

FREQUENCY ELECTRONICS INC
Form 10-Q
December 17, 2007

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

FORM 10-Q

(Mark one)

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

For the Quarterly Period ended October 31, 2007

OR

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

For the transition period from _____ to _____

Commission File No. 1-8061

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

Delaware
(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

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of Registrant's Common Stock, par value \$1.00 as of December 10, 2007 - 8,703,219

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

INDEX

	Page No.
Part I. Financial Information:	
Item 1 - Financial Statements:	
Condensed Consolidated Balance Sheets - October 31, 2007 and April 30, 2007	3
Condensed Consolidated Statements of Operations Six Months Ended October 31, 2007 and 2006	4
Condensed Consolidated Statements of Operations Three Months Ended October 31, 2007 and 2006	5
Condensed Consolidated Statements of Cash Flows Six Months Ended October 31, 2007 and 2006	6
Notes to Condensed Consolidated Financial Statements	7-11
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	12-18
Item 3- Quantitative and Qualitative Disclosures about Market Risk	18
Item 4- Controls and Procedures	19
Part II. Other Information:	
Items 1, 1A, 2, 3 and 5 are omitted because they are not applicable	
Item 4 - Submission of Matters to a Vote of Security Holders	19
Item 6 - Exhibits	19
Signatures	20
Exhibits	

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Condensed Consolidated Balance Sheets

	October 31, 2007 (UNAUDITED)	April 30, 2007 (AUDITED) (NOTE A)
	(In thousands except share data)	
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 7,666	\$ 1,336
Marketable securities	13,193	14,268
Accounts receivable, net of allowance for doubtful accounts of \$169 at October 31 and \$276 at April 30, 2007	17,003	15,626
Inventories	31,843	31,201
Deferred income taxes	3,155	3,075
Income taxes receivable	-	596
Prepaid expenses and other	1,461	1,501
Total current assets	74,321	67,603
Property, plant and equipment, at cost, less accumulated depreciation and amortization	8,409	7,839
Deferred income taxes	2,923	2,945
Goodwill and other intangible assets, net	429	453
Cash surrender value of life insurance	7,055	6,815
Investments in and loans receivable from affiliates	4,489	7,354
Other assets	817	817
Total assets	\$ 98,443	\$ 93,826
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Short-term credit obligations	\$ 8,510	\$ 5,011
Accounts payable - trade	1,978	3,771
Accrued liabilities and other	3,887	3,980
Income taxes payable	213	-
Dividend payable	870	869
Total current liabilities	15,458	13,631
Deferred compensation	8,753	8,669
Deferred gain and other liabilities	577	642
Total liabilities	24,788	22,942
Stockholders' equity:		
Preferred stock - \$1.00 par value	-	-
Common stock - \$1.00 par value	9,164	9,164
Additional paid-in capital	47,670	47,138
Retained earnings	14,461	13,541
	71,295	69,843
Common stock reacquired and held in treasury -at cost, 460,721 shares at October 31, 2007 and 474,693 shares at April 30, 2007	(2,203)	(2,080)

Edgar Filing: FREQUENCY ELECTRONICS INC - Form 10-Q

Accumulated other comprehensive income	4,563	3,121
Total stockholders' equity	73,655	70,884
Total liabilities and stockholders' equity	\$ 98,443	\$ 93,826

See accompanying notes to condensed consolidated financial statements.

Page 3

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Condensed Consolidated Statements of Operations

Six Months Ended October 31,
(Unaudited)

	2007	2006
	(In thousands except per share data)	
Net sales	\$ 33,051	\$ 28,634
Cost of sales	23,110	18,441
Gross margin	9,941	10,193
Selling and administrative expenses	6,371	5,455
Research and development expense	3,986	4,028
Operating (loss) profit	(416)	710
Other income (expense):		
Investment income	3,763	579
Equity (loss) income	(145)	274
Interest expense	(291)	(57)
Other income, net	82	100
Income before provision for income taxes	2,993	1,606
Provision for income taxes	1,204	521
Net income	\$ 1,789	\$ 1,085
Net income per common share		
Basic	\$ 0.21	\$ 0.13
Diluted	\$ 0.20	\$ 0.12
Weighted average shares outstanding		
Basic	8,697,080	8,584,409
Diluted	8,783,792	8,732,393

See accompanying notes to consolidated condensed financial statements.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Condensed Consolidated Statements of Operations

Three Months Ended October 31,
(Unaudited)

	2007	2006
	(In thousands except per share data)	
Net sales	\$ 17,494	\$ 14,320
Cost of sales	12,024	8,980
Gross margin	5,470	5,340
Selling and administrative expenses	3,285	2,674
Research and development expense	1,809	2,647
Operating profit	376	19
Other income (expense):		
Investment income	520	280
Equity (loss) income	(65)	71
Interest expense	(160)	(21)
Other income, net	82	19
Income before provision for income taxes	753	368
Provision for income taxes	344	181
Net income	\$ 409	\$ 187
Net income per common share		
Basic	\$ 0.05	\$ 0.02
Diluted	\$ 0.05	\$ 0.02
Weighted average shares outstanding		
Basic	8,699,133	8,592,113
Diluted	8,783,992	8,744,852

See accompanying notes to condensed consolidated financial statements.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Six Months Ended October 31,
(Unaudited)

	2007	2006
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 1,789	\$ 1,085
Non-cash (income) charges to earnings, net	(821)	1,785
Net changes in operating assets and liabilities	(3,553)	(2,163)
Net cash (used in) provided by operating activities	(2,585)	707
Cash flows from investing activities:		
Proceeds from sale of marketable securities and investments	7,161	4,104
Purchase of marketable securities	(174)	(935)
Purchase of fixed assets	(1,297)	(1,013)
Other - net	-	45
Net cash provided by investing activities	5,690	2,201
Cash flows from financing activities:		
Proceeds from short-term credit obligations	3,500	-
Payment of cash dividend	(869)	(857)
Proceeds from stock option exercises	81	62
Purchase of stock for treasury	(233)	-
Net cash provided by (used in) financing activities	2,479	(795)
Net increase in cash and cash equivalents before effect of exchange rate changes	5,584	2,113
Effect of exchange rate changes on cash and cash equivalents	746	42
Net increase in cash and cash equivalents	6,330	2,155
Cash and cash equivalents at beginning of period	1,336	2,639
Cash and cash equivalents at end of period	\$ 7,666	\$ 4,794

See accompanying notes to condensed consolidated financial statements.