

FORM 10Q

(MARK ONE)

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

For the Quarterly Period January 31, 1996
OR

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

For the transition from to

Commission File Number 1-8061

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

DELAWARE 11-1986657
(State or other jurisdiction of

(I.R.S. Employer
incorporation or organization)

Identification No.)

55 Charles Lindbergh Blvd., Mitchel Field, New York 11553
(Address of principle executive offices, Zip Code)

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

(Former name, former address and former fiscal year,
if changed since last report)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents
and reports required to be filed by Section 12, 13 or 15(d) of the
Securities and Exchange Act of 1934 subsequent to the distribution of
securities under a plan confirmed by court.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of Registrant's Common Stock, par
value \$1.00 as of March 12, 1996 - 4,846,395

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Consolidated Condensed Balance Sheets

January 31, 1996 (UNAUDITED) (In thousands)	April 30, 1995 (NOTE A)
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ASSETS:

Current assets:

Cash and cash equivalents	\$ 13,294	\$ 4,291
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Short-term investments	5,737	11,387	
Accounts receivable, net (NOTE B)		13,082	13,894
Inventories (NOTE C)	11,225	11,168	
Prepaid and other	1,163	1,257	
Refundable income taxes		325	318
Total current assets	44,826	42,315	
Property, plant and equipment, net		8,860	9,192
Investment in direct finance lease		9,569	9,452
Other assets	3,509	1,777	
Assets held for sale		-	2,296
Total assets	\$ 66,764	\$65,032	

See accompanying notes to consolidated condensed financial statements.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Consolidated Condensed Balance Sheets (Continued)

January 31, 1996 (UNAUDITED) (In thousands)	April 30, 1995 (NOTE A)
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LIABILITIES AND STOCKHOLDERS' EQUITY:

Current liabilities:

Current maturities of long-term debt	\$ 750	\$750	
Accounts payable - trade	671		727
Accrued liabilities	1,770	1,782	
Total current liabilities		3,191	3,259

Long term debt:

net of current maturities	11,625		12,187
Other	3,236	2,772	
Total liabilities	18,052	18,218	

Stockholders' equity:

Preferred stock - \$1.00 par value		0	0
Common stock - \$1.00 par value		6,006	6,006
Additional paid - in capital	35,029		35,131
Retained earnings	15,583	13,443	
	56,618	54,580	

Common stock reacquired and held

in treasury - at cost,	1,159,905		
shares at January 31 and	964,305		
shares at April 30	(5,075)	(4,387)	

Unamortized ESOP debt	(2,125)	(2,500)	
Notes receivable - common stock		(740)	(822)
Unrealized holding gain (loss)	162		(39)
Unearned compensation	(128)	(18)	
Total stockholders' equity	48,712		46,814

Total liabilities and stockholders'
equity \$66,764 \$65,032

See accompanying notes to consolidated condensed financial statements.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Consolidated Condensed Statements of Operations

Nine Months Ended January 31,
(Unaudited)

1996 1995
(In thousands except per share data)

Net Sales	\$ 17,427	\$ 18,053	
Cost of sales	11,887	15,367	
Selling and administrative expenses		4,449	6,329
Research and development expense		610	1,096
Total operating expenses		16,946	22,792
Operating profit (loss)		481	(4,739)
Investment income	985	461	
Interest expense	(749)	(725)	
Other income, net	1,486	2,289	
Earnings (loss) before provision for income taxes	2,203	(2,714)	
Income tax provision	63	82	
Earnings (loss) before cumulative effect of change in accounting principle		2,140	(2,796)
Cumulative effect of change in accounting principle		0	215
Net earnings (loss)	\$ 2,140	\$ (2,581)	
Earnings (loss) per common share before cumulative effect of change in accounting principle	\$.43	\$ (.52)	
Cumulative effect of change in accounting principle		-	.04
Net earnings (loss) per common share	\$.43	\$ (.48)	
Average common shares outstanding	5,003,256	5,331,440	

See accompanying notes to consolidated condensed financial statements.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Consolidated Condensed Statements of Operations

Three Months Ended January 31,
(Unaudited)

1996 1995
(In thousands except per share data)

Net Sales	\$ 6,513	\$ 5,479
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Cost of sales	4,289	4,866	
Selling and administrative expenses		1,545	1,683
Research and development expense		309	633
Total operating expenses		6,143	7,182
Operating profit (loss)		370	(1,703)
Investment income	332	186	
Interest expense	(260)	(281)	
Other income, net	492	1,353	
Earning (loss) before provision for income taxes		934	(445)
Income tax provision	21	25	
Net earnings (loss)	\$ 913	\$ (470)	
Net earnings (loss) per common share	\$.19	\$ (.09)	
Average common shares outstanding	4,928,711	5,266,995	

See accompanying notes to consolidated condensed financial statements.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows

Nine Months Ended January 31,
(Unaudited)

1996 1995
(In thousands)

Net cash provided by operating activities	\$ 3,923	\$ 982	
Net cash provided by (used in) investing activities	6,315	(8,037)	
Net cash used in financing activities	(1,235)	(3,043)	
Net increase (decrease) in cash	9,003	(10,098)	
Cash and cash equivalents at beginning of period		4,291	11,171
Cash and cash equivalents at end of period	\$ 13,294	\$ 1,073	

See accompanying notes to consolidated condensed financial statements.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements
(Unaudited)

NOTE A - CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management of the Company, the accompanying unaudited consolidated condensed 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, 1996 and the results of its operations for the three and nine months ended January 31, 1996 and 1995 and its cash flows for the nine months ended January 31, 1996 and 1995. The April 30, 1995 consolidated condensed 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 consolidated condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's April 30, 1995 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 - ACCOUNTS RECEIVABLE

Accounts receivable at January 31, 1996 and April 30, 1995 include costs and estimated earnings in excess of billings on uncompleted contracts accounted for on the percentage of completion basis of approximately \$4,806,000 and \$5,456,000, 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 C - INVENTORIES

Inventories consist of the following:

(In thousands)	January 31, 1996	April 30, 1995
Raw materials	\$ 1,494	\$ 1,569
Work in progress	9,731	9,599
	\$ 11,225	\$11,168

Title to all inventories related to United States Government contracts that provide for progress payments vests in the U.S. Government.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Comparative details of results of operations for the three and nine months ended January 31:

(Dollar amounts in thousands)

NM = Not meaningful

	Three months ended			Nine months ended		
	January 31, 1996	1995	% change	January 31, 1996	1995	% change
Net Sales						
US Government	\$3,439	\$3,754	(8%)	\$10,465	\$12,941	(19%)
Commercial	3,074	1,725	78%	6,962	5,112	36%
	6,513	5,479	19%	17,427	18,053	(3%)
Cost of Sales	4,289	4,866	(12%)	11,887	15,367	(23%)
Selling and administrative expense	1,545	1,683	(8%)	4,449	6,329	(30%)
Research and development expense	309	633	(51%)	610	1,096	(44%)
Operating income (loss)	370	(1,703)	NM	481	(4,739)	
	NM					
Non-operating income- net		564	1,258	(55%)	1,722	
	2,025					
	(15%)					
Net earnings (loss)	\$ 913	(\$ 470)	NM	\$2,140	(\$2,581)	
	NM					

Operating income for the fiscal quarter ended January 31, 1996 improved by \$2,073 over the comparable period of fiscal 1995; net earnings increased by \$1,383. This result was achieved through a 19% increase in sales over the quarter ended January 31, 1995, coupled with reduced costs in all operating categories except for legal costs related to the Company's legal proceedings. For the nine months ended January 31, 1996, operating income improved by \$5,220 over the comparable period of fiscal 1995 and net earnings increased by \$4,721. This result was achieved despite a small 3% decline in total sales which were offset by significant decreases in operating costs.

As a percentage of total sales, commercial sales have increased to 47% in the three months ended January 31, 1996 from 31% in the comparable 1995 quarter; and to 40% for the nine months ended January 31, 1996 from 28% for the comparable 1995 period. The Company expects that revenues from commercial projects will continue to grow and that commercial sales will comprise a greater portion of the Company's total revenues in the future.

Gross margins for the three and nine months ended January 31, 1996 have increased to 34% and 32%, respectively, as compared to 11% and 15% for the respective 1995 periods. These results have been obtained through cost reductions primarily in the areas of personnel and compensation coupled with

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
(Continued)

operational efficiencies and product mix (commercial versus government contracts). In addition, the fiscal 1995 periods included costs associated with the restructuring and consolidation of the Company's former west coast facility. The assets and activities of that entity were relocated to the Company's headquarters location during fiscal 1995. Accordingly, similar costs during the 1996 periods were minimal. With the current mix of projects and the new contract bookings, the Company expects margins to remain at the 1996 levels for the balance of the fiscal year.

Selling and administrative costs declined by 8% for the quarter ended January 31, 1996, over the comparable 1995 period. This was achieved through a reduction in personnel, reduced insurance costs and improved

operating efficiencies which were partially offset by an increase in legal fees related to the Company's ongoing litigation with the government and related actions. For the nine month period ended January 31, 1996, selling and administrative expenses decreased by 30% over the comparable 1995 period. This was attained by the same personnel and other cost reductions cited above coupled with a reduction in legal costs, reflecting an overall reduced level of activity in 1996 versus especially the first half of fiscal 1995. The Company is unable to predict the future level of legal costs for any specific period as this is dependent on factors beyond its control. Excluding legal costs, the ratio of selling and administrative expenses to net sales is expected to decrease as sales increase.

Research and development costs in the fiscal 1996 periods decreased by \$324 and \$486, respectively over the comparable three month and nine month periods ended January 31, 1995. These decreases are the result of an effort to focus research and development activities on a narrower band of projects which will provide the best return on investment. The Company expects to continue to invest in research and development at the same rate for the balance of 1996 and for the foreseeable future.

Net non-operating income and expense decreased by \$694 and \$303, respectively, in the three months and nine months ended January 31, 1996 from the comparable 1995 fiscal periods. The principal reason for the decreases was the approximately \$1,200 gain realized on the sale of certain marketable securities during the 1995 quarter. Excluding that one-time gain, 1996 net non-operating income and expense were significantly improved over the 1995 results. In particular, investment income increased by \$146 in the 1996 quarter over the comparable 1995 quarter and by \$524 for the 1996 nine month period over the comparable 1995 period. This is the result of both higher interest rates as well as a better than 40% increase in interest-earning assets in the 1996 three-month and nine-month periods over the comparable 1995 periods. In addition, interest expense decreased by \$21 in the fiscal 1996 quarter compared to the 1995 quarter but increased by \$24 for the nine months ended January 31, 1996 compared to the comparable 1995 period. This also was the result of increased interest rates during 1996 but was offset by declining long-term debt balances as the Company made scheduled principal payments. Although the Company is unable to predict the future levels of interest rates, at current rates the Company anticipates that investment income will continue to increase and interest expense will continue to decrease when compared to earlier fiscal periods. Other income, which consists principally of rental income under a long-term lease, should continue at present levels for the balance of 1996 and into the next fiscal year.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
(Continued)

LIQUIDITY AND CAPITAL RESOURCES

The Company's balance sheet continues to reflect a highly liquid position with a current ratio of 14 to 1 at January 31, 1996 compared to a 13 to 1 ratio at April 30, 1995. Working capital on those dates was \$41.6 million and \$39.1 million, respectively. Included in working capital at January 31, 1996 is \$19 million of cash, cash equivalents and short-term investments which are readily convertible to cash should the need arise.

Net cash provided by operating activities for the nine months ended January 31, 1996, was \$3,923 compared to \$982 for the comparable 1995 period. This significant cash inflow is the result of the return to profitability in 1996 with net income of \$2,140 plus certain noncash charges of \$1,247 plus the net change in working capital components of \$536.

During the nine months ended January 31, 1996, accounts receivable balances decreased a net amount of \$812. The principal cause of the decrease is a reduction in costs and estimated earnings in excess of billings on uncompleted contracts by \$650. Additional reductions were achieved through improved collection efforts. These amounts were offset

by increased billings for delivery of parts under a \$15 million parts procurement program on behalf of one of the Company's major customers.

Net cash provided by investing activities for the nine months ended January 31, 1996, was \$6,315. Of this amount, \$5.8 million was provided by the conversion of certain U.S. government and agency securities to short-term money market investments. The Company may continue to convert short-term investments to cash equivalents or vice versa as dictated by its investment strategies. An additional \$500 was received upon the sale of the building owned by the Company's former west coast operation. In addition to cash, the Company received a promissory note in the amount of \$1.8 million for the balance of the sale price. The promissory note for the building sale will be repaid in monthly installments over a period of 5 years with a balloon payment at the end. The Company has no material commitments for capital expenditures.

Net cash used in financing activities for the nine months ended January 31, 1996, was \$1,235 compared to \$3,043 for the comparable 1995 period. Of this amount, \$562 was used to make regularly scheduled long-term debt payments and \$698 was used to acquire 195,600 shares of common stock to be held in treasury. The Company may continue to purchase shares for its treasury whenever appropriate opportunities arise but it has neither a formal repurchase plan nor commitments to purchase additional shares in the future.

The Company will continue to expend its resources and efforts to develop hardware for commercial satellite programs and commercial ground communication, including VSATs, and navigation systems which management believes will result in future growth and continued profitability. Internally generated cash will be adequate to fund development efforts in these markets.

At January 31, 1996, the Company's backlog amounted to approximately \$17 million of which approximately \$14 million is funded. This is compared to the approximately \$15 million backlog at April 30, 1995. Backlog of commercial and foreign customers approximates \$7.7 million at January 31, 1996.

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
(Continued)

PART II

ITEM 1 - Legal Proceedings

On November 17, 1993, the Company was indicted on criminal charges alleging conspiracy and fraud in connection with six contracts for which the Company was a subcontractor. In addition, two derivative actions have been filed against the Board of Directors essentially seeking recovery on behalf of the Company for any losses it incurs as a result of the indictment.

On December 14, 1993, the Company was notified by the U.S. Department of the Air Force that it had been suspended from contracting with any agency of the government. Certain exceptions will apply if a compelling reason exists. The suspension is temporary subject to the outcome of the legal proceedings in connection with the indictment.

In March 1994, a qui tam action was filed against the Company and its former chief executive officer.

The Company and the individual defendants have pleaded not guilty to all actions and will vigorously contest all charges.

For all items noted above, reference is made to Item 3 - Legal Proceedings of the Company's Annual Report on Form 10K for the year ended April 30, 1995 on file with the Securities and Exchange Commission.

On July 27, 1995, the Company was served with a summons and complaint by way of a qui tam action instituted by a former employee of the Company. The Company denies the truth, accuracy and bonafides of plaintiff's allegations and has determined vigorously to defend the action. Reference is made to the Company's report on form 8-K dated July 27, 1995.

ITEM 6 - Exhibits and Reports on Form 8-K

(a) Exhibits - None

(b) Reports on Form 8-K - One report on Form 8-K was filed during the quarter ended January 31, 1996 as follows:

Date of Report	Item
December 14, 1995	5

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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 15, 1996

BY /s/ Joseph P. Franklin
Joseph P. Franklin
Chief Executive Officer

9-MOS

APR-30-1996

JAN-31-1996

13294

5737

13582

500

11225

44826

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14925

66764

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11625

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