1990 and subsequent to January 1, 2000 are in the form of Frequency Electronics, Inc. common stock. This stock is valued at the last sale price on the American Stock Exchange on the last business day of the year. Common stock approximated \$836,000 (11%) and \$575,000 (8%) of investments at December 31, 2001 and 2000, respectively. Net investment (loss) earnings from investing activities and participant distributions from the Frequency Electronics, Inc. Common Stock Fund in 2001 and 2000 approximated (\$89,802) and \$109,300, respectively.

Net earnings (losses) from investment activity includes dividend and interest income, as well as realized and unrealized gains and losses from security transactions.

### Revenue recognition

Contribution revenue is recognized when committed for payment.

### Benefit payments

Benefits are recorded when paid.

### 3. Vesting Provisions and Benefit Payments:

Participants become fully vested in Company contributions upon attainment of age 65, early retirement at age 59-1/2, death or according to the number of years of service with the Company as follows:

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Years of Service	Vested Amount
Less than 2	0%
2 years	20%
3 years	40%
4 years	60%
5 years	80%
6 years and above	100%

On termination of active service, as defined in the Plan agreement, a participant may elect to receive vested benefits in either a lump sum distribution, in equal installments (over a term not to exceed the lesser of fifteen years or the participant's actuarial life expectancy, for fully vested participants only) or various forms of annuity contracts purchased from an insurance company. Lump sum distributions will be made in cash. The portion of the Company contribution not vested will be forfeited and allocated to the remaining plan participants.

Hardship withdrawals by plan participants may be made upon written request to, and approval of, the Plan administrator. If approved, the distribution is limited to the participant's contribution. Earnings on the participant's contribution and the employer contributions can not be withdrawn.

#### 4. Tax Status:

The Plan is qualified under Section 401 (a) of the Internal Revenue code, and therefore, exempt from federal income taxes under Section 501 (a) of the Code.

#### 5. Plan Amendment or Termination:

The Company reserves the right to amend or terminate the Plan at any time by delivering written notice of such termination or amendment to the trustee. While the Company has not expressed any intent to discontinue the Plan, it is free to do so at any time, subject to penalties set forth in the Employee Retirement Income Security Act of 1974. In the event of termination of the Plan, the Plan provides for the net assets of the Plan, reduced by any payment of expenses properly chargeable against the trust, to be distributed to the participants and beneficiaries of the Plan.

#### 6. Credit Risk:

The Company manages the Plan's credit risk by offering participants diversified investment options.

#### 7. Parties in Interest/Related Party Transactions:

For the year ended December 31, 2001, the three trustees were also members of the Plan.

#### 8. Contribution Receivable - Participants:

Contributions by participants for December 2001 were not received by the respective funds until January 2002. Pursuant to accrual accounting a receivable of \$25,739 was recorded for the December 2001 contributions.

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9. Investment:

The Plan's investments are stated at fair value, measured at quoted market prices in an active market. The following presents investments that represent 5% or more of the Plan's net assets.

	December 31,	
	2001	2000
MFS Emerging Growth Fund, 18,726 and 15,897 shares, respectively	\$ 622,083	\$ 711,859
MFS Massachusetts Investors Trust, 82,819 and 76,875 shares, respectively	1,373,142	1,539,045
MFS High Income Fund, 115,854 and 97,573 shares, respectively	442,562	408,829
MFS Capital Opportunities Fund, 63,615 and 64,235 shares, respectively	854,355	1,149,167
MFS Fixed Fund, 1,914,843 and 1,542,322 shares, respectively	1,914,843	1,542,322
MFS New Discovery Fund, 20,352 and 19,853 shares, respectively	349,856	359,743
Frequency Electronics, Inc. Common Stock Fund, 59,480 and 33,614 shares, respectively	836,416	574,962

10. Cash Dividend:

During calendar 2001, the Board of Directors of Frequency Electronics, Inc. declared a cash dividend of \$0.10 (ten cents) per share payable June 1 and December 1. This dividend aggregated \$4,679 in 2001.

FREQUENCY ELECTRONICS, INC.  
CASH OR DEFERRAL PROFIT SHARING PLAN AND TRUST  
SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS HELD (AT END OF YEAR)

-----  
DECEMBER 31, 2001

(a)	(b)	(c)
Identify of issue, borrower, lessor, or similar party	Description of investment including maturity date, rate of interest, collateral, par or maturity value	
----- MFS Capital Opportunities Fund	----- Capital appreciation fund of common stocks and related securities, such as preferred stock, convertible	

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	securities, and depositary receipts. No maturity date or interest rates. No collateral. Par value varies.
MFS Emerging Growth Fund	Long-term growth of capital fund of common stocks and related securities, such as preferred stocks, convertible securities, and depositary receipts for those securities, of emerging growth companies. No maturity date or interest rates. No collateral. Par value varies.
MFS Fixed Fund	Current income and preservation of principal fund of stable-value investment contracts issued by major insurance companies and major banks. No maturity date or interest rates. No collateral. Par value varies.
MFS Global Equity Fund	Capital appreciation fund of common stocks and equity-related securities, such as preferred stock, convertible securities, and depositary receipts, of U.S. and foreign (including emerging market) issuers. No maturity date or interest rates. No collateral. Par value varies.
MFS High Income Fund	High current income fund with a diversified portfolio of fixed income securities. No maturity date or interest rates. No collateral. Par value varies.
MFS Massachusetts Investors Trust	Reasonable current income and long-term growth of capital and income fund of common stocks and related securities, such as preferred stock, convertible securities, and depositary receipts. Invests in companies of any size, but generally focuses on companies with larger market capitalizations. No maturity date or interest rates. No collateral. Par value varies.
MFS New Discovery Fund	Capital appreciation fund of investments in companies believed to offer superior prospects for growth. No maturity date or interest rates. No collateral. Par value varies.
MFS Total Return Fund	Above-average income fund of fixed income securities and equity securities. No maturity date or interest rates. No collateral. Par value varies.
MFS Massachusetts Investors Growth Stock Fund	Long-term growth of capital and future income by investing its assets in the common stocks, or securities convertible into common stocks, of companies that offer better than average prospects for long-term growth. No maturity date or interest rates. No collateral. Par value varies.
MFS Research Fund	Long-term growth of capital and future income by investing a substantial proportion of its assets in the common stocks or securities convertible into common stocks of companies that possess better than average prospects for long-term growth. A smaller portion of the assets may be invested in bonds, short-term obligations, preferred stocks or common stocks whose principal characteristic is income production rather than growth. No maturity date or interest rates. No collateral. Par value varies.
* Frequency Electronics,	Common stock of Frequency Electronics, Inc. No maturity

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Inc. Common Stock	dates or interest rates. Par value \$1.00.
MFS Utilities Fund	Capital growth and current income fund of utility securities, both stocks and bonds. The fund may also invest in foreign securities.

FREQUENCY ELECTRONICS, INC.  
CASH OR DEFERRAL PROFIT SHARING PLAN AND TRUST  
SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS HELD (AT END OF YEAR

-----  
DECEMBER 31, 2001

(a)	(b)	(c)
Identify of issue, borrower, lessor, or similar party	Description of investment including maturity date, rate of interest, collateral, par or maturity value	
MFS Bond Fund	High level of current income as is believed to be consistent with prudent investment risk as well as to protect shareholders risk capital. The fund invests in investment-grade bonds including U.S. government securities and high-grade corporate debt.	\$
MFS Mid Cap Growth Fund	Long-term growth capital fund of equity securities of companies with medium market capitalization that are believed to have above-average growth potential.	
* Participant Loans	Loans to plan participants. Maturity between one and five years with interest at prevailing commercial rates (6.75%-10.50%) and secured by participant's vested account balance.	

\* Denotes party in interest

Exhibit 23.1

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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We consent to the incorporation by reference in the Registration Statement No. 333-40506 on Form S-8 pertaining to the Frequency Electronics Cash or Deferral Profit Sharing Plan and Trust of our report dated June 25, 2002 with respect to the financial statements and supplemental schedule of the Frequency Electronics Cash or Deferral Profit Sharing Plan and Trust included in this Annual Report on Form 11-K for the year ended December 31, 2001.

HOLTZ RUBENSTEIN & CO., LLP

Melville, New York  
July 15, 2002