

(Mark one)

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

For the Fiscal Year ended April 30, 2005

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 11-1986657  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

55 CHARLES LINDBERGH BLVD., MITCHEL FIELD, N.Y. 11553  
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock (par value \$1.00 per share)	American Stock Exchange

Securities registered pursuant to Section 12 (g) of the Act:

None

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 X No \_\_\_

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12 b-2). Yes \_ No X

The aggregate market value of voting stock held by non-affiliates of the Registrant as of October 31, 2004 - \$57,800,000

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of Registrant's Common Stock, par value \$1.00 as of July 22, 2005 - 8,525,600.

DOCUMENTS INCORPORATED BY REFERENCE: PART III incorporates information by reference from the definitive proxy statement for the Annual Meeting of Stockholders to be held on or about September 29, 2005.

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Exhibit Index at Page 54

PART I

Item 1. Business

GENERAL DISCUSSION

Frequency Electronics, Inc. (sometimes referred to as "Registrant", "Frequency Electronics" or "Company") was founded in 1961 as a research and development firm in the technology of time and frequency control. Unless the context indicates otherwise, references to the Registrant or the Company are to Frequency Electronics, Inc. and its subsidiaries. References to "FEI" are to the parent company alone and do not refer to any of the subsidiaries.

Frequency Electronics was incorporated in Delaware in 1968 and became the successor to the business of Frequency Electronics, Inc., a New York corporation, organized in 1961. The principal executive office of Frequency Electronics is located at 55 Charles Lindbergh Boulevard, Mitchel Field, New York 11553. Its telephone number is 516-794-4500 and its website is [www.frequencyelectronics.com](http://www.frequencyelectronics.com).

In the mid-1990's, the Company transformed itself from primarily a defense contract manufacturer into a high-tech provider of precision time and frequency products for commercial applications found in both ground-based communication stations and on-board satellites. The Company also continues to support the United States government with products for defense and space applications.

The Company is a world leader in the design, development and manufacture of high-technology frequency, timing and synchronization products for satellite and terrestrial voice, video and data telecommunications. The Company's technologies provide unique solutions that are essential building blocks for the next generation of broadband wireless and for the ongoing expansion of existing wireless and wireline networks. The Company's mission is to provide the most advanced control of frequency and time - essential factors for synchronizing communication networks and for providing reference frequencies for certain military, commercial and scientific, terrestrial and space applications.

The Company has divided its operations into four principal market areas:

(1) Products for commercial communications which are based either on the ground or in space. The Company's space and terrestrial commercial communications programs are produced by its wholly owned subsidiary, FEI Communications, Inc. ("FEIC"). FEIC was incorporated in Delaware in December 1991, and was created as a separate subsidiary company to provide ownership and management of assets and other services appropriate for commercial clients, both domestic and foreign.

(2) Products used by the United States Government for defense or space applications. The Company's subsidiary, FEI Government Systems, Inc. ("FEI-GSI"), was formed in fiscal year 2002 to focus on supplying the Company's technology and legacy proprietary products to the United States military and other U.S. government agencies.

(3) Products for wireline and network synchronization systems. These products are produced by Gillam-FEI, the Company's Belgian subsidiary, acquired in September 2000. Products delivered by Gillam-FEI provide essential network monitoring and wireline synchronization for a variety of industries and telecommunications providers in Europe, Africa, the Middle East and Asia.

(4) Products that incorporate global positioning systems ("GPS") technology. These precision time and frequency generation and synchronization products are manufactured by the Company's subsidiary FEI-Zyfer, Inc. ("FEI-Zyfer"). As described more fully below, early in fiscal year 2004, the Company acquired the business and net assets of Zyfer, Inc. forming a new wholly-owned subsidiary. FEI-Zyfer's GPS capability complements the Company's existing technologies and permits the combined entities to provide a broader range of embedded systems for a variety of timing functions.

During fiscal year 2002, the Company formed two new wholly-owned subsidiaries to provide broader manufacturing capabilities and worldwide reach for the Company's proprietary products. Frequency Electronics, Inc. Asia ("FEI-Asia") was established as an Asian-based low cost manufacturer of certain of the Company's commercial communications products. FEI-Asia is located in the Free-Trade Zone in Tianjin, China. FEI-Europe, GmbH ("FEI-Europe") was established as a European sales and marketing office to promote the Company's new line of crystal oscillators as well as other proprietary products.

During fiscal year 2005, the Company decided to close FEI-Europe and merge its functions into Gillam-FEI. FEI-Asia and the partial year activities of FEI-Europe are included in the Company's commercial communications operations.

Also in fiscal year 2002 the Company made an initial strategic investment in Morion, Inc., a Russian crystal oscillator manufacturer located in St. Petersburg, Russia. The Company's equity investment in Morion permits the Company to secure a low cost source for high precision quartz resonators and crystal oscillators, many of which are based on the Company's design and development work. In September 2004, the Company increased its investment in Morion from 19.8% to 36.2% of Morion's outstanding shares. Accordingly, the Company changed its method of carrying the Morion investment from cost to equity as required by generally accepted accounting principles. Under the equity method, the Company records its proportionate share of the earnings of Morion. In addition, certain amounts in prior period financial statements have been adjusted for the retroactive application of the equity method since the inception of the Company's investment in Morion.

#### FISCAL 2005 AND 2004 SIGNIFICANT EVENTS

##### Real Estate Transactions

During the fourth quarter of fiscal year 2005, the Company recorded a gain of \$4.6 million related to the conversion of its real estate operating partnership units into shares of Reckson Associates Realty Corp. common stock ("REIT stock"). This gain reflects the currently realizable portion related to the fiscal year 1998 sale and leaseback of the Company's building to Reckson Operating Partnership, LP. (See Item 2. Properties and Note 6 to the accompanying consolidated financial statements.) An additional gain of \$1.3 million is deferred and will be recorded over the remaining term of the Company's building lease in accordance with the accounting provisions for sale and leaseback transactions. Subsequent to the conversion, the Company sold a portion of the REIT stock and realized additional gains of approximately \$2.3 million, or total pretax gains of approximately \$6.9 million. As a result of these gains, the Company also accrued a contractually mandated incentive compensation expense of \$416,000, which amount is included in operating expenses.

##### Acquisition of Zyfer, Inc.

On May 9, 2003, the Company acquired the business and net assets of Zyfer, Inc., a wholly-owned subsidiary of Odetics, Inc., in a cash transaction. (Note-Subsequent to this transaction, Odetics changed its corporate name to Iteris, Inc.) The Company paid \$2.3 million at closing, plus acquisition costs of approximately \$400,000. According to the terms of the purchase agreement, the Company is required to pay up to a maximum of \$1 million to Iteris, Inc. in each of fiscal years 2004 and 2005 if FEI-Zyfer achieves certain revenue levels in those years. The contingent payments are based on a percentage of revenues in excess of \$6 million in fiscal year 2004 and a percentage of revenues in excess of \$8 million in fiscal year 2005. Based on FEI-Zyfer's performance in fiscal years 2005 and 2004, the Company will pay an additional \$217,000 to Iteris, Inc. FEI-Zyfer, with its own management team, is a fourth reportable segment in the Company's financial statements.

##### Tax Adjustments

During fiscal year 2004, the Company realized a tax benefit of \$400,000 as the result of the reversal of certain tax liabilities. Such liabilities were established in prior years to recognize the potential tax contingency for certain judgmental tax adjustments and tax estimates. The Company's income tax returns for the relevant years were examined by the Internal Revenue Service and no changes were required. Accordingly, the tax liabilities established in those years are no longer required and the reversal of such liabilities was recorded as a tax benefit.

#### REPORTABLE SEGMENTS

The Company operates under four reportable segments, aligned with the four markets described above: (1) Commercial Communications; (2) U.S. Government; (3) Gillam-FEI; and (4) FEI-Zyfer. Within each segment the Company designs, develops, manufactures and markets precision time and frequency control products for different markets as described below.

The products for the Commercial Communications segment are principally marketed to wireless communications networks and to the commercial satellite market. The operations of FEI-Asia and FEI-Europe are included in the Commercial Communications segment. Most product design, development and manufacturing for the Commercial Communications and the U.S. Government segments is conducted in the Company's facility located in New York. The Company identifies the U.S. Government business as a reportable segment based upon the regulatory environment (Federal Acquisition Regulations or "FAR") under which it operates when dealing with U.S. Government procurement contracts versus the less restrictive commercial environment. The Gillam-FEI segment designs, develops and manufactures products for wireline and network synchronization. Its products are currently sold to non-U.S. customers. The FEI-Zyfer segment designs and manufactures products which incorporate GPS technologies. FEI-Zyfer sells its products to both commercial and U.S. Government customers and collaborates with other FEI segments on joint product development activities.

During fiscal years 2005, 2004 and 2003 approximately 55%, 56% and 47%, respectively, of the Company's sales were for products used for terrestrial or space-based commercial communications and foreign governments. Sales of Gillam-FEI were approximately 19%, 17% and 25% of fiscal years 2005, 2004 and 2003 revenues, respectively. For the years ended April 30, 2005, 2004 and 2003, sales of the U.S. Government segment accounted for approximately 10%, 14% and 28%, respectively, of the Company's sales. In fiscal years 2005 and 2004, sales for the FEI-Zyfer segment were 16% and 13% of consolidated revenues, respectively. Sales information for the Commercial Communications, U.S. Government, Gillam-FEI, and FEI-Zyfer markets during each of the last five years are set forth in Item 6 (Selected Financial Data).

Consolidated revenues include sales to end-users in countries located outside of the United States. During fiscal years 2005, 2004 and 2003, foreign sales comprised 50%, 54% and 38%, respectively, of consolidated revenues. Segment information regarding revenues, including foreign sales, operating profits, depreciation and assets is more fully disclosed in Note 16 to the accompanying financial statements.

#### Commercial Communications segment:

The Company provides high-tech precision time and frequency products that are found in both ground-based communication stations and on-board commercial satellites. The Company has made a substantial investment in research and development to apply its core technologies to the commercial markets. Revenues for this segment have varied considerably over the past 6 fiscal years, based on infrastructure spending patterns by wireless telecommunication companies and demand for new commercial satellites. Over this time frame, the Company initially experienced accelerated growth in commercial communications revenues followed by a "telecom trough" in fiscal years 2002 and 2003, reacceleration in late fiscal year 2004 and early fiscal year 2005, to be followed by another slow down. The Company anticipates that this industry provides a large opportunity for future sales growth but the timing of revenue growth will be based on capital spending decisions by domestic and worldwide telecommunication companies. Additional revenues will be derived from deployment of new or replacement commercial satellites.

#### Terrestrial- Wireless

The development of new or improved technologies brings expanded and more reliable telecommunications services to the public. As digital cellular systems and PCS networks grow they require more base stations to meet the demand for better connectivity, higher data rates and quality of cell phone service. Cellular infrastructure integrators and original equipment manufacturing companies, consisting of some of the world's largest telecommunications companies, are building out existing networks even as they develop new technologies, such as EDGE (Enhanced Data rates for Global Evolution), 3G (3rd Generation) and other systems, to provide not only improved voice connectivity but also Internet, video and data transmission.

Wireless communication networks consist of numerous installations located throughout a service area, each with its own base station connected by wire or microwave radio through a network switch. Network operators are in the process of converting older networks from analog to digital technology and enhanced systems such as CDMA (Code Division Multiple Access). These upgrades require more precise frequency control at the base stations to achieve a higher degree and quality of services.

With increased demand for wireless services on limited bandwidth, the requirement for precise timing becomes paramount. The Company manufactures a Rubidium Atomic Standard, a small, low cost, stable atomic "clock" as well as temperature stable quartz crystal oscillators, which are ideally suited for use in advanced cellular communications base stations. Whether the network uses CDMA (Code Division Multiple Access), TDMA (Time Division Multiple Access), UMTS (Universal Mobile Telecommunications System) or GSM (Global System for Mobile Communications) or a hybrid, such as EDGE (Enhanced Data rates for Global Evolution), timing to ensure signal synchronization is essential.

#### Space-based

The commercial use of satellites launched for communications, navigation, weather forecasting, video and data transmissions has increased the need to transmit information to earth-based receivers. This requires precise timing and frequency control at the satellite. The Company manufactures the master clocks (quartz, rubidium and cesium) and other significant timing products for many satellite communication systems. The Company's space hybrid assemblies are used onboard spacecraft for command, control and power distribution. Efficient and reliable DC-DC power converters are also manufactured for the Company's own instruments and as stand-alone products for space applications. The Company's oven-controlled quartz crystal oscillators are cost-effective precision clocks suited for high-end performance required in satellite transmissions, airborne telephony and geophysical survey positioning systems. Commercial satellite programs such as Intelsat, ANIK, Eutelsat, Inmarsat and Worldstar have utilized the Company's space-qualified products.

#### U.S. Government segment:

The Company's sales in the U.S. Government segment are generally made under fixed price contracts either directly with U.S. Government agencies or indirectly through subcontracts intended for government end-use. The price paid to the Company is not subject to adjustment by reason of the costs incurred by the Company in the performance of the contract, except for costs incurred due to contract changes ordered by the customer. These contracts are on a negotiated basis under which the Company bears the risk of cost overruns and derives the benefit from cost savings.

Negotiations on U.S. Government contracts are sometimes based in part on Certificates of Current Costs. An inaccuracy in such certificates may entitle the government to an appropriate recovery. From time to time, the Defense Contracts Audit Agency ("DCAA") of the Department of Defense audits the Company's accounts with respect to these contracts. The Company is not aware of any basis for recovery with respect to past certificates.

All government end-use contracts are subject to termination by the purchaser for the convenience of the U.S. Government and are subject to various other provisions for the protection of the U.S. Government. In the event of such termination, the Company is entitled to receive compensation as provided under such contracts and in the applicable U.S. Government regulations.

The Company's proprietary products have been used in guidance, navigation, communications, radar, sonar surveillance and electronic countermeasure and timing systems. Products are built in accordance with Department of Defense standards and are in use on many of the United States' most sophisticated military aircraft, satellites and missiles. The Global Positioning Satellite System, the MILSTAR Satellite System and the AEHF Satellite System, are examples of the programs in which the Company participates. The Company has manufactured the master clock for the Trident missile, the basic timing system for the Voyager I and Voyager II deep space exploratory missions and the quartz timing system for the Space Shuttle. The Company's cesium beam atomic clock is presently employed in secure communications, surveillance and positioning systems for the United States Air Force, Navy and Army.

#### Gillam-FEI segment:

Gillam-FEI extends the Company's competencies into wire-line synchronization, network monitoring, and specialized test equipment. With the advent of new digital broadband transmission technologies, reliable synchronization has become the warranty to quality of service for telecom operators. Gillam-FEI is among the world leaders in the field of wireline synchronization technology, and its products are targeted for telecommunication operators and network equipment manufacturers that utilize modular and flexible platforms to build reliable digital-network-systems worldwide. Telecommunications operators

such as Belgacom, France Telecom, Telefonica and other service providers are among Gillam-FEI's major customers.

Network monitoring systems marketed under the brand name LYNX, are a flexible suite of complementary software modules that are arranged to satisfy the specific needs of telecom operators, electrical utilities, and other operators of distribution networks. The multi-task capability of the LYNX system allows operators to supervise and manage the distribution of electricity, gas, video cables, public lighting, and other networks. Deregulation of utilities, especially in Europe, has created a greater demand for the LYNX product. Major customers presently using LYNX include SIG Electrical Services of Geneva, Switzerland; Electricity Distribution Management for the city of Lausanne, Switzerland; UEM Electricity Distribution Management for the city of Metz, France; Brussels International Airport and Belgian Railways.

Specialized test equipment are mainly targeted for the telecommunications industry.

FEI-Zyfer segment:

FEI-Zyfer designs, develops and manufactures products for precision time and frequency generation and synchronization, primarily incorporating GPS technology. The products make use of both "in-the-clear" civil and "crypto-secured" military signals from GPS. In most cases, FEI-Zyfer's products are integrated into communications systems, computer networks, test equipment, and military command and control terminals for ground and satellite link applications. Approximately 60% of revenues are derived from sales where the end user is the U.S. Government. FEI-Zyfer's products are an important extension of FEI's core product line, particularly in the area of GPS capabilities.

## PRODUCTS

The Company's products are manufactured from raw material which, when combined with conventional electronic parts available from multiple sources, become finished products used for commercial wireless and wireline communications, satellite applications, space exploration, position location, radar, sonar and electronic counter-measures. These products are employed in ground-based earth stations, fixed, transportable, portable and mobile communications installations, domestic and international satellites, as well as aircraft, ships, submarines and missiles. The Company's products are marketed as components, instruments, or complete systems. Prices are determined based upon the complexity, design requirement, purchased quantity and delivery schedule.

Components - The Company's key technologies utilize quartz, rubidium and cesium to manufacture precision time and frequency standards and higher level assemblies which allow the users to generate, transmit, and receive synchronous signals in order to communicate effectively, locate their position, secure a communications system, or guide a missile. The components class of the Company's products includes crystal filters and discriminators, surface acoustic wave resonators, and high-reliability thick and thin film hybrid assemblies for space and other applications.

Precision quartz oscillators use quartz resonators in conjunction with electronic circuitry to produce signals with accurate and stable frequency. The Company's products include several types of quartz oscillators, suited to a wide range of applications, including ultrastable and low-g sensitivity units for moving platforms and satellite systems, and fast warm-up, low power consumption units for mobile applications, including voice and data communications.

The ovenized quartz oscillator is the most accurate type, wherein the oscillator crystal is enclosed in a temperature controlled environment called a proportional oven. The Company manufactures several varieties of temperature controlling devices and ovens.

The voltage-controlled quartz oscillator is an electronically controlled device wherein the frequency may be stabilized or modulated, depending upon the application.

The temperature compensated quartz oscillator is electronically controlled using a temperature sensitive device to directly compensate for the effect of temperature on the oscillator's frequency.

The rubidium lamp, filter and resonance cell provide the optical subassembly for the manufacture of the Company's optically pumped atomic rubidium frequency standards. The cesium tube resonator is used in the manufacture of the Company's cesium primary standard atomic clocks.

High reliability hybrid assemblies are manufactured in thick and thin film technologies for applications from DC to 44 GHz. These are used in manufacturing the Company's products and also supplied directly to customers, for space and other high reliability systems.

Efficient and reliable DC-DC power converters are manufactured for the Company's own instruments and as stand alone products, for space applications.

The Company manufactures filters and discriminators using its crystal resonators for its own radio-frequency and microwave receiver, signal conditioner and signal processor products.

Instruments - The Company's instrument line consists of three basic time and frequency generating instruments and a number of instruments which test and distribute the time and frequency. The Company's time and frequency generating instruments are the quartz frequency standard, rubidium atomic standard and cesium beam atomic standard.

The quartz frequency standard is an electronically controlled solid-state device which utilizes a quartz crystal oscillator to produce a highly stable output signal at a standardized frequency. The Company's frequency standard is used in communications, guidance and navigation and time synchronization. The Company's products also include a precision frequency standard with battery back-up and memory capability enabling it to remain in operation if a loss of power has occurred.

The optically pumped atomic rubidium frequency standard is a solid-state instrument which provides both timing and low phase noise frequency references used in commercial communications systems. Rubidium oscillators combine sophisticated glassware, light detection devices and electronics packages to generate a highly stable frequency output. Rubidium, when energized by a specific radio frequency, will absorb less light. The oscillator's electronics package generates this specific frequency and the light detection device ensures, through monitoring the decreased absorption of light by the rubidium and the use of feedback control loops, that this specific frequency is maintained. This highly stable frequency is then captured by the electronics package and generated as an output signal. Rubidium oscillators provide atomic oscillator stability, at lower costs and in smaller packages.

The cesium beam atomic standard utilizes the atomic resonance characteristics of cesium atoms to generate precise frequency several orders of magnitude more accurate and stable than other types of quartz frequency generators. The Company's atomic standard is a compact, militarized solid-state device which generates these precision frequencies for use with advanced communications and navigation equipment. A digital time-of-day clock is incorporated which provides visual universal time display and digital timing for systems use. The atomic standard manufactured by the Company is a primary standard, capable of producing time accuracies of better than one second in seven hundred thousand years.

As the demands on communications systems increase, the requirement for precise frequency signals to drive a multitude of electronic equipment is greatly expanded. To meet this requirement, the Company manufactures a distribution amplifier which is an electronically controlled solid-state device that receives a base frequency from a frequency standard and provides multiple signal outputs of the input frequency. A distribution amplifier enables many items of electronic equipment in a single facility, aircraft or ship to receive a standardized frequency and/or time signal from a quartz, rubidium or cesium atomic standard.

Systems - The systems portion of the Company's business includes manufacturing and integrating selections of its specialized components into higher level subsystems and systems that meet customer-defined needs. The Company has a unique knowledge of interfacing these technologies and experience in applying them to a wide range of systems. The systems generate electronic frequencies of predetermined value and then divide, multiply, mix, convert, modulate, demodulate, filter, distribute, combine, separate, switch, measure, analyze, and/or compare these signals depending on the system application.

This portion of the Company's business includes a complete line of time and frequency control systems, capable of generating many frequencies and time scales that may be distributed to widely dispersed users, or within the confines of a facility or platform, or for a single dedicated purpose. Time and frequency control systems combine the Company's cesium, rubidium and/or crystal instruments with its other components, to provide systems for wireless, wireline, space and defense applications.

For the wireless industry, the Company integrates its core components such as quartz oscillators and rubidium atomic standards with software applications, microprocessors, and other digital circuitry into complete subsystems. These subsystems supply frequency and time reference signals that facilitate wireless communications and are necessary for the various wireless technologies to operate properly. The customers for these subsystems are global wireless infrastructure manufacturers.

For the wireline industry, the Company integrates its core components with other electronic modules into high-level platforms that provide a total synchronization solution. These signal synchronization units ("SSUs") are primarily designed and manufactured by Gillam-FEI. SSUs are inserted into digital telecommunication networks and provide reliable synchronization for proper operation of the network. The systems are primarily sold to telecommunication operators and vary from a few SSUs for a simple network to hundreds of units for complex networks. For operators of distribution networks such as electrical utilities and telecommunications operators, the Company offers the LYNX system--a flexible suite of complementary software modules that are distinctively combined to satisfy the requirements of the users. With the advent of digital broadband transmission technologies, reliable synchronization has become the Quality of Service for telecommunications operators world-wide.

For the space and defense sectors the Company combines its core products in a wide range of diverse applications that provide systems for space and ground based communications, space exploration, satellite tracking stations, satellite-based navigation and position location, secure communication, submarine and ship navigation, calibration, and electronic counter-measures applications. These time and frequency control systems can provide up to quadruple redundancy to assure operational longevity and dependability.

The Company's subsidiary, FEI-Zyfer, manufactures products incorporating GPS technology by utilizing GPS signals to derive time and frequency information. These systems and subsystems are used in secure government (SAASM-Selective Acquisition Anti-spoofing Module) and commercial communications and other applications.

The GPS expertise of FEI-Zyfer has been joined with the technological capabilities and experience of FEIC in building crystal oscillators for harsh environments, to jointly develop a new system to be utilized to enhance seismic data in deep earth and other exploratory drilling.

#### BACKLOG

As of April 30, 2005, the Company's consolidated backlog amounted to approximately \$31 million (see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations). Approximately 80% of this backlog is expected to be filled during the Company's fiscal year ending April 30, 2006. The backlog, which reflects only firm purchase orders and contracts, is subject to change by reason of several factors including possible cancellation of orders, change orders, terms of the contracts and other factors beyond the Company's control. Accordingly, the backlog is not necessarily indicative of the revenues or profits (losses) which may be realized when the results of such contracts are reported.

#### CUSTOMERS AND SUPPLIERS

The Company markets its products both directly and through approximately 50 independent sales representative organizations located in the United States, Europe and Asia. Sales to non-U.S. customers, including the sales of its overseas subsidiaries, totaled approximately 50%, 54% and 38% of net sales in fiscal years 2005, 2004 and 2003, respectively.

The Company's products are sold to a variety of customers, both commercial and governmental. For the years ended April 30, 2005, 2004 and 2003, approximately 20%, 21% and 28%, respectively, of the Company's sales were made under contracts to the U.S. Government or subcontracts for U.S. Government end-use.

The Company's consolidated sales for each of the years ended April 30, 2005, 2004 and 2003 included sales to Motorola Corp. ("Motorola") of approximately \$15.5 million, \$16.1 million and \$10.0 million, respectively. These amounts represent 28%, 32% and 32%, respectively, of consolidated sales for each of those years. Lucent Technologies ("Lucent") accounted for \$6.5 million and \$5.5 million of revenues in fiscal years 2005 and 2004 or 12% and 11%, respectively, of consolidated sales. In fiscal year 2003, Northrop Grumman Corporation ("Northrop") accounted for \$3.5 million of revenues or 11% of consolidated sales.



During the three years ended April 30, 2005, sales to Motorola and Lucent were made by the Company's Commercial Communications segment, accounting for 70% in fiscal year 2005, 76% in fiscal year 2004 and 73% in fiscal year 2003 of that segment's total sales.

Fiscal years 2005, 2004 and 2003 revenues in the U.S. Government segment included sales to four customers, Northrop, Raytheon Missile Systems, Inc. ("Raytheon"), BAE Systems Aerospace, Inc. ("BAE"), and Lockheed Martin ("Lockheed") accounting for 87%, 85% and 77%, respectively, of total segment sales.

During fiscal years 2005, 2004 and 2003, France Telecom and Belgacom were major customers of the Gillam-FEI segment. These European telecom companies accounted for 59%, 31% and 23%, respectively, of the segment's revenues in those fiscal years.

In fiscal year 2005, Northrop and Computer Sciences Corporation accounted for 21% of the revenues in the FEI-Zyfer segment. In fiscal year 2004, General Dynamics accounted for 19% of the revenues in the FEI-Zyfer segment.

The loss by the Company of any one of these customers would have a material adverse effect on the Company's business. The Company believes its relationship with these companies to be mutually satisfactory and is not aware of any prospect for the cancellation or significant reduction of any of its commercial or existing U.S. Government contracts.

The Company purchases a variety of components such as transistors, resistors, capacitors, connectors and diodes for use in the manufacture of its products. The Company is not dependent upon any one supplier or source of supply for any of its component part purchases and maintains alternative sources of supply for all of its purchased components. The Company has found its suppliers generally to be reliable and price-competitive.

#### RESEARCH AND DEVELOPMENT

The Company's technological expertise continues to be an important factor to support future growth in revenues and earnings. The Company has focused its internal research and development efforts on improving the core physics and electronic packages in its time and frequency products, conducting research to develop new time and frequency technologies, improving product manufacturability by seeking to reduce its production costs through product redesign and process improvements and other measures to take advantage of lower cost components.

The Company continues to focus a significant portion of its own resources and efforts on developing hardware for satellite (commercial and U.S. Government) and terrestrial commercial communications systems, including wireless, wireline and GPS-related systems. During fiscal years 2005, 2004 and 2003, the Company expended \$6.8 million, \$5.3 million and \$4.6 million of its own funds, respectively, on such research and development activity. (See also Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.) For fiscal year 2006, the Company is targeting to spend approximately \$6.0 million on research and development in similar areas. The actual amount spent will depend on market conditions and identification of new opportunities.

#### PATENTS AND LICENSES

The Company believes that for the most part its business is not dependent on patent or license protection. Rather, it is primarily dependent upon the Company's technical competence, the quality of its products and its prompt and responsible contract performance. However, employees working for the Company assign all rights to inventions to the Company and the Company presently holds such patents and licenses. In certain limited circumstances, the U.S. Government may use or permit the use by the Company's competitors of certain patents or licenses the government has funded. During fiscal year 2003, the Company received a broad and significant patent for new, proprietary quartz oscillator technology which the Company intends to exploit in both legacy and new applications.

#### COMPETITION

The Company experiences competition in all areas of its business. The Company competes primarily on the basis of the accuracy, performance and reliability of its products, the ability of its products

to function under severe conditions, such as in space or other extreme hostile environments, prompt and responsive contract performance, technical competence and price. The Company has a unique and broad product line which includes all three frequency standards - quartz, rubidium, and cesium. Because of the very high precision of certain of its products, the Company has few competitors. For lower precision components there is significant competition from a number of suppliers.

In recent years, the Company has successfully outsourced certain component manufacturing processes to third parties and more recently to its wholly-owned subsidiary, FEI-Asia in Tianjin, China and to Russian-based Morion, Inc., in which the Company is a minority shareholder. The Company expects this outsourcing to enhance its competitive position on cost while maintaining its high quality standards. The Company believes its ability to obtain raw materials, manufacture finished products, integrate them into systems and sub-systems and interface these systems with end-user applications provides a strong competitive advantage.

Certain of the Company's competitors are larger, have greater financial resources and have larger research and development and marketing staffs. The Company has a strong history of competing successfully in this environment due to the quality, reliability and outstanding record of performance its products have achieved.

With respect to its instruments and systems, the Company competes with Hewlett-Packard Company, Symmetricom, Inc, E. G. and G., Inc. and others. Systems for the wireline industry produced by the Gillam-FEI segment compete with Symmetricom, Inc. The Company's principal competition for space products is the in-house capability of its major customers.

#### EMPLOYEES

The Company employs approximately 375 persons worldwide. None of the U.S. employees are represented by labor unions, while in Europe approximately five employees in one facility are represented by a French labor union.

#### OTHER ASPECTS

The Company's business is not seasonal although it expects to experience some fluctuation in revenues during the second fiscal quarter as a result of extended holiday periods in August. No unusual working capital requirements exist.

#### EXECUTIVE OFFICERS OF THE COMPANY

The executive officers hold office until the annual meeting of the Board of Directors following the annual meeting of stockholders, subject to earlier removal by the Board of Directors.

The names of all executive officers of the Company and all positions and offices with the Company which they presently hold are as follows:

Joseph P. Franklin	-	Chairman of the Board of Directors
Martin B. Bloch	-	President, Chief Executive Officer and Director
Markus Hechler	-	Executive Vice President, President of FEI Government Systems, Inc. and Assistant Secretary
Michel Gillard	-	President, Gillam-FEI
Steven Strang	-	President, FEI-Zyfer
Hugo Fruehauf	-	Chief Technical Officer
Charles S. Stone	-	Vice President, Low Noise Development
Leonard Martire	-	Vice President, Marketing and Sales
Oleandro Mancini	-	Vice President, Business Development
Thomas McClelland	-	Vice President, Commercial Products
Alan Miller	-	Treasurer and Chief Financial Officer
Harry Newman	-	Secretary

None of the officers and directors is related.

Joseph P. Franklin, age 71, has served as a Director of the Company since March 1990. In December 1993 he was elected Chairman of the Board of Directors. He also served as Chief Executive Officer from December 1993 through October 1998 and as Chief Financial Officer from September 1996 through October 1998. From August 1987 to November 1993, he was the Chief Executive Officer of Franklin S.A., a Spanish business consulting company located in Madrid, Spain, specializing in joint ventures, and was a director of several prominent Spanish companies. General Franklin was a Major General in the United States Army until he retired in July 1987.

Martin B. Bloch, age 69, has been a Director of the Company and of its predecessor since 1961. Mr. Bloch is the Company's President and Chief Executive Officer and has held such positions since inception of the Company, except for the period from December 1993 through October 1998 when General Franklin held the CEO position. Previous to forming the Company, Mr. Bloch served as chief electronics engineer of the Electronics Division of Bulova Watch Company.

Markus Hechler, age 59, joined the Company in 1967. He was elected to the position of Executive Vice President in February 1999, prior to which he served as Vice President, Manufacturing since 1982. In October 2001, he was named President of the Company's subsidiary, FEI Government Systems, Inc. He has served as Assistant Secretary since 1978.

Michel Gillard, age 64, became an officer of the Company when Gillam S.A. was acquired in September 2000. Gillam S.A., a company engaged in the design, manufacture and marketing of wireline and network synchronization systems, was founded by Mr. Gillard in 1974.

Steve Strang, age 41, was named President of FEI-Zyfer, Inc., effective May 1, 2005. Previously, Mr. Strang was Executive Vice President of this subsidiary and its predecessor companies where he has served for 17 years in various technical and management positions.

Hugo Fruehauf, age 66, became an officer of the Company when the net assets of Zyfer, Inc. were acquired in May 2003. Effective May 1, 2005, Mr. Fruehauf was named Chief Technical Officer of the Company. Mr. Fruehauf served as CEO and CTO of Zyfer, Inc. for 6 years. Prior to joining Zyfer, Mr. Fruehauf was vice president of Alliant Techsystems from 1995 to 1997 and from 1982 to 1995 was president of Datum-Efratom and its predecessor, Ball-Efratom.

Charles S. Stone, age 74, joined the Company in 1984, and has served as its Vice President since that time. Prior to joining the Company, Mr. Stone served as Senior Vice President of Austron Inc., from 1966 to 1979, and Senior Scientist of Tracor Inc., from 1962 to 1966.

Leonard Martire, age 68, joined the Company in August 1987 and served as Executive Vice President of FEI Microwave, Inc., the Company's wholly-owned subsidiary, until May 1993 when he was elected Vice President, Marketing and Sales.

Oleandro Mancini, age 56, joined the Company in August 2000 as Vice President, Business Development. Prior to joining the Company, Mr. Mancini served from 1998 as Vice President, Sales and Marketing at Satellite Transmission Systems, Inc. and from 1995 to 1998 as Vice President, Business Development at Cardion, Inc., a Siemens A.G. company. From 1987 to 1995, he held the position of Vice President, Engineering at Cardion, Inc.

Thomas McClelland, age 50, joined the Company as an engineer in 1984 and was elected Vice President, Commercial Products in March 1999.

Alan Miller, age 56, joined the Company in November 1995 as its corporate controller and was elected to the position of Treasurer and Chief Financial Officer in October 1998. Prior to joining the Company, Mr. Miller served as an operations manager and a consultant to small businesses from 1992 through 1995 and as a Senior Audit Manager with Ernst & Young, L.L.P. from 1980 to 1991.

Harry Newman, age 58, Secretary, has been employed by the Company since 1979, prior to which he served as Divisional Controller of Jonathan Logan, Inc., apparel manufacturers, from 1976 to 1979, and as supervising Senior Accountant with Clarence Rainess and Co., Certified Public Accountants, from 1971 to 1975.

Item 2. Properties

The Company operates out of several facilities located around the world. Each facility is used for manufacturing its products and for administrative activities. The following table presents the location, size and terms of ownership/occupation:

Location	Size (sq. ft.)	Own or Lease
-----	-----	-----
Long Island, NY	93,000	Lease
Anaheim, CA	20,000	Lease
Liege, Belgium	34,000	Own
Chalon Sur Saone, France	37,000	Own
Tianjin, China	27,000	Lease

The Company's facility located in Mitchel Field, Long Island, New York, is part of the building that the Company constructed in 1981 and expanded in 1988 on land leased from Nassau County. In January 1998, the Company sold this building and the related land lease to Reckson Associates Realty Corp. ("Reckson"), leasing back the space that it presently occupies.

The Company leases its manufacturing and office space from Reckson under an 11-year lease at an annual rental of \$400,000 per year with the Company paying its pro rata share of real estate taxes along with the costs of utilities and insurance. The lease provides for two 5-year renewal periods, exercisable at the option of the Company, with annual rentals of \$600,000 during the first renewal period and \$800,000 during the second renewal period. Under the terms of the lease, new office and engineering facilities for the Company were constructed at the cost of Reckson. The leased space is adequate to meet the Company's domestic operational needs which encompass the principal operations of the Commercial Communication and U.S. Government segments.

The sale of its building to Reckson, a real estate investment trust ("REIT") whose shares are traded on the New York Stock Exchange, was effected through a tax-deferred exchange of the building for approximately 513,000 participation units of Reckson Operating Partnership, L.P. ("REIT units") which were valued at closing at \$12 million. Each REIT unit was convertible into one share of the common stock of the REIT. Under the accounting provisions for sale and leaseback transactions, the sale of this building was considered a financing and the REIT units received were reflected as a noncurrent liability while the related building continued to be reflected as an asset. In March 2005, the Company exercised its option to convert all of the REIT units into 513,000 shares of the REIT. Upon conversion of the REIT units, the Company recognized a gain of \$4.6 million and deferred an additional \$1.3 million gain. The deferred gain will be recognized into income over the remaining term of the initial leaseback period. As a result of the conversion of the REIT units, both the building and the noncurrent liability were removed from the balance sheet of the Company. (See Note 6 to the accompanying financial statements.)

The properties located in Belgium and France were acquired upon completion of the Gillam S.A. acquisition. These facilities are adequate to meet the present and future operational requirements of Gillam-FEI. During the year ended April 30, 2003, the Company sold a portion of the building owned by its subsidiary in France, receiving proceeds of \$275,000 and realizing a gain of \$152,000 which amount is included in other income and expense.

The Tianjin, China facility is the location of the Company's wholly-owned subsidiary, FEI-Asia. In late fiscal year 2005, the subsidiary acquired additional leased space within a manufacturing facility located in the Tianjin Trade-Free Zone. The lease is renewable annually with rent of \$14,000 payable quarterly. The new facility is adequate for the near-term manufacturing expectations for the Company.

The Anaheim, California facility is leased by the Company's subsidiary, FEI-Zyfer, Inc. The facility consists of a combination office and manufacturing space. The lease, which expires in May 2007, requires monthly payments of \$21,000.

Item 3. Legal Proceedings

No material legal proceedings are pending.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were required to be submitted by Registrant to a vote of security holders during the fourth quarter of fiscal 2005.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Common Stock of the Company is listed on the American Stock Exchange under the symbol "FEI". The following table shows the high and low sale price for the Company's Common Stock for the quarters indicated, as reported by the American Stock Exchange.

FISCAL QUARTER -----	HIGH SALE -----	LOW SALE -----
2005 -		
FIRST QUARTER	\$14.70	\$11.65
SECOND QUARTER	13.40	10.22
THIRD QUARTER	16.05	12.00
FOURTH QUARTER	15.90	9.80
2004 -		
FIRST QUARTER	\$10.80	\$ 8.00
SECOND QUARTER	11.05	9.35
THIRD QUARTER	14.99	10.18
FOURTH QUARTER	17.13	12.25

As of July 22, 2005, the approximate number of holders of record of common stock was 600. The closing share price of the Company's stock on April 30, 2005 was \$11.48. The closing share price of the Company's stock on July 22, 2005 was \$11.75.

DIVIDEND POLICY

Since 1997, the Company has adhered to a policy of distributing a cash dividend to shareholders of record as of April 30 and October 31, payable on June 1 and December 1, respectively. The Board of Directors will determine dividend amounts prior to each declaration based on the Company's financial condition and financial performance.

STOCK BUYBACK PROGRAM

In March 2005, the Company's Board of Directors authorized a stock repurchase program for up to \$5 million of the Company's outstanding common stock. Shares may be purchased in open market purchases, private transactions or otherwise at such times and from time to time, and at such prices and in such amounts as the Company believes appropriate and in the best interests of its shareholders. The timing and volume of repurchases will vary depending on market conditions and other factors. Purchases may be commenced or suspended at any time without notice. During fiscal year 2005, the Company repurchased 6,300 shares under the buyback program, paying an average of \$10.38 per share.

## EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of Securities to be Issued upon exercise of Outstanding Options Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options Warrants and Rights	Number of Securities Remaining available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity Compensation Plans Approved by Security Holders	459,300	\$ 9.38	109,750
Equity Compensation Plans Not Approved by Security Holders	814,237	\$12.82	189,500
	-----		-----
TOTAL	1,273,537	\$11.58	299,250
	=====	=====	=====

## Item 6. Selected Financial Data

The following table sets forth selected financial data including net sales and operating profit (loss) for the five-year period ended April 30, 2005. The information has been derived from the audited financial statements of the Company for the respective periods.

## CONSOLIDATED STATEMENTS OF OPERATIONS DATA

	Years Ended April 30,				
	2005	2004	2003	2002	2001
	----	----	----	----	----
	(in thousands, except share and dividend data)				
Net Sales					
Commercial Communications	\$31,464	\$28,235	\$15,051	\$26,663	\$ 36,290
U.S. Government	5,603	7,053	8,906	4,513	3,727
Gillam-FEI	12,599(1)	12,197(1)	8,137	11,223	9,276
FEI-Zyfer	8,803	6,560	-	-	-
less intersegment sales	(3,296)(1)	(3,939)(1)	(567)	(1,220)	(83)
	-----	-----	-----	-----	-----
Total Net Sales	\$55,173	\$50,106	\$31,527	\$41,179	\$ 49,210
	=====	=====	=====	=====	=====
Operating (Loss) Profit	\$(1,269)	\$(1,646)	(\$12,490)(5)	\$ 89(6)	\$ 5,939(8)
	=====	=====	=====	=====	=====
Net Income (Loss)	\$ 5,037(2)	\$ 320(3,4)	(\$ 8,811)(4)	\$ 1,378(7)	\$ 5,644(9)
	=====	=====	=====	=====	=====
Average Common Shares Outstanding					
Basic	8,484,682	8,374,399	8,331,785	8,350,735	8,198,569
Diluted	8,684,758	8,542,575	8,331,785	8,529,175	8,431,823
Earnings per Common Share					
Basic	\$ 0.59	\$ 0.04(4)	(\$ 1.06)	\$ 0.17	\$ 0.69
	=====	=====	=====	=====	=====
Diluted	\$ 0.58	\$ 0.04(4)	(\$ 1.06)	\$ 0.16	\$ 0.67
	=====	=====	=====	=====	=====

## CONSOLIDATED BALANCE SHEET DATA

Total Assets	\$88,374	\$92,867(10)	\$85,778(10)	\$96,011	\$102,039
	=====	=====	=====	=====	=====
Long-Term Obligations and Deferred Items	\$ 9,337	\$17,609	\$17,903	\$17,796	\$ 18,074
	=====	=====	=====	=====	=====
Cash dividend declared per common share	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20
	=====	=====	=====	=====	=====

## Notes to Selected Financial Data

- (1) Includes intercompany sales to FEI Communications of \$2.4 million and \$3.5 million in fiscal years 2005 and 2004, respectively, for development of US5G product.
- (2) Includes \$6.9 million from gain on conversion of REIT units into REIT common shares and subsequent sale of a portion of the REIT common shares.
- (3) Includes \$400,000 reversal of tax liabilities established in prior years
- (4) Includes \$158,000 and \$49,000, respectively, for restatement of equity income from Morion, Inc. in fiscal years 2004 and 2003, which also increased fiscal year 2004 Earnings per Common Share by \$0.02 from the amount reported before restatement.
- (5) Includes goodwill impairment of \$6.2 million and adjustments to

- inventory of \$3.6 million.
- (6) Includes insurance reimbursement of \$1.5 million for expenses related to certain litigation with the U.S. Government less inventory reserves and writeoffs aggregating \$1.0 million.
  - (7) In addition to items in (6) above, includes \$300,000 investment loss for an other than temporary decline of value in a marketable security.
  - (8) Includes insurance reimbursement of \$2.8 million (net of professional fees) for expenses related to certain litigation with the U.S. Government, increased inventory reserves of \$2.0 million related to certain product lines and \$300,000 of acquisition-related nonrecurring costs.
  - (9) In addition to items in (8) above, includes \$287,000 investment loss for an other than temporary decline of value in a marketable security.
  - (10) Total assets are restated by \$207,000 for fiscal year 2004 and by \$49,000 for fiscal year 2003 from amounts reported in prior fiscal years to reflect the Company's equity interest in Morion, Inc.

Item 7. 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 Annual Report on Form 10-K 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. Forward-looking statements inherently involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, inability to integrate operations and personnel, actions by significant customers or competitors, general domestic and international economic conditions, consumer spending trends, reliance on key customers, 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, the availability of capital, and the outcome of any litigation and arbitration proceedings. 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. 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 reasonable 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, generally defined as orders in excess of \$100,000, are reported in operating results using the percentage of completion method. For U.S. Government and other fixed-price contracts that 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 sales recorded as the costs are incurred. Each

month management reviews estimated contract costs. 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.

On production-type contracts, revenue is recorded as units are delivered with the related cost of sales recognized on each shipment based upon a percentage of estimated final contract costs. Changes in job performance 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 contracts are made in the period in which they become determinable.

For contracts in the Company's Gillam-FEI and FEI-Zyfer segments, smaller contracts or orders in the other business segments and sales of products and services to customers are reported in operating results based upon shipment of the product or performance of the services pursuant to contractual terms. 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 reserves are established for slow-moving and obsolete items and are based upon management's experience and expectations for future business. Any changes in reserves arising from revised expectations are reflected in cost of sales in the period the revision is made.

#### Equity-based Compensation

The Company applies the disclosure-only provisions of FAS No. 148, "Accounting for Stock-Based Compensation- Transition and Disclosure" and continues to measure compensation cost in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees." Historically, this has not resulted in compensation cost upon the grant of options under a qualified stock option plan. However, in accordance with FAS No. 148, the Company provides pro forma disclosures of net income (loss) and income (loss) per share as if the fair value method had been applied beginning in fiscal 1996.

The following table illustrates the effect on the Company's consolidated statements of operations for the fiscal years ended April 30, had compensation cost for stock option awards under the plans been determined based on the fair value at the grant dates consistent with the provisions of FAS No. 148:

(in thousands, except per share data)

	2005	2004	2003
	----	----	----
Net Income (Loss), as reported	\$5,037	\$ 320	(\$8,811)
Cost of stock options, net of taxes	(525)	(707)	(752)
	-----	-----	-----
Net Income (Loss)- pro forma	\$4,512	(\$ 387)	(\$9,563)
	=====	=====	=====
Income (Loss) per share, as reported:			
Basic	\$0.59	\$ 0.04	(\$ 1.06)
	=====	=====	=====
Diluted	\$0.58	\$ 0.04	(\$ 1.06)
	=====	=====	=====
Income (Loss) per share- pro forma			
Basic	\$0.53	(\$ 0.05)	(\$ 1.15)
	=====	=====	=====
Diluted	\$0.52	(\$ 0.05)	(\$ 1.15)
	=====	=====	=====

The weighted average fair value of each option has been estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions used for grants in each of the three years ended April 30, 2005, 2004 and 2003; dividend yield of 1.10%, 1.8% and 2.4%; expected volatility of 59%, 63% and 63%; risk free interest rate of 3.9%, 3.6% and 4.1%; and expected lives of six and one-half years, respectively.



## RESULTS OF OPERATIONS

The table below sets forth for the fiscal years ended April 30 the percentage of consolidated net sales represented by certain items in the Company's consolidated statements of operations:

	2005	2004	2003
	----	----	----
Net Sales (exclusive of intercompany sales)			
Commercial Communications	55.4%	55.5%	46.9%
U.S. Government	10.2	14.1	28.3
Gillam-FEI	18.5	17.3	24.8
FEI-Zyfer	15.9	13.1	-
	-----	-----	-----
	100.0	100.0	100.0
Cost of Sales	67.1	68.9	81.5
	-----	-----	-----
Gross Margin	32.9	31.1	18.5
Selling and Administrative expenses	21.2	22.3	24.0
Compensation Charges	1.6	1.5	-
Goodwill writedown	-	-	19.5
Research and Development expenses	12.4	10.6	14.6
	-----	-----	-----
Operating Loss	(2.3)	(3.3)	(39.6)
Other Income, net & Minority Interest	15.2	3.8	5.9
Provision (Benefit) for Income Taxes	3.8	0.2	(5.6)
	-----	-----	-----
Net Income (Loss)	9.1%	0.3%	(28.1%)
	=====	=====	=====

### Significant Events

As more thoroughly described elsewhere in this Form 10-K and in the notes to the financial statements, the Company's fiscal year 2005, 2004 and 2003 results of operations were materially impacted by several specific events. During fiscal year 2005, the Company recorded a gain of \$4.6 million on the conversion of its real estate operating partnership units ("REIT units") into shares of Reckson Associates Realty Corp. common stock ("REIT stock"), thus completing a transaction which was initiated in fiscal year 1998. (See Item 2. Properties and Note 6 to the accompanying consolidated financial statements.) Subsequent to the conversion, the Company sold a portion of the REIT stock and realized additional gains of approximately \$2.3 million, or total pretax gains of approximately \$6.9 million. As a result of these gains, the Company also accrued a contractually mandated incentive compensation expense of \$416,000, which amount is included in operating expenses under the caption "Compensation Charges."

During fiscal year 2004, the Company acquired the business and net assets of Zyfer, Inc. In addition to the purchase price, the Company invested an additional \$2.5 million of working capital to support the operations of FEI-Zyfer until it could return to profitability. Also, in fiscal year 2004, the Company realized a \$400,000 tax benefit as the result of the reversal of certain tax liabilities established in prior years. In fiscal 2003, the Company determined that the goodwill associated with its investment in Gillam-FEI had become impaired and wrote off the full amount of goodwill in the amount of \$6.2 million.

Without these significant events, the Company's operating (loss) profit, pre-tax income (loss) and net income (loss) would be materially different from that reported in the financial statements. See Note 12 to the financial statements for pro forma presentation related to the acquisition of FEI-Zyfer, Inc.

### Operating Loss

The operating loss for the fiscal year ended April 30, 2005, decreased by \$377,000 (23%) to \$1.3 million from the \$1.6 million operating loss for fiscal year 2004. The improvement is attributable to the 10% year-over-year increase in sales coupled with improved gross margins but offset by higher selling and administrative costs, compensation charges and research and development expenditures. The research and development expenditures represent investments that keep the Company's products at the leading edge of time and frequency technology and enhance competitiveness for future sales.

The operating loss for the fiscal year ended April 30, 2004, decreased \$10.8 million (87%) to \$1.6 million from the operating loss of \$12.5 million reported in fiscal year 2003. The improvement is directly attributable to the year-over-year increase in sales volume during fiscal year 2004 as well as the significant fiscal year 2003 events which did not recur in fiscal year 2004: the \$6.2 million goodwill impairment (see above) and \$3.6 million in inventory adjustments. These improvements were offset by the fiscal year 2004 operating loss of \$1.1 million recorded by FEI-Zyfer.

#### Net Sales

Net sales for fiscal year 2005 increased by \$5.1 million (10%) to \$55.2 million from fiscal year 2004 revenues of \$50.1 million. Sales increases were experienced in three of the Company's four segments. Commercial Communication revenues increased by \$2.7 million, largely on increased revenues from commercial space programs. Gillam-FEI revenue (exclusive of intercompany sales of \$2.4 million related to a research and development program) improved by \$1.5 million of which approximately 40% is attributable to appreciation in the value of the euro to the dollar during fiscal year 2005. FEI-Zyfer's revenues increased by \$2.2 million or 34%, continuing its improved performance which began in the second half of fiscal year 2004. Only the revenues of the U.S. Government segment experienced a decline of \$1.5 million (21%) compared to fiscal year 2004 as the Company worked on several smaller dollar development contracts versus higher volume production programs. The Company expects to realize significant revenue increases in the U.S. Government segment during fiscal year 2006 based on new production programs and recent contract awards. Similarly, each of the other three segments is expected to show increased revenues in fiscal year 2006 as compared to fiscal year 2005.

Net sales for fiscal year 2004 increased by \$18.6 million (59%) to \$50.1 million from fiscal year 2003 revenues of \$31.5 million. These revenues include \$6.5 million from FEI-Zyfer, or 21% of the year-over-year increase, while sales from the other segments increased by \$12.0 million (38%) over the prior year. This increase is attributable to strong second half revenues in the Commercial Communications and Gillam-FEI segments compared to both the first half of the fiscal year as well as to fiscal year 2003 revenues. Commercial Communication revenues were up 93% (\$14 million) over the prior year on the strength of increased capital spending on cellular network infrastructure and sales related to commercial satellites. Gillam-FEI revenues (exclusive of \$3.5 million in intersegment sales related to a research and development program) increased by over \$500,000 (6%) from the prior year, benefiting primarily from the 20% year-over-year increase in the value of the euro to the dollar. Fiscal year 2004 revenues from the U.S. Government segment declined by \$1.8 million (20%) from the prior year as the Company worked on several developmental programs under U.S. Government contracts as compared to more production-type contracts in the prior year.

Demand for the Company's Commercial Communications products by wireless infrastructure original equipment manufacturers, has fluctuated in recent years. Demand peaked during the Company's fourth quarter of fiscal year 2004 and through the first quarter of fiscal year 2005. This was followed by sequential declines in the subsequent quarters of fiscal year 2005 as end-users postponed deployment of next generation cellular base stations. The Company continues to believe, however, that the world-wide market for its synchronization products for the wireless industry remains extremely large and will grow. The Company anticipates that some of this growth will materialize during the latter portion of fiscal year 2006. In addition, world-wide capital spending on commercial satellites and wireline synchronization systems is increasing. Accordingly, the Company believes future sales in the Commercial Communications and Gillam-FEI segments will increase over the levels achieved in fiscal year 2005. Based on the Company's recent work on U.S. Government-sponsored development contracts and current proposal activity, the Company expects revenues from U.S. Government programs to increase during fiscal year 2006. The U.S. Government is expected to provide funding for such projects as secure radios, new communication satellites, unmanned aerial vehicles, weapons guidance systems and secure communications. The resultant increased revenue stream will benefit the Company's U.S. Government and FEI-Zyfer segments.

#### Gross Margin Rates

The gross margin rate for fiscal year 2005 improved to 33% of net sales compared to 31% in fiscal year 2004. The improvement is primarily attributable to increased revenue in fiscal year 2005 which is able to absorb a greater share of fixed costs. Gross margin improvements were partially offset by

additional work required on certain space programs to address technical issues encountered at the near conclusion of these programs.

The gross margin rate for fiscal year 2004 improved to 31% of net sales compared to 19% in fiscal year 2003. The fiscal year 2003 rate was reduced by 11% due to a \$3.6 million inventory adjustment. Although fiscal year 2004 sales increased substantially over the prior year, the volume was insufficient to fully absorb the overhead, particularly in the first half of the current fiscal year when lower revenues were recorded. In the second half of the year, the Company experienced rising revenues but also built up its support structure to sustain the expected higher level of sales. The Company also reduced the value of its inventory by \$530,000 as the result of an inventory revaluation during fiscal year 2004.

The Company's target is to achieve an overall gross margin rate of 40% or better through greater sales volume, continued process improvements and utilization of lower cost manufacturing in Russia and China. During fiscal year 2006, if revenues increase as anticipated, the Company expects to realize gross margin rates approaching its targeted rate.

#### Compensation Charges

Under the caption "Compensation Charges," the Company has recorded certain expenses which are defined as operating expenses which are not expected to recur.

As indicated above, during fiscal year 2005 the Company accrued a \$416,000 incentive compensation expense related to the conversion and sale of REIT units. In addition, the Company recorded a non-cash charge of \$327,000 to increase the liability under its deferred compensation plan. This charge was based on updated life expectancy charts utilized by the Company's actuary. (See Note 13 to the accompanying consolidated financial statements.) The Company's Belgian subsidiary recorded an accrual for \$133,000 related to litigation with a former employee.

During fiscal year 2004, the Company's majority-owned subsidiary in France substantially completed a restructuring of its operations as a result of the Company's decision to convert it from a manufacturing facility to a regional sales office. This resulted in a charge to earnings of \$428,000, consisting primarily of employee severance costs, for the year ended April 30, 2004. The Company does not expect to incur significant costs in the future related to this restructuring although it may recognize a gain during fiscal year 2006 upon the sale of the subsidiary's current manufacturing facility. In addition, in the fourth quarter of fiscal year 2004, in connection with an employment agreement initiated in 1993, the Company awarded its Chairman of the Board and former CEO a stock bonus of 20,000 shares which had a value of approximately \$297,000.

#### Selling and Administrative expenses

Selling and administrative costs in fiscal year 2005 increased by \$557,000 (5%) to \$11.7 million from \$11.2 million in fiscal year 2004. Compared to fiscal year 2004, the Company incurred larger deferred compensation expense (exclusive of the charge included in "Compensation Charges"), increased salaries for support personnel, incurred information technology consulting fees as the Company upgraded its ERP system and higher professional fees related to the Company's efforts to comply with the provisions of Section 404 of the Sarbanes-Oxley Act of 2002. These expenses were partially offset by savings obtained from the mid-year closing of the Company's European sales office and merging those functions into the Company's Belgian subsidiary.

Selling and administrative costs in fiscal year 2004 increased by \$3.6 million (47%) to \$11.2 million from \$7.6 million in fiscal year 2003. The largest component of this increase is the approximately \$2.8 million of selling and administrative expenses incurred at then newly-acquired FEI-Zyfer. The additional \$800,000 of expenses is commensurate with the increased volume of business that the Company experienced in fiscal year 2004. Costs such as commission expenses, salaries of additional marketing and support personnel and performance related compensation all contributed to increased selling and administrative expenses in fiscal year 2004. These increases were offset by declines in deferred compensation expenses. In addition, the value of the euro to the US dollar continued to rise throughout fiscal year 2004. As a result, Gillam-FEI's euro-denominated selling and administrative costs declined by 5% but, when converted to US dollars, reflected a 13% increase over fiscal year 2003.

As a percentage of sales, selling and administrative expenses were 21.2% in fiscal year 2005, 22.3% in fiscal year 2004 and 24.0% in fiscal year 2003. The Company targets selling and administrative

expenses not to exceed 20% of consolidated sales. The level of sales, which were lower than anticipated each fiscal year, prevented the Company from achieving its target. If revenues improve as anticipated in fiscal year 2006, the Company expects to achieve its targeted level of selling and administrative expenses.

#### Research and Development expenses

Research and development expenses in fiscal year 2005 increased by \$1.5 million (28%) to \$6.8 million from \$5.3 million in fiscal year 2004. The Company devoted significant resources to completion of its new US5G and associated products for wireline synchronization, developed new hardware for space applications and further enhanced the performance of low-g (gravity) sensitivity oscillators which have broad applications in both commercial and U.S. Government systems. These research and development expenditures represent investments that keep the Company's products at the leading edge of time and frequency technology and enhance competitiveness for future sales.

Research and development expenses in fiscal year 2004 increased by \$731,000 (16%) to \$5.3 million from \$4.6 million in fiscal year 2003. This increase is entirely attributable to development costs incurred at FEI-Zyfer which approximated \$840,000. Without FEI-Zyfer, research and development expense would have declined by 2% from fiscal year 2003. During fiscal year 2004, those resources previously devoted to the Company's internal research and development efforts were often redirected to funded research projects. Consequently, the costs of these resources are reflected in cost of sales rather than in research and development expenses. Internal development efforts during fiscal year 2004 were focused on Gillam-FEI's US5G system, developing a digital rubidium oscillator, and further improving the performance of crystal oscillators, including low-g sensitivity crystal oscillators.

The Company will continue to focus its research and development activities on those products which it expects will provide the best return on investment and greatest prospects for the future growth of the Company. For fiscal year 2006, the Company will make additional investments in developing manufacturing process improvements for its new US5G wireline synchronization product. Additional funds will be invested in improving and miniaturizing rubidium atomic clocks, developing new GPS-based synchronization products and further enhancing the capabilities of its line of crystal oscillators. The Company's target is to spend approximately 10% of revenues on research and development activities, although the actual level of spending is dependent on new opportunities and the rate at which it succeeds in bringing new products to market. Internally generated cash and cash reserves will be adequate to fund these development efforts.

#### Other Income, (expense)

Other income increased by \$6.5 million (335%) to \$8.4 million in fiscal year 2005 from \$1.9 million in fiscal year 2004. The largest component of this increase is described above under Significant Events for fiscal year 2005: the conversion of REIT units for REIT stock and the subsequent partial sale of these shares.

Other income (expense), increased by \$60,000 (3%) to \$1.93 million in fiscal year 2004 from \$1.87 million in fiscal year 2003. Amounts for both years have been restated from prior year reporting as a result of a change in accounting for the Company's investment in Morion, Inc. With its increased ownership interest at 36% of Morion's outstanding shares, the Company changed its method of accounting from the cost to the equity method. Accordingly, prior years include the Company's share of Morion's net income in the amount of \$158,000 for fiscal year 2004 and \$49,000 for fiscal year 2003.

Investment income during fiscal year 2005 increased by \$1.5 million (66%) over fiscal year 2004 and fiscal year 2004 increased by \$491,000 (27%) over fiscal year 2003. In all three years, the Company recorded realized gains and losses on marketable securities. In fiscal year 2005, the Company realized gains of \$2.3 million on the sale of a portion of the REIT stock. (See Item 2. Properties and Note 6 to the accompanying financial statements.) In fiscal year 2004, the Company realized gains of \$590,000 on the sale of certain marketable securities. In fiscal year 2003, realized losses on marketable securities of \$130,000 were partially offset by realized gains of \$90,000. Investment income also includes interest and dividends earned on marketable securities, including dividend income from REIT units. Interest income has declined in each of fiscal years 2005, 2004 and 2003 from that realized in each prior year due to a combination of lower interest rates and a decreased level of invested assets. The Company anticipates

that during fiscal year 2006 it will realize additional gains on marketable securities, particularly on additional sales of the REIT stock. These gains will be offset by lower income from interest and dividends since invested assets will decline after payment of income tax obligations related to the investment gains and as the Company invests the net proceeds in lower yielding instruments.

Interest expense for the year ended April 30, 2005 decreased by \$67,000 (18%) as compared to fiscal year 2004 and the expense for the year ended April 30, 2004 increased by \$82,000 (29%) compared to fiscal year 2003. The decline in fiscal year 2005 is due to the paydown during the year of both short-term and long-term credit obligations. The increase in fiscal 2004 is attributable to short-term borrowings by the Company to fund its working capital requirements. Rather than liquidating certain marketable securities, the Company established a credit line with a financial institution and borrowed approximately \$3 million. The interest rate on this line (approximately half of what marketable securities are earning for the Company) plus similar short-term financing in the European subsidiaries increased interest expense during fiscal year 2004. The Company also incurred interest expense on the financing arrangement for the leaseback of the U.S. manufacturing facility and for certain deferred compensation payments. With the conversion of the REIT units, as described previously, the Company will no longer record interest expense on the leaseback arrangement, thus, combined with the debt repayments, the Company anticipates that interest expense in fiscal year 2006 will be substantially lower than that recorded in fiscal years 2005 and 2004.

For the year ended April 30, 2005, Other, net includes a \$4.6 million gain on the conversion of the REIT units to REIT stock, as described above. (See Item 2. Properties and Note 6 to the accompanying consolidated financial statements.) This gain was offset by certain recurring, non-operating expenses. In fiscal year 2004, Other, net expense was \$181,000 compared to net income of \$277,000 in fiscal year 2003. The variances in this account were impacted primarily by costs and income recorded at the Company's French subsidiary. During fiscal year 2004, this subsidiary incurred certain one-time charges of approximately \$100,000 whereas during fiscal year 2003, the same subsidiary realized a gain of approximately \$150,000 on the sale of a portion of real property and received a government agency subsidy of approximately \$200,000 to support a development activity. In future fiscal years, Other, net will include annual amortization into income of the \$1.3 million deferred gain on the 1998 sale of its building. Using the straightline method over the remaining 44 months of the initial leaseback period, the Company will recognize approximately \$350,000 of amortized income during fiscal year 2006. The Company anticipates that in future years other items in this category will not be significant to pretax earnings.

#### Income Taxes

The Company is subject to taxation in several countries. The statutory federal rates vary from 34% in the United States to 35% in Europe. The effective rate for the Company for the year ended April 30, 2005 was 30%, compared to 26% in fiscal year 2004 and a 17% (benefit) in fiscal year 2003. The effective rate is impacted by the income or loss of certain of the Company's European and Asian subsidiaries which are currently not taxed. In addition, the Company utilizes the availability of research and development tax credits in the United States to lower its tax rate. In fiscal year 2004, the Company reversed certain tax liabilities which had been established in prior years to cover certain tax contingencies. During fiscal year 2004, the Company's income tax returns were examined by the Internal Revenue Service and no changes were required for the years under audit. Accordingly, the tax liabilities established for the audited years are no longer required and the reversal of such tax liabilities were recorded as a tax benefit in fiscal year 2004. In fiscal year 2003, the effective tax rate was impacted by the non-deductibility of goodwill impairment. (See Note 14 to the Consolidated Financial Statements.)

The Company's European subsidiaries have available net operating loss carryforwards of approximately \$2.4 million to offset future taxable income. These loss carryforwards have no expiration date.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's balance sheet continues to reflect a highly liquid position with working capital of \$59.7 million at April 30, 2005. Included in working capital at April 30, 2005 is \$30.2 million consisting of cash, cash equivalents and short-term investments. The Company's current ratio at April 30, 2005 is 7.1 to 1.

Net cash provided by operating activities for the year ended April 30, 2005, was \$2.5 million compared to cash used in operations of \$2.6 million in fiscal year 2004. Cash was generated by collection on accounts receivable offset by growth in inventories and payments against accounts payable. The primary increase in cash is due to the deferment of income taxes due on current year profits until after the end of the fiscal year. In fiscal year 2004, cash was absorbed primarily during the first half of the fiscal year as the Company's European subsidiaries recorded operating losses and the Company made working capital investments in the operations of newly-acquired FEI-Zyfer to enable it to return to profitability. With increasing sales in the second half of fiscal year 2004, the Company realized net inflows of cash but these were not sufficient to overcome the larger outlays in the earlier part of the year. In fiscal year 2003, the Company recorded an \$8.8 million net loss which included substantial non-cash charges, such as the writedown of goodwill for \$6.2 million and certain adjustments to inventory. Additionally, cash was provided by collections on accounts receivable and reductions of inventory offset by payments against accounts payable and other liabilities.

Net cash provided by investing activities for the fiscal year ended April 30, 2005, was \$3.6 million. Approximately \$6.1 million was generated by the sale or maturity of certain marketable securities, primarily REIT stock, net of purchases of other marketable securities. The Company also made additional investments in FEI-Zyfer, Satel-FEI and Morion, Inc. which aggregated \$970,000 and acquired capital equipment of \$1.6 million. Net cash provided by investing activities for the fiscal year ended April 30, 2004, was \$529,000. Approximately \$4.4 million was generated by the sale or maturity of certain marketable securities, net of purchases. Most of this cash was used to acquire FEI-Zyfer for \$2.5 million (excludes \$120,000 of acquisition expenses paid in fiscal year 2003) and to provide additional working capital support for this subsidiary as indicated above. (See Note 12 to the accompanying financial statements.) Approximately \$1.3 million was used to acquire additional capital equipment. Investing activities in fiscal year 2003 resulted in cash inflow of \$506,000 consisting of net transactions in marketable securities of \$1.2 million offset by capital expenditures of \$834,000. The Company may continue to invest cash equivalents in longer-term securities or to convert short-term investments to cash equivalents as dictated by its investment and acquisition strategies. The Company will continue to acquire more efficient equipment to automate its production process. It intends to spend less than \$2 million on capital equipment during fiscal year 2006. Internally generated cash will be adequate to acquire this capital equipment.

In fiscal year 2004, the Company established a \$5 million line of credit with the financial institution which also manages a substantial portion of its investment in marketable securities. The line is secured by the investments which earn, on average, approximately a 5.5% annual return. Rather than liquidate some of these investments to meet short-term working capital requirements, during fiscal years 2005 and 2004, the Company borrowed \$1.5 million and \$3.2 million, respectively against the line of credit at fixed and variable interest rates between 2.39% and 4.10%. The Company must annually repay any borrowings under the line of credit on their anniversary date but may also obtain new funding up to the credit limit. In addition, the Company's European subsidiaries have available approximately \$3.7 million in bank credit lines to meet short-term cash flow requirements. The rate of interest on these borrowings is based on the one month EURO Interbank Offered Rate (EURIBOR). During fiscal year 2005, the Company repaid all outstanding debt balances such that, as of April 30, 2005, no amounts were outstanding under any lines of credit.

Net cash used in financing activities in fiscal year 2005 was \$5.3 million. The primary causes for this decline was payment of the Company's semi-annual cash dividend of \$1.7 million and payment of \$5.3 million against lines of credit offset by additional borrowings of \$1.5 million. (See above and Note 7 to the financial statements.) Net cash provided by financing activities in fiscal year 2004 was \$1.5 million. The principal source of funds was short-term financing from financial institutions in the amount of \$3.4 million. Cash was used to pay the Company's semi-annual cash dividend of \$1.7 million and \$479,000 was used to make regularly scheduled long-term liability payments. These outflows were partially offset by the receipt of \$252,000 for repayment of a stock loan and the exercise of stock options. Net cash used by financing activities for the year ended April 30, 2003, was \$2.7 million and included dividend payments of \$1.7 million and long-term liability payments of \$741,000. During fiscal year 2003, the Company also acquired 80,000 shares of its common stock for treasury at a cost of \$501,000. These outflows were partially offset by proceeds of \$111,000 from new borrowings and payments of \$67,000 received from the sale of shares of common stock from treasury to satisfy the exercise of stock options granted to certain

officers and employees in prior years. The Company will continue to use treasury shares to satisfy the future exercise of stock options granted to officers and employees. 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.

The Company will continue to expend resources to develop and improve products for wireless and wireline communication systems which management believes will result in future growth and continued profitability. During fiscal year 2006, the Company intends to make a substantial investment of capital and technical resources to develop new products to meet the needs of the U.S. Government, commercial space and commercial communications 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 approximately 10% of revenues to achieve its development goals. Internally generated cash will be adequate to fund these development efforts.

#### Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements 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.

#### Contractual obligations

As of April 30, 2005

Contractual Obligations	Total (in thousands)	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
Long-Term Debt Obligations.	\$ 9	\$ 9	\$ 0	\$ 0	\$ 0
Operating Lease Obligations	2,034	708	1,326	0	0
Deferred Compensation	7,812*	225	374	296	6,917
Total	\$ 9,855	\$ 942	\$1,700	\$ 296	\$6,917

\* Deferred Compensation liability (See Note 13 in the accompanying financial statements) reflects payments due to current retirees receiving benefits. The amount of \$6,917 in the more than 5 years column includes benefits due to participants in the plan who are not yet receiving benefits although some participants may opt to retire and begin receiving benefits within the next 5 years.

As of April 30, 2005, the Company's consolidated backlog amounted to approximately \$31 million (see Item 1). Approximately 80% of this backlog is expected to be filled during the Company's fiscal year ending April 30, 2006.

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The Company's liquidity is adequate to meet its foreseeable operating and investment needs. In addition, with its available cash and marketable securities, the Company is able to continue paying semi-annual dividends, subject to the review and approval of its Board of Directors.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued Statement No. 151 "Inventory Costs." ("FAS 151") This statement amends Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing" and removes the "so abnormal" criterion that under certain circumstances could have led to the capitalization of these items. FAS 151 requires that idle facility expense, excess spoilage, double freight and re-handling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." FAS 151 also requires that allocation of fixed production overhead expenses to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this statement are effective for fiscal years beginning after June 15, 2005; i.e., fiscal year 2007 for the Company. The adoption of FAS 151 is not expected to have a material impact on the Company's financial position or results of operations.

In December 2004, the FASB issued Statement No. 123(R), "Stock-Based Payment" ("FAS 123(R)"). FAS 123(R) supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FAS No. 95, "Statement of Cash Flows." Generally, the approach in FAS 123(R) is similar to the approach described in FAS 123. FAS 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. FAS 123(R) requires that the fair value of such equity instruments be recognized as an expense in the historical financial statements as services are performed. Prior to FAS 123(R), only certain pro forma disclosures of fair value were required. The provisions of this statement are effective for fiscal years beginning after June 15, 2005; i.e., fiscal year 2007 for the Company. The adoption of FAS 123(R) will have an impact on the Company's financial position and results of operations similar to the pro forma disclosure in the Equity-based Compensation disclosure in Note 1 to the accompanying financial statements.

In December 2004, the FASB issued Statement No. 153, "Exchange of Non-monetary Assets", ("FAS 153") an amendment of Accounting Principles Board Opinion No. 29 ("APB 29"), which differed from the International Accounting Standards Board's ("IASB") method of accounting for exchanges of similar productive assets. FAS 153 replaces the exception from fair value measurement in APB 29, with a general exception from fair value measurement for exchanges of non-monetary assets that do not have commercial substance. The statement is to be applied prospectively and is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005; i.e., August 1, 2005 for the Company. The adoption of FAS 153 is not expected to have a material impact on the Company's financial position or result of operations.

#### OTHER MATTERS

The financial information reported herein is not necessarily indicative of future operating results or of the future financial condition of the Company. Except as noted, management is unaware of any impending transactions or events that are likely to have a material adverse effect on results from operations.

#### INFLATION

During fiscal 2005, as in the two prior fiscal years, the impact of inflation on the Company's business has not been materially significant.

#### Item 7a. Quantitative and Qualitative Disclosures about Market Risk

##### Interest Rate Risk

The Company is exposed to market risk related to changes in interest rates and market values of securities. The Company's investments in fixed income and equity securities were \$16.2 million and \$7.3 million, respectively, at April 30, 2005. The investments are carried at fair value with changes in unrealized gains and losses, net of taxes, recorded as adjustments to stockholders' equity. The fair value of investments in marketable securities is generally based on quoted market prices. Typically, the fair market value of investments in fixed interest rate debt securities will increase as interest rates fall and decrease as interest rates rise. Based on the Company's overall interest rate exposure at April 30, 2005, a 10% change in market interest rates would not have a material effect on the fair value of the Company's fixed income securities or results of operations (investment income).

##### Foreign Currency Risk

With its investment in Gillam-FEI, FEI-Europe and FEI-Asia, the Company is subject to foreign currency translation risk. For each of these investments, the Company does not have any near-term intentions to repatriate its invested cash. For this reason, the Company does not intend to initiate any exchange rate hedging strategies which could be used to mitigate the effects of foreign currency



fluctuations. The effects of foreign currency rate fluctuations will be recorded in the equity section of the balance sheet as a component of other comprehensive income. As of April 30, 2005, the amount related to foreign currency exchange rates is a \$3,957,000 unrealized gain. Note that the value of the Chinese Yuan is "pegged" to the value of the US dollar. Accordingly, no foreign currency gains or losses have been realized or are included in the unrealized gain indicated above. If the Chinese government decides to change its policy and permits the Yuan to "float" against other world currencies, the Company would report the effect in other comprehensive income, as appropriate.

The results of operations of foreign subsidiaries, when translated into US dollars, will reflect the average rates of exchange for the periods presented. As a result, similar results in local currency can vary significantly upon translation into US dollars if exchange rates fluctuate significantly from one period to the next.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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The Board of Directors and Shareholders  
Frequency Electronics, Inc. and Subsidiaries  
Mitchel Field, New York

We have audited the accompanying consolidated balance sheet of Frequency Electronics, Inc. and Subsidiaries as of April 30, 2005 and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. We have also audited the consolidated schedule listed in Item 15(a)(2) of this Form 10-K for the year ended April 30, 2005. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Frequency Electronics, Inc. and Subsidiaries at April 30, 2005 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related consolidated financial statement schedule for the year ended April 30, 2005, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Holtz Rubenstein Reminick LLP  
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Melville, New York  
July 18, 2005

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To the Board of Directors and Stockholders of Frequency Electronics, Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) on page 52 present fairly, in all material respects, the financial position of Frequency Electronics, Inc. and Subsidiaries at April 30, 2004, and the results of their operations, changes in stockholders' equity, and their cash flows for each of the two years in the period ended April 30, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) on page 52 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 10, the Company has changed its method of accounting for its investment in an entity from the cost method to the equity method for all periods presented due to an increase in the ownership of such entity in fiscal 2005.

/s/ PricewaterhouseCoopers LLP

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Melville, New York

July 6, 2004, except for Note 10,

as to which the date is September 28, 2004

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES  
 Consolidated Balance Sheets  
 April 30, 2005 and 2004

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ASSETS:	2005	2004
	----	----
	(In thousands)	
Current assets:		
Cash and cash equivalents	\$ 6,701	\$ 5,699
Marketable securities	23,532	25,690
Accounts receivable, net of allowance for doubtful accounts of \$172 in 2005 and \$140 in 2004	12,728	15,036
Inventories, net	22,948	21,925
Deferred income taxes	2,269	2,585
Income taxes receivable	-	242
Prepaid expenses and other	1,362	1,658
	-----	-----
Total current assets	69,540	72,835
Property, plant and equipment, at cost, less accumulated depreciation and amortization	6,770	11,486
Deferred income taxes	2,644	593
Goodwill and other intangible assets	591	616
Cash surrender value of life insurance	5,838	5,355
Other assets	2,991	1,982
	-----	-----
Total assets	\$ 88,374	\$ 92,867
	=====	=====

Continued

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES  
Consolidated Balance Sheets  
April 30, 2005 and 2004

(Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY:	2005	2004
	-----	-----
	(In thousands)	
Current liabilities:		
Short-term credit obligations	\$ -	\$ 3,408
Accounts payable - trade	1,896	3,470
Accrued liabilities	3,912	4,106
Income taxes payable	3,184	-
Dividend payable	852	843
	-----	-----
Total current liabilities	9,844	11,827
Deferred compensation	7,812	6,854
Deferred gain and REIT liability	1,525	10,755
	-----	-----
Total liabilities	19,181	29,436
	-----	-----
Minority interest in consolidated subsidiary	-	48
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Preferred stock - authorized 600,000 shares of \$1.00 par value; no shares issued	-	-
Common stock - authorized 20,000,000 shares of \$1.00 par value; issued - 9,163,940 shares	9,164	9,164
Additional paid-in capital	45,289	44,442
Retained earnings	12,440	9,104
	-----	-----
Common stock reacquired and held in treasury - at cost (646,709 shares in 2005 and 738,428 shares in 2004)	(2,601)	(2,797)
Other stockholders' equity	-	(17)
Accumulated other comprehensive income	4,901	3,487
	-----	-----
Total stockholders' equity	69,193	63,383
	-----	-----
Total liabilities and stockholders' equity	\$88,374	\$92,867
	=====	=====

The accompanying notes are an integral part of these financial statements.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES  
 Consolidated Statements of Operations  
 Years ended April 30, 2005, 2004 and 2003

	2005	2004(a)	2003(a)
	-----	-----	-----
	(In thousands, except share data)		
Net sales	\$ 55,173	\$ 50,106	\$ 31,527
Cost of sales	37,013	34,529	25,681
	-----	-----	-----
Gross margin	18,160	15,577	5,846
Selling and administrative expenses	11,719	11,162	7,573
Compensation charges	876	725	-
Research and development expenses	6,834	5,336	4,605
Goodwill impairment	-	-	6,158
	-----	-----	-----
Operating loss	(1,269)	(1,646)	(12,490)
Other income (expense):			
Investment income	3,850	2,321	1,830
Equity in Morion (a)	315	158	49
Interest expense	(298)	(365)	(283)
Other, net	4,548	(181)	277
	-----	-----	-----
Income (loss) before minority interest and provision (benefit) for income taxes	7,146	287	(10,617)
Minority interest in loss of consolidated subsidiary	(1)	(144)	(33)
	-----	-----	-----
Income (loss) before provision (benefit) for income taxes	7,147	431	(10,584)
Provision (benefit) for income taxes	2,110	111	(1,773)
	-----	-----	-----
Net income (loss)	\$ 5,037	\$ 320	(\$ 8,811)
	=====	=====	=====
Net income (loss) per common share:			
Basic	\$ 0.59	\$ 0.04	(\$ 1.06)
	=====	=====	=====
Diluted	\$ 0.58	\$ 0.04	(\$ 1.06)
	=====	=====	=====
Average shares outstanding:			
Basic	8,484,682	8,374,399	8,331,785
	=====	=====	=====
Diluted	8,684,758	8,542,575	8,331,785
	=====	=====	=====

(a) Prior period amounts have been restated to reflect the Company's equity income from its investment in Morion, Inc.

The accompanying notes are an integral part of these financial statements.

FREQUENCY ELECTRONICS, INC. AND SUBSIDIARIES  
Consolidated Statements of Changes in Stockholders' Equity  
Years ended April 30, 2005, 2004 and 2003  
(In thousands, except share data)

	Common Shares	Stock Amount	Additional paid in capital	Retained earnings	Treasury stock (at cost) Shares	Amount	Other Stock- holders equity	Accumulated other compre- hensive income (loss)	Total
Balance at May 1, 2002	9,163,940	\$9,164	\$43,077	\$20,939	830,074	(\$2,806)	(\$116)	\$ 84	\$70,342
Exercise of stock options			29		(11,000)	38			67
Issuance of stock for Gillam acquisition			447		(35,000)	88			535
Contribution of stock to 401(k) plan			253		(39,335)	119			372
Repurchase of stock for treasury					80,000	(501)			(501)
Cash dividend				(1,664)					(1,664)
Decrease in market value of marketable securities								(1,039)	(1,039)
Foreign currency translation adjustment								2,457	2,457
Net loss (restated)				(8,811)					(8,811)
Comprehensive loss- 2003									
Balance at April 30, 2003	9,163,940	9,164	43,806	10,464	824,739	(3,062)	(116)	1,502	61,758
Exercise of stock options			74		(25,300)	79			153
Stock grant to officer			236		(20,000)	61			297
Contribution of stock to 401(k) plan			326		(41,011)	125			451
Repayment of receivable common stock							99		99
Cash dividend				(1,680)					(1,680)
Increase in market value of marketable securities								991	991
Foreign currency translation adjustment								994	994
Net income (restated)				320					320
Comprehensive income- 2004									2,305
Balance at April 30, 2004	9,163,940	9,164	44,442	9,104	738,428	(2,797)	(17)	3,487	63,383
Exercise of stock options			109		(24,950)	68			177
Contribution of stock to 401(k) plan			300		(30,621)	93			393
Repayment of receivable common stock							17		17
Cash dividend				(1,701)					(1,701)
Additional investment in Morion, Inc.			438		(42,448)	101			539
Repurchase of stock for treasury					6,300	(66)			(66)
Increase in market value of marketable securities								1,018	1,018
Foreign currency translation adjustment								396	396
Net income				5,037					5,037
Comprehensive income- 2005									6,451
Balance at April 30, 2005	9,163,940	\$9,164	\$45,289	\$12,440	646,709	(\$2,601)	\$ -	\$4,901	\$69,193

The accompanying notes are an integral part of these financial statements.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES  
Consolidated Statements of Cash Flows  
Years ended April 30, 2005, 2004 and 2003

	2005	2004	2003
	-----	-----	-----
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	\$5,037	\$ 320	(\$8,811)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Deferred tax (benefit) expense	(2,610)	411	(123)
Depreciation and amortization	2,014	2,098	1,600
Provision for losses on accounts receivable and inventories	771	710	3,634
Gain on REIT conversion	(4,629)	-	-
Gain on marketable securities and other assets, net	(2,169)	(618)	(67)
Stock grant to officer	-	297	-
Minority interest in loss of consolidated subsidiary	(1)	(144)	(33)
Equity income from Morion	(315)	(158)	(49)
Goodwill impairment	-	-	6,158
Changes in assets and liabilities, exclusive of assets and liabilities acquired:			
Accounts receivable	2,868	(4,149)	4,515
Inventories	(1,526)	(3,035)	(1,115)
Prepaid and other	364	(379)	370
Other assets	(526)	(500)	(549)
Accounts payable trade	(1,729)	1,004	(2,209)
Accrued liabilities	(118)	200	(823)
Liability for employee benefit plans	1,655	719	973
Income taxes	3,517	975	(19)
Other liabilities	(67)	(320)	(1,004)
	-----	-----	-----
Net cash provided by (used in) operating activities	2,536	(2,569)	2,448
	-----	-----	-----
Cash flows from investing activities:			
Payment for acquisition	(135)	(2,538)	(120)
Purchase of minority interest in manufacturing partner	(835)	-	-
Purchase of marketable securities	(6,393)	(6,053)	(7,378)
Proceeds from sale or redemption of marketable securities	12,514	10,435	8,598
Capital expenditures	(1,640)	(1,343)	(834)
Other- net	72	28	240
	-----	-----	-----
Net cash provided by investing activities	3,583	529	506
	-----	-----	-----

Continued



FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES  
Consolidated Statements of Cash Flows  
Years ended April 30, 2005, 2004 and 2003  
(Continued)

	2005	2004	2003
	-----	-----	-----
	(In thousands)		
Cash flows from financing activities:			
Payment of short-term credit and other long-term obligations	(5,264)	(479)	(741)
Proceeds from short-term debt	1,548	3,361	111
Payment of cash dividend	(1,692)	(1,671)	(1,664)
Repurchase of stock for treasury	(66)	-	(501)
Repayment of officer loan	17	99	-
Exercise of stock options	177	153	67
	-----	-----	-----
Net cash (used in) provided by financing activities	(5,280)	1,463	(2,728)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents before effect of exchange rate changes	839	(577)	226
Effect of exchange rate changes on cash and cash equivalents	163	324	343
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	1,002	(253)	569
Cash and cash equivalents at beginning of year	5,699	5,952	5,383
	-----	-----	-----
Cash and cash equivalents at end of year	\$6,701	\$5,699	\$5,952
	=====	=====	=====
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 303	\$ 271	\$ 264
	=====	=====	=====
Income taxes	\$1,200	\$ 450	\$ 0
	=====	=====	=====
Other activities which affect assets or liabilities but did not result in cash flow during the fiscal years:			
Declaration of cash dividend, not paid	\$ 852	\$ 843	\$ 834
	=====	=====	=====
Acquired net assets of Zyfer, Inc.			
Accounts receivable	-	\$ 894	-
Inventory	-	1,397	-
Customer Lists	-	602	-
Goodwill	\$ 83	134	-
Other current assets	-	25	-
Fixed assets	-	787	-
Accounts payable	-	(974)	-
Accrued expenses	-	(71)	-
	-----	-----	-----
	\$ 83	\$2,794	-
	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

1. Summary of Accounting Policies

Principles of Consolidation:

The consolidated financial statements include the accounts of Frequency Electronics, Inc. and its wholly-owned subsidiaries (the "Company" or "Registrant"). References to "FEI" are to the parent company alone and do not refer to any of its subsidiaries. The Company is principally engaged in the design, development and manufacture of precision time and frequency control products and components for microwave integrated circuit applications. See Note 16 for information regarding the Company's Commercial Communications (which includes the subsidiaries FEI Communications, Inc., FEI-Europe, GmbH and FEI-Asia, Inc.), Gillam-FEI, U.S. Government (subsidiary FEI-Government Systems, Inc.) and FEI-Zyfer business segments. Intercompany accounts and significant intercompany transactions are eliminated in consolidation. To accommodate the different fiscal periods of Gillam-FEI, the Company recognizes its share of net income or loss on a one month lag. Any material events which may occur during the intervening month at Gillam-FEI will be accounted for in the consolidated financial statements.

These financial statements have been prepared in conformity with generally accepted accounting principles and require management to make estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Actual results could differ from these estimates.

Change in Accounting:

Prior period financial statements have been restated to reflect the Company's change in accounting from the cost method to the equity method for its investment in Morion, Inc. (See Note 10.)

Reclassifications:

Certain prior year amounts have been reclassified to conform to current year presentation. These reclassifications had no effect on reported consolidated earnings.

Cash Equivalents:

The Company considers certificates of deposit and other highly liquid investments with original maturities of three months or less to be cash equivalents. The Company places its temporary cash investments with high credit quality financial institutions. Such investments may be in excess of the FDIC insurance limit. No losses have been experienced on such investments.

Marketable Securities:

Marketable securities consist of investments in common stocks, mutual funds, and debt securities of U.S. government agencies. Substantially all marketable securities at April 30, 2005 were held in the custody of two financial institutions. Investments in debt and equity securities are categorized as available for sale and are carried at fair value, with unrealized gains and losses excluded from income and recorded directly to stockholders' equity. The Company recognizes gains or losses when securities are sold using the specific identification method.

Allowance for Doubtful Accounts:

Losses from uncollectible accounts receivable are provided for by utilizing the allowance for doubtful accounts method based upon management's estimate of uncollectible accounts. Management specifically analyzes accounts receivable and the potential for bad debts, customer concentrations, credit worthiness, current economic trends and changes in customer payment terms when evaluating the allowance for doubtful accounts.

Inventories:

Inventories, which consist of finished goods, work-in-process, raw materials and components, are accounted for at the lower of cost (specific and average) or market.

Property, Plant and Equipment:

Property, plant and equipment are recorded at cost and include interest on funds borrowed to finance construction. Expenditures for renewals and betterments are capitalized; maintenance and repairs are charged to income when incurred. When fixed assets are sold or retired, the cost and related accumulated depreciation and amortization are eliminated from the respective accounts and any gain or loss is credited or charged to income.

If events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the long-lived asset, an impairment loss is recognized. To date, no impairment losses have been recognized.

Depreciation and Amortization:

Depreciation of fixed assets is computed on the straight-line method based upon the estimated useful lives of the assets (40 years for buildings and 3 to 10 years for other depreciable assets). Leasehold improvements are amortized on the straight-line method over the shorter of the term of the lease or the useful life of the related improvement.

Amortization of identifiable intangible assets is based upon the expected lives of the assets and is recorded at a rate which approximates the Company's utilization of the assets

Intangible Assets

Intangible assets consist of customer lists which result from the excess purchase price over the fair value of acquired tangible assets. The customer lists are measured at fair value and amortized over the estimated useful life of 3 to 5 years.

Goodwill:

The Company records goodwill as the excess of purchase price over the fair value of identifiable net assets acquired. In accordance with Statement of Financial Accounting Standards ("FAS") No. 142 "Goodwill and Other Intangible Assets," goodwill is tested for impairment on at least an annual basis. When it is determined that the carrying value of investments may not be recoverable, the Company writes down the related goodwill to an amount commensurate with the revised value of the acquired assets. The Company measures impairment based on revenue projections, recent transactions involving similar businesses and price/revenue multiples at which they were bought and sold, price/revenue multiples of competitors, and the present market value of publicly-traded companies in the Company's industry.

Revenue and Cost Recognition:

Revenues under larger, long-term contracts, generally defined as orders in excess of \$100,000, are reported in operating results using the percentage of completion method. For U.S. Government and other fixed-price contracts that 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 sales recorded as the costs are incurred.

On production-type contracts, revenue is recorded as units are delivered with the related cost of sales recognized on each shipment based upon a percentage of estimated final contract costs. Changes in job performance may result in revisions to costs and revenue and are recognized in the period in which revisions are determined to be required. Provisions for anticipated losses are made in the period in which they become determinable.

For contracts in the Company's subsidiaries, and smaller contracts or orders in the other business segments, sales of products and services to customers are reported in operating results upon shipment of the product or performance of the services pursuant to contractual terms.

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.

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.

#### Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains or losses, net of tax, on securities available for sale during the year and the effects of foreign currency translation adjustments.

#### Research and Development expenses:

The Company engages in research and development activities to identify new applications for its core technologies, to improve existing products and to improve manufacturing processes to achieve cost reductions and manufacturing efficiencies. Research and development costs include direct labor, manufacturing overhead, direct materials and contracted services. Such costs are expensed as incurred. In the normal course of business the Company is also contracted to perform research and development for others. The costs incurred under such contracts are recorded in cost of sales.

#### Income Taxes:

The Company recognizes deferred tax liabilities and assets based on the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

#### Earnings Per Share:

Basic earnings per share are computed by dividing net earnings by the weighted average number of shares of common stock outstanding. Diluted earnings per share are computed by dividing net earnings by the sum of the weighted average number of shares of common stock and the if-converted effect of unexercised stock options.

#### Fair Values of Financial Instruments:

Cash and cash equivalents and loans payable are reflected in the accompanying consolidated balance sheets at amounts considered by management to reasonably approximate fair value based upon the nature of the instrument and current market conditions. Management is not aware of any factors that would significantly affect the value of these amounts.

#### Foreign Currency Adjustments

The local currency is the functional currency of each of the Company's non-US 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 US dollars, reflect the average rates of exchange for the periods presented. The balance sheets of foreign subsidiaries, except for equity accounts, are translated into US 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 significantly upon translation into US dollars if exchange rates fluctuate significantly from one period to the next.

#### Equity-based Compensation:

The Company applies the disclosure-only provisions of FAS No. 148, "Accounting for Stock-Based Compensation," and continues to measure compensation cost in accordance with Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees." Historically, this has not resulted in compensation cost upon the grant of options under a qualified stock option plan. However, in accordance with FAS No. 148, the Company provides pro forma disclosures of net income (loss) and income (loss) per share as if the fair value method had been applied beginning in fiscal 1996.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

The following table illustrates the effect on the Company's consolidated statements of operations had compensation cost for stock option awards under the plans been determined based on the fair value at the grant dates consistent with the provisions of FAS No. 123:

	(in thousands, except per share data)		
	2005	2004	2003
	----	----	----
Net Income (Loss), as reported	\$5,037	\$320	(\$8,811)
Cost of stock options, net of taxes	(525)	(707)	(752)
	-----	-----	-----
Net Income (Loss)- pro forma	\$4,512	(\$387)	(\$9,563)
	=====	=====	=====
Income (Loss) per share, as reported:			
Basic	\$0.59	\$0.04	(\$1.06)
	=====	=====	=====
Diluted	\$0.58	\$0.04	(\$1.06)
	=====	=====	=====
Income (Loss) per share- pro forma			
Basic	\$0.53	(\$0.05)	(\$1.15)
	=====	=====	=====
Diluted	\$0.52	(\$0.05)	(\$1.15)
	=====	=====	=====

The weighted average fair value of each option has been estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions used for grants in each of the three years ended April 30, 2005, 2004 and 2003; dividend yield of 1.10%, 1.8% and 2.4%; expected volatility of 59%, 63% and 63%; risk free interest rate of 3.9%, 3.6% and 4.1%; and expected lives of six and one-half years, respectively.

New Accounting Pronouncements:

In November 2004, the FASB issued Statement No. 151 "Inventory Costs." ("FAS 151") This statement amends Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing" and removes the "so abnormal" criterion that under certain circumstances could have led to the capitalization of these items. FAS 151 requires that idle facility expense, excess spoilage, double freight and re-handling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." FAS 151 also requires that allocation of fixed production overhead expenses to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this statement are effective for fiscal years beginning after June 15, 2005; i.e., fiscal year 2007 for the Company. The adoption of FAS 151 is not expected to have a material impact on the Company's financial position or results of operations.

In December 2004, the FASB issued Statement No. 123(R), "Stock-Based Payment" ("FAS 123(R)"). FAS 123(R) supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FAS No. 95, "Statement of Cash Flows." Generally, the approach in FAS 123(R) is similar to the approach described in FAS 123. FAS 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. FAS 123(R) requires that the fair value of such equity instruments be recognized as an expense in the historical financial statements as services are performed. Prior to FAS 123(R), only certain pro forma disclosures of fair value were required. The provisions of this statement are effective for fiscal years beginning after June 15, 2005; i.e., fiscal year 2007 for the Company. The adoption of FAS 123(R) will have an impact on the Company's financial position and results of operations similar to the pro forma disclosure in the Equity-based Compensation disclosure in Note 1.

In December 2004, the FASB issued Statement No. 153, "Exchange of Non-monetary Assets", ("FAS 153") an amendment of Accounting Principles Board Opinion No. 29 ("APB 29"), which differed from the International Accounting Standards Board's ("IASB") method of accounting for exchanges of similar productive assets. FAS 153 replaces the exception from fair value measurement in APB 29, with a general exception from fair value measurement for exchanges of non-monetary assets that do not have commercial substance. The statement is to be applied prospectively and is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005; i.e., August 1, 2005 for the

Company. The adoption of FAS 153 is not expected to have a material impact on the Company's financial position or result of operations.

2. Accounts Receivable

Accounts receivable include costs and estimated earnings in excess of billings on uncompleted contracts accounted for on the percentage of completion basis of approximately \$4,138,000 at April 30, 2005 and \$2,428,000 at April 30, 2004. Such amounts represent revenue recognized on long-term contracts that has not been billed, pursuant to contract terms, and was not billable at the balance sheet date.

3. Earnings Per Share

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

	Years ended April 30,		
	2005	2004	2003
Basic EPS Shares outstanding (weighted average)	8,484,682	8,374,399	8,331,785
Effect of Dilutive Securities	200,076	168,176	***
Diluted EPS Shares outstanding	8,684,758	8,542,575	8,331,785

\*\*\* Dilutive securities are excluded for the year ended April 30, 2003 since the inclusion of such shares would be antidilutive due to the net loss for the year then ended.

Options to purchase 505,550, 471,750 and 677,362 shares of common stock were outstanding during the years ended April 30, 2005, 2004 and 2003, respectively, but were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the Company's common shares during the respective periods. Since the inclusion of such options would have been antidilutive they are excluded from the computation.

4. Inventories

Inventories, which are reported net of reserves of \$4,289,000 and \$3,495,000 at April 30, 2005 and 2004, respectively, consisted of the following (in thousands):

	2005	2004
Raw Materials and Component Parts	\$ 10,353	\$ 8,608
Work in Progress and Finished Goods	12,595	13,317
	\$ 22,948	\$ 21,925

5. Marketable Securities

Marketable securities at April 30, 2005 and 2004 are summarized as follows (in thousands):

	April 30, 2005		
	Cost	Market Value	Unrealized Holding (Loss) Gain
Fixed income securities	\$ 16,627	\$ 16,221	\$ (406)
Equity securities	5,331	7,311	1,980
	\$ 21,958	\$ 23,532	\$ 1,574

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

	April 30, 2004		
	Cost	Market Value	Unrealized Holding (Loss) Gain
REIT units	\$ 12,000	\$ 12,000	\$ -
Fixed income securities	13,767	13,672	(95)
Equity securities	46	18	(28)
	\$ 25,813	\$ 25,690	(\$ 123)

See Note 6 for discussion of the disposition of the REIT units.

Maturities of fixed income securities classified as available-for-sale at April 30, 2005 are as follows (in thousands):

Current	\$ 993
Due after one year through five years	6,581
Due after five years through ten years	9,053
	\$16,627

During fiscal year 2005, the decline in market value of certain fixed income securities was deemed to be other than temporary. Accordingly, during that fiscal year, the Company charged \$20,000 against investment income to record the impairment in value of these securities.

6. Property, Plant and Equipment

Property, plant and equipment at April 30, 2005 and 2004, consists of the following (in thousands):

	2005	2004
Buildings and building improvements	\$ 4,185	\$12,726
Machinery, equipment and furniture	31,351	29,377
	35,536	42,103
Less, accumulated depreciation	28,766	30,617
	\$ 6,770	\$11,486

Depreciation expense for the years ended April 30, 2005, 2004 and 2003 was \$1,908,000, \$1,969,000 and \$1,600,000, respectively.

Maintenance and repairs charged to operations for the years ended April 30, 2005, 2004 and 2003 was approximately \$585,000, \$437,000 and \$242,000 respectively.

In January 1998, the Company sold the Long Island New York building that it occupies to Reckson Associates Realty Corp., a real estate investment trust ("REIT") whose shares are traded on the New York Stock Exchange. The sale involved a tax-deferred exchange of the building for approximately 513,000 participation units of Reckson Operating Partnership, L.P. ("REIT units") which were valued at closing at \$12 million. Each REIT unit was convertible into one share of the common stock of the REIT.

The Company leased back approximately 43% of the building from the purchaser (the "Reckson lease"). Under the accounting provisions for sale and leaseback transactions, the sale of this building was considered a financing and the REIT units received were reflected as a noncurrent liability (\$10,534,000 at April 30, 2004) while the related building continued to be reflected as an asset. In March 2005, the Company exercised its option to convert all of the REIT units into 513,000 shares of the REIT. Upon conversion of the REIT units, the Company recognized a gain of \$4.6 million and deferred an additional \$1.3 million gain. The deferred gain will be recognized into income over the remaining term of the initial leaseback period. As a result of the conversion of the REIT units, both the building and the noncurrent liability were removed from the balance sheet of the Company. Prior to conversion of the REIT units, the Company's annual rental payment of \$400,000 was characterized as repayment of the financing with a portion allocated to interest expense at an assumed interest rate of 6.5% and the balance

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

was considered repayment of principal. During the years ended April 30, 2005, 2004 and 2003, the Company charged \$80,000, \$114,000 and \$132,000, respectively, to interest expense under the financing agreement.

The Reckson lease contains two five-year renewal periods at the option of the Company. Annual rental payments are \$400,000 for the initial 11-year term which ends in January 2009. Under the terms of the lease, the Company is required to pay its proportional share of real estate taxes, insurance and other charges. In addition, the Company's subsidiaries in China and California lease their office and manufacturing facilities. The lease for the FEI-Asia facility is for a one-year term with rent of \$13,892 payable quarterly. The lease for the FEI-Zyfer facility is for a two year term at a rate of \$21,012 per month, terminable with six months written notice.

Future minimum lease payments required by the leases are as follows (in thousands):

Years ending April 30, -----	
2006	\$ 708
2007	654
2008	405
2009	267
	-----
	\$2,034
	=====

7. Debt Obligations  
-----

The Company has a \$5 million line of credit with the financial institution which also manages a substantial portion of its investment in marketable securities. The line is secured by the investments. During the 2005 fiscal year, the Company had additional net borrowings of \$500,000 but repaid the outstanding balance of \$3.3 million before the end of the fiscal year. During the year, advances against the line of credit bore interest at fixed and variable interest rates between 2.61% and 4.10%.

The Company's European subsidiaries have available approximately 2.9 million Euros (approximately \$3.7 million based on current rates of exchange between the dollar and the Euro) in bank credit lines to meet short-term cash flow requirements. As of April 30, 2005, no amount was outstanding under such lines of credit compared to \$634,000 outstanding on April 30, 2004. Interest on these credit lines varies from 0.5% to 1.5% over the EURO Interbank Offered rate (EURIBOR). At April 30, 2005 and 2004, the rate was 2.096% and 2.056%, respectively, based on the 1 month EURIBOR.

All remaining debt that was scheduled to mature has been repaid in full at April 30, 2005.

8. Accrued Liabilities  
-----

Accrued liabilities at April 30, 2005 and 2004 consist of the following (in thousands):

	2005 ----	2004 ----
Other compensation including payroll taxes	\$2,202	\$2,062
Payment due for investment in affiliated companies	83	666(A)
Due customers	506	222
Vacation accrual	552	476
Other	569	680
	-----	-----
	\$3,912	\$4,106
	=====	=====

(A) In April 2004, the Company increased its investment in Morion, Inc. ("Morion"), a Russian producer of low cost, high precision quartz resonators and crystal oscillators. Settlement of the additional investment did not occur until after the fiscal year end.



## 9. Notes Receivable - Common Stock

In October 1994, certain officers and employees acquired an aggregate of 375,000 shares of the Company's common stock in the open market. The purchase price of these shares of approximately \$822,000 was financed by advances from the Company to such officers and employees. The notes, collateralized by the shares of common stock purchased, accrued interest at 1/2% above prime (5.25% at April 30, 2005) which was payable and adjusted annually. The principal was originally due in its entirety at the earlier of termination of employment or October 1999 but was extended until October 2004 for certain officers. Repayments were received during fiscal years 2005 and 2004 for \$16,500 and \$99,000, respectively. No payments were received during fiscal year 2003. All outstanding balances have been repaid in full as of April 30, 2005.

## 10. Investment in Morion, Inc.

On September 28, 2004, the Company increased its investment in Morion from 19.8% to 36% of the privately-held Russian company's outstanding shares. The acquisition was accomplished by a cash payment and the issuance of 42,448 shares of the Company's common stock.

As a result of the increased ownership of Morion, the Company changed its method of carrying the investment from cost to equity as required by generally accepted accounting principles. Under the equity method, the Company records its proportionate share of the earnings of Morion. The effect of the change in accounting method for the fiscal year ended April 30, 2005, was to increase income before provision for income taxes and net income by \$315,000 (\$0.04 per diluted share). The financial statements for the prior fiscal years have been restated for the change in accounting method. For the fiscal year ended April 30, 2004, income before income taxes and net income were increased by \$158,000 (\$0.02 per share). For the fiscal year ended April 30, 2003, the loss before income taxes and the net loss were reduced by \$49,000 (\$0.01 per share). Retained earnings as of the beginning of fiscal year 2005 have been increased by \$207,000 for the effect of retroactive application of the equity method.

At April 30, 2005, 2004, and 2003, the Company's share of the underlying net assets of Morion exceeded the investment by \$549,000, \$249,000 and \$52,000, respectively. The excess relates to certain property, plant and equipment and is being amortized into income by increasing the Company's share of Morion's net income. The Company uses the straightline method to amortize the excess over the remaining useful lives of the property, plant and equipment.

During the fiscal years ended April 30, 2005, 2004 and 2003, the Company acquired product from Morion in the aggregate amount of approximately \$606,000, \$730,000 and \$350,000, respectively. During the fiscal years ended April 30, 2005, 2004 and 2003, the Company sold product to Morion in the aggregate amount of approximately \$181,000, \$181,000 and \$9,000, respectively.

## 11. Acquisition of Gillam-FEI.

During fiscal year 2001, using a combination of cash and FEI's common stock, the Company acquired Gillam-FEI, a Belgian-based company which also owns a French company. Under terms of the purchase agreement, the market value of FEI's stock was measured on July 25, 2002, and required that an additional 35,000 shares of FEI stock be issued to certain former shareholders of Gillam-FEI during fiscal year 2003.

## Goodwill Impairment

The Gillam-FEI acquisition was treated as a purchase. The purchase price was allocated to net assets acquired and to goodwill. In the fourth quarter of 2003, the Company performed an impairment test of the Gillam-FEI reporting unit. The fair value of this reporting unit was determined based upon valuations utilized in recent industry acquisition transactions and current market values of publicly-traded competitors and customers in the same industry as Gillam-FEI. Based on this test, the Company further analyzed its investment in Gillam-FEI and concluded that the goodwill associated with this acquisition was impaired. Consequently, the Company recorded a non-cash charge of \$6.2 million against operating income for fiscal year 2003 to reflect the write down of the full value of goodwill related to the Gillam-FEI acquisition.

## 12. Acquisition of Zyfer, Inc.

On May 9, 2003, the Company acquired the business and net assets of Zyfer, Inc., a wholly-owned subsidiary of Odetics, Inc., in a cash transaction. (Note-Subsequent to this transaction, Odetics changed its corporate name to Iteris, Inc.) The business of the new subsidiary, FEI-Zyfer, Inc., is the design and manufacture of products for precision time and frequency generation and synchronization, primarily incorporating GPS technology.

The Company paid \$2.3 million at closing, plus acquisition costs of approximately \$400,000. According to the terms of the purchase agreement, the Company is required to make additional payments up to a maximum of \$1 million in each of fiscal years 2004 and 2005 if FEI-Zyfer achieves certain revenue levels in those years. The contingent payments are based on a percentage of revenues in excess of \$6 million in fiscal year 2004 and as a percentage of revenues in excess of \$8 million in fiscal year 2005. Based on FEI-Zyfer's performance, with sales of \$8.8 million and \$6.5 million during fiscal years 2005 and 2004, respectively, the Company will pay an additional \$217,000 to Iteris, Inc.

The FEI-Zyfer acquisition is treated as a purchase acquisition. The purchase price has been allocated to net assets acquired of approximately \$1.8 million. The purchase price in excess of net assets acquired, approximately \$900,000, has been allocated to fixed assets (\$300,000) and to customer lists (\$600,000) which will be amortized over the next 4 years. Amortization expense for the years ended April 30, 2005 and 2004 was approximately \$106,000 and \$127,000, respectively. For the next three fiscal years ending April 30, 2008, amortization expense will decline from approximately \$78,000 to \$48,000, followed by a "balloon" writeoff of the customer list balance, expected to be \$186,000, for the year ending April 30, 2009. As of April 30, 2005, the Company also recorded goodwill in the amount of approximately \$217,000 based on the contingent payments described above.

## 13. Employee Benefit Plans

## Profit Sharing Plan:

The Company adopted a profit sharing plan and trust under section 401(k) of the Internal Revenue Code. This plan allows all eligible employees to defer a portion of their income through voluntary contributions to the plan. In accordance with the provisions of the plan, the Company can make discretionary matching contributions in the form of cash or common stock. For the years ended April 30, 2005, 2004 and 2003, the Company contributed 30,621, 41,011 and 39,335 shares of common stock, respectively. The approximate value of these shares at the date of issuance was \$393,000 in fiscal year 2005, \$451,000 in fiscal year 2004 and \$372,000 in fiscal year 2003.

## Income Incentive Pool:

The Company maintains incentive bonus programs for certain employees which are based on operating profits of the Company. The Company also adopted a plan for the President and Chief Executive Officer of the Company, which formula is based on pre-tax profits. The Company charged \$626,000 and \$315,000 to operations under these plans for the fiscal years ended April 30, 2005 and 2004, respectively. For fiscal year 2003, no amount for bonuses was recorded in selling and administrative expenses due to the lack of earnings.

## Independent Contractor Stock Option Plan:

The Company has an Independent Contractor Stock Option Plan under which up to 350,000 shares may be granted. An Independent Contractor Stock Option Committee determines to whom options may be granted from among eligible participants, the timing and duration of option grants, the option price, and the number of shares of common stock subject to each option. Options were granted in prior fiscal years to certain independent contractors at a price equal to the then fair market value of the Company's common stock. The options were exercisable over specified periods per terms of the individual agreements. In fiscal year 2005, the Company granted 30,000 shares to a new member of the Company's Board of Directors. One-third of the options may be exercised one year after the grant date; two-thirds, two years after the grant date and all of the options, three years after the grant date. The

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

exercise price of the grant is at the then fair market value of the Company's common stock, consequently, no compensation expense is recognized because the Company may apply the intrinsic value method for a director of the Company under the provisions of APB 25. No compensation expense was recorded during the years ended April 30, 2005, 2004 and 2003 as no other grants were made in those years and previous grants have been fully expensed.

Transactions under this plan, including the weighted average exercise prices of the options, are as follows:

	2005		2004		2003	
	Shares	Wtd Avg Price	Shares	Wtd Avg Price	Shares	Wtd Avg Price
Outstanding at beginning of year	111,050	\$15.49	114,350	\$15.31	114,350	\$15.31
Granted	30,000	\$14.76	-	-	-	-
Exercised	-	-	(3,300)	\$9.25	-	-
Outstanding at end of year	141,050	\$15.33	111,050	\$15.49	114,350	\$15.31
Exercisable at end of year	111,050	\$15.49	111,050	\$15.49	111,350	\$15.29
Available for grant at end of year	189,500		219,500		219,500	
Weighted average fair value of options granted during the year	\$ 7.81		\$ -		\$ -	

Employee Stock Option Plans:

The Company has various stock option plans for key management employees, including officers and directors who are employees. The plans are both Nonqualified Stock Option ("NQSO") plans and Incentive Stock Option ("ISO") plans. Under both types of plans, options are granted at the discretion of the Stock Option committee at an exercise price not less than the fair market value of the Company's common stock on the date of grant. Under one NQSO plan the options are exercisable one year after the date of grant. Under the remaining plans the options are exercisable over a four-year period beginning one year after the date of grant. The options expire ten years after the date of grant and are subject to certain restrictions on transferability of the shares obtained on exercise. As of April 30, 2005, eligible employees had been granted options to purchase 1,143,500 shares of Company stock under ISO plans of which approximately 365,000 options are outstanding and approximately 150,000 are exercisable. Through April 30, 2005, eligible employees have been granted options to acquire 1,090,000 shares of Company stock under NQSO plans. Of the NQSO options, approximately 745,000 are both outstanding and exercisable (see tables below).

The excess of the consideration received over the par value of the common stock or cost of treasury stock issued under both types of option plans has been recognized as an increase in additional paid-in capital. No charges are made to income with respect to the ISO or NQSO plans.

Transactions under these plans, including the weighted average exercise prices of the options, are as follows:

	2005		2004		2003	
	Shares	Wtd Avg Price	Shares	Wtd Avg Price	Shares	Wtd Avg Price
Outstanding at beginning of year	1,081,437	\$11.00	1,031,062	\$12.63	969,062	\$13.14
Granted	59,500	\$14.40	128,500	\$9.13	83,500	\$6.62
Exercised	(24,950)	\$7.06	(22,000)	\$5.58	(3,500)	\$7.27
Expired or canceled	(6,000)	\$8.80	(56,125)	\$5.86	(18,000)	\$12.91
Outstanding at end of year	1,109,987	\$11.26	1,081,437	\$11.00	1,031,062	\$12.63
Exercisable at end of year	895,587	\$11.46	760,312	\$11.07	665,562	\$11.64
Available for grant at end of year	11,500		71,000		278,000	
Weighted average fair value of options granted during the year	\$7.60		\$5.57		\$4.03	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

The following table summarizes information about stock options outstanding at April 30, 2005:

Actual Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 4/30/05	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 4/30/05	Weighted Average Exercise Price
\$4.375 - 9.575	502,300	5.4	\$ 7.60	375,275	\$ 7.32
10.167 - 16.625	525,687	5.5	12.80	438,312	12.69
23.75	82,000	5.3	23.75	82,000	23.75

Restricted Stock Plan:

During fiscal 1990, the Company adopted a Restricted Stock Plan which provides that key management employees may be granted rights to purchase an aggregate of 375,000 shares of the Company's common stock. The grants, transferability restrictions and purchase price are determined at the discretion of a special committee of the board of directors. The purchase price may not be less than the par value of the common stock.

	2005		2004		2003	
	Shares	Wtd Avg Price	Shares	Wtd Avg Price	Shares	Wtd Avg Price
Outstanding at beginning of year	22,500	\$4.00	22,500	\$4.00	30,000	\$4.00
Granted	-	-	-	-	-	-
Expired	-	-	-	-	-	-
Exercised	-	-	-	-	(7,500)	\$4.00
Outstanding at end of year	22,500	\$4.00	22,500	\$4.00	22,500	\$4.00
Exercisable at end of year	22,500	\$4.00	22,500	\$4.00	22,500	\$4.00
Balance of shares available for grant at end of year	98,250		98,250		98,250	

Transferability of shares is restricted for a four-year period, except in the event of a change in control as defined. Amounts shown as unearned compensation in stockholders' equity represent the excess of the fair market value of the shares over the purchase price at the date of grant which is being amortized as compensation expense over the period in which the restrictions lapse.

Employee Stock Ownership Plan/Stock Bonus Plan:

During 1990 the Company amended its Stock Bonus Plan to become an Employee Stock Ownership Plan ("ESOP"). By means of a bank note, subsequently repaid, the Company reacquired 561,652 shares of its common stock during fiscal 1990. These shares plus approximately 510,000 additional shares issued by the Company from its authorized, unissued shares were sold to the ESOP in May 1990. Shares were released for allocation to participants based on a formula as specified in the ESOP document. By the end of fiscal 2000, all shares (1,071,652) had been allocated to participant accounts of which 582,053 shares remain in the ESOP.

Deferred Compensation Plan:

The Company has a program for key employees providing for the payment of benefits upon retirement or death. Under the plan, each key employee receives specified retirement payments for the remainder of the employee's life with a minimum payment of ten years' benefits to either the employee or

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

his beneficiaries. The plan also provides for reduced benefits upon early retirement or termination of employment. The Company pays the benefits out of its working capital but has also purchased whole life insurance policies on the lives of certain of the participants to cover the optional lump sum obligations of the plan upon the death of the participant.

Deferred compensation expense charged to operations during the years ended April 30, 2005, 2004 and 2003 was approximately \$1,266,000, \$371,000 and \$602,000, respectively. During fiscal year 2005, the Company recorded a change in accounting estimate in the amount of \$327,000 to reflect the use of updated actuarial mortality tables to determine its deferred compensation liability.

14. Income Taxes

The income (loss) before provision (benefit) for income taxes consisted of (in thousands):

		Year Ended April 30,	
		2004	2003
	2005		
	-----	-----	-----
U.S.	\$6,977	\$ 466	(\$ 3,680)
Foreign	170	(35)(a)	(6,904)(a)
	-----	-----	-----
	\$7,147	\$ 431	(\$10,584)
	=====	=====	=====

(a) Prior period amounts have been restated to reflect the Company's equity income from its investment in Morion, Inc.

The provision (benefit) for income taxes consists of the following (in thousands):

	2005	2004	2003
	----	----	----
Current:			
Federal	\$4,200	(\$ 300)	(\$ 1,650)
Foreign	70	-	-
State	450	-	-
	-----	-----	-----
Current benefit	4,720	(300)	(1,650)
	-----	-----	-----
Deferred			
Federal	(2,250)	-	(352)
Foreign	40	95	(171)
State	(400)	-	(200)
Valuation allowance- foreign	-	316	600
	-----	-----	-----
Deferred provision (benefit)	(2,610)	411	(123)
	-----	-----	-----
Total provision (benefit)	\$ 2,110	\$ 111	(\$ 1,773)
	=====	=====	=====

The following table reconciles the reported income tax expense with the amount computed using the federal statutory income tax rate (in thousands).

	2005	2004	2003
	----	----	----
Computed "expected" tax (benefit) expense	\$2,430	\$ 147	(\$3,599)
State and local tax, net of federal benefit	297	-	(139)
Nontaxable income from foreign subsidiaries	(61)	(50)	(11)
Valuation allowance on foreign deferred taxes	-	316	600
Nondeductible losses at foreign subsidiaries	-	218	135
Nondeductible goodwill impairment	-	-	2,094
Nondeductible expenses	159	121	164
Nontaxable life insurance cash value increase	(96)	(103)	(51)
Reversal of tax liabilities	-	(400)	-
Tax credits	(549)	(144)	(784)
Other items, net, none of which individually exceeds 5% of federal taxes at statutory rates	(70)	6	(182)
	-----	-----	-----
	\$2,110	\$ 111	(\$1,773)
	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

The components of deferred taxes are as follows (in thousands):

	2005	2004
	----	----
Deferred tax assets:		
Employee benefits	\$4,012	\$3,465
Inventory	1,550	1,200
Accounts receivable	100	100
Marketable securities	170	49
Credit and loss carryforwards	-	400
Research & development	430	436
Other liabilities	8	7
Foreign net operating loss carryforwards	430	594
Miscellaneous	118	308
	-----	-----
Total deferred tax asset	6,818	6,559
	-----	-----
Deferred tax liabilities:		
Property, plant and equipment	838	2,388
	-----	-----
Net deferred tax asset	5,980	4,171
Valuation allowance	(1,067)	(993)
	-----	-----
	\$4,913	\$3,178
	=====	=====

At April 30, 2005, the Company has available approximately \$2.4 million in net operating losses available to offset future income of certain of its foreign subsidiaries. The Company's valuation allowance was increased by \$393,000 in fiscal year 2004 to reflect the fact that the potential benefit arising from losses of a foreign subsidiary is not likely to be realized. The total valuation allowance relates to deferred tax assets of foreign subsidiaries.

15. Product Warranties

The Company generally provides its customers with a one-year warranty regarding the manufactured quality and functionality of its products. For some limited products, the warranty period has been extended. The Company establishes warranty reserves based on its product history, current information on repair costs and annual sales levels. Changes in the carrying amount of accrued product warranty costs are as follows (in thousands):

	Year Ended April 30,		
	2005	2004	2003
	----	----	----
Balance at beginning of year	\$400	\$300	\$300
Warranty costs incurred	(319)	(280)	(900)
Product warranty accrual	119	380	900
	-----	-----	-----
Balance at end of year	\$200	\$400	\$300
	=====	=====	=====

The higher than expected warranty expense level in fiscal year 2003 was primarily related to a unique manufacturing defect in one of the Company's products which occurred over a limited period of time. The defect was identified and corrected and, as of April 30, 2005, the Company had substantially completed the warranty rework related to this product.

16. Segment Information

The Company operates under four reportable segments:

- (1) Commercial Communications - consists principally of time and frequency control products used in two principal markets- commercial communication satellites and terrestrial cellular telephone or other ground-based telecommunication stations.
- (2) U.S. Government - consists of time and frequency control products used for national defense or space-related programs.
- (3) Gillam-FEI - the Company's Belgian subsidiary primarily sells wireline synchronization and network monitoring systems.
- (4) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

The accounting policies of the four segments are the same as those described in the "Summary of Significant Accounting Policies." The Company evaluates the performance of its segments and allocates resources to them based on operating profit which is defined as income before investment income, interest expense and taxes. The Company's Commercial Communications and U.S. Government segments operate principally out of a U.S.-based manufacturing facility with both segments sharing the same managers, manufacturing personnel, and machinery and equipment. Consequently, data for these two segments includes allocations of depreciation and corporate-wide general and administrative charges. The assets of these two segments consist principally of inventory and accounts receivable. All other U.S.-based assets are assigned to the corporation for the benefit of all four segments. The European-based director of Gillam-FEI and the president of FEI-Zyfer manage the assets of these segments. All acquired assets, including intangible assets, are included in the assets of these segments.

The table below presents information about reported segments for each of the years ended April 30 with reconciliation of segment amounts to consolidated amounts as reported in the statement of operations or the balance sheet for each of the years (in thousands):

	2005	2004	2003
	----	----	----
Net sales:			
Commercial Communications	\$31,464	\$28,235	\$15,051
U.S. Government	5,603	7,053	8,906
Gillam-FEI	12,599**	12,197**	8,137
FEI-Zyfer	8,803	6,560	-
less intersegment sales	(3,296)**	(3,939)**	(567)
	-----	-----	-----
Consolidated Sales	\$55,173	\$50,106	\$31,527
	=====	=====	=====
Operating (loss) profit:			
Commercial Communications	\$ 968**	(\$ 1,093)**	(\$ 7,123)
U.S. Government	(1,584)	656	1,887
Gillam-FEI	200**	353**	(6,972)
FEI-Zyfer	292	(1,059)	-
Corporate	(1,145)	(503)	(282)
	-----	-----	-----
Consolidated Operating (Loss) Profit	(\$ 1,269)	(\$ 1,646)	\$(12,490)
	=====	=====	=====

\*\* For the fiscal years ended April 30, 2005 and 2004, includes Gillam-FEI intersegment sales of \$2.4 million and \$3.5 million, respectively, to the Commercial Communications segment for development of a wireline synchronization product for ultimate production and sale in the U.S. These amounts were recorded as research and development expense of the Commercial Communications segment, resulting in lower operating profit in fiscal year 2005 and an operating loss in fiscal year 2004 at that segment and operating profits in the Gillam-FEI segment in each of those fiscal years.

	2005	2004	2003
	----	----	----
Identifiable assets:			
Commercial Communications	\$26,261	\$22,988	\$14,733
U.S. Government	6,245	5,189	6,147
Gillam-FEI	13,877	14,904	12,305
FEI-Zyfer	4,796	5,541	-
less intersegment balances	(9,892)	(5,673)	(964)
Corporate	47,087	49,918	53,557
	-----	-----	-----
Consolidated Identifiable Assets	\$88,374	\$92,867	\$85,778
	=====	=====	=====
Depreciation and amortization (allocated):			
Commercial Communications	\$1,105	\$1,100	\$ 930
U.S. Government	220	267	327
Gillam-FEI	244	307	324
FEI-Zyfer	426	405	-
Corporate	19	19	19
	-----	-----	-----
Consolidated Depreciation Expense	\$2,014	\$2,098	\$1,600
	=====	=====	=====

## Major Customers

In fiscal year 2005, sales to two customers of the Commercial Communications segment aggregated \$22.0 million or 70% of that segment's total sales. These customers accounted for 28% and 12%, respectively, of the Company's consolidated sales for the year. In the U.S. Government segment, sales to four customers aggregated \$4.9 million or 87% of that segment's revenues in fiscal year 2005. In the Gillam-FEI segment, sales to two customers aggregated \$6.0 million or 59% of that segment's revenues (exclusive of the \$2.4 million intersegment sale). In the FEI-Zyfer segment, two customers accounted for \$1.9 million or 21% of that segment's sales. None of the customers in the U.S. Government, Gillam-FEI or FEI-Zyfer segments accounted for more than 10% of consolidated revenues.

In fiscal year 2004, sales to two customers of the Commercial Communications segment aggregated \$21.6 million or 76% of that segment's total sales. These customers accounted for 32% and 11%, respectively, of the Company's consolidated sales for the year. In the U.S. Government segment, sales to three customers aggregated \$5.8 million or 82% of that segment's revenues in fiscal year 2004. In the Gillam-FEI segment, sales to two customers aggregated \$2.7 million or 31% of that segment's revenues (exclusive of the \$3.5 million intersegment sale). In the FEI-Zyfer segment, one customer accounted for \$1.2 million or 19% of that segment's sales. None of the customers in the U.S. Government, Gillam-FEI or FEI-Zyfer segments accounted for more than 10% of consolidated revenues.

During fiscal year 2003, sales to one customer accounted for approximately \$10.0 million of the Commercial Communications segment's total sales. This amount represents 66% of Commercial Communications' total revenues and 32% of consolidated sales. In the U.S. Government segment, sales to three customers accounted for \$6.7 million of sales or 76% of the segment's revenue and 21% of consolidated revenue. One of the U.S. Government segment's customers accounted for \$3.5 million or 11% of consolidated revenue. Sales to two customers, aggregating \$1.9 million, accounted for 24% of the revenues of the Gillam-FEI segment. None of the customers in the Gillam-FEI segment accounted for more than 10% of consolidated revenues.

The loss by the Company of any one of these customers would have a material adverse effect on the Company's business. The Company believes its relationship with these companies to be mutually satisfactory.

## Foreign Sales

Revenues in the Commercial Communications and Gillam-FEI segments include sales to foreign governments or to companies located in foreign countries. Revenues, based on the location of the procurement entity, were derived from the following countries:

	(in thousands)		
	2005	2004	2003
	----	----	----
China	\$11,422	\$14,141	\$ 1,814
Belgium	5,171	3,876	3,514
France	4,412	3,987	2,483
Brazil	1,051	1,021	-
Canada	1,021	1,046	-
Other	4,334	3,221	4,324
	-----	-----	-----
	\$27,411	\$27,292	\$12,135
	=====	=====	=====



## 17. Interim Results (Unaudited)

As indicated in Note 10 to the financial statements, in September 2004, the Company increased its investment in Morion from 19.8% to 36%. As a result, the Company changed its method of carrying the investment from cost to equity as required by generally accepted accounting principles. Under the equity method, the Company records its proportionate share of the earnings of Morion. The financial statements for the fiscal periods preceding the change in accounting method have been restated as indicated below.

Quarterly results for fiscal years 2005 and 2004 are as follows:

	(in thousands, except per share data)			
	2005 Quarter			
	1st	2nd	3rd	4th
	---	---	---	---
Net sales	\$17,683	\$14,362	\$11,222	\$11,906
Gross margin	5,778	5,259	3,693	3,430
Net income (loss), as reported	977	854	(368)	3,520
Restated Equity in Morion	54			
	-----			
Net income (loss), restated	1,031			
*Earnings (loss) per share				
Basic	\$0.12	\$0.10	(\$0.04)	\$0.41
Diluted	\$0.12	\$0.10	(\$0.04)	\$0.41

During the fourth quarter of fiscal year 2005, the Company recorded additional deferred compensation expense of \$327,000 to reflect a change in accounting estimate based on updated life expectancy tables for its deferred compensation program.

\*Quarterly earnings per share data do not equal the annual amount due to changes in the average common equivalent shares outstanding.

	(in thousands, except per share data)			
	2004 Quarter			
	1st	2nd	3rd	4th
	---	---	---	---
Net sales	\$8,754	\$10,025	\$14,052	\$17,275
Gross margin	2,567	3,320	4,773	4,917
Net income (loss), as reported	(742)	(234)	333	805
Restated Equity in Morion	16	21	31	90
	-----	-----	-----	-----
Net income (loss), restated	(726)	(213)	364	895
*Earnings (loss) per share				
Basic	(\$0.09)	(\$0.03)	\$0.04	\$0.11
Diluted	(\$0.09)	(\$0.03)	\$0.04	\$0.10

During the fourth quarter of fiscal year 2004, the Company reduced its inventory by \$530,000 to adjust for inventory revaluation and realized a tax benefit of \$400,000 as the result of the reversal of certain tax liabilities that were determined to be no longer required.

\*Quarterly earnings per share data do not equal the annual amount due to changes in the average common equivalent shares outstanding.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

Column A -----	Column B -----	Column C ----- Additions -----	Column D -----	Column E -----	
Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts- describe	Deductions -describe	Balance at end of period
Year ended April 30, 2005					
Allowance for doubtful accounts	\$140	\$ 45	-	13(a)	\$172
Inventory reserves	\$3,495	\$726	\$68(c,d)	-	\$4,289
Year ended April 30, 2004					
Allowance for doubtful accounts	\$124	\$ 16	-	-	\$140
Inventory reserves	\$3,598	\$694	\$28(c)	\$825(b)	\$3,495
Year ended April 30, 2003					
Allowance for doubtful accounts	\$124	-	-	-	\$124
Inventory reserves	\$2,941	\$3,634	\$35(c)	\$3,012(b)	\$3,598

- (a) Accounts written off
- (b) Inventory disposed or written off
- (c) Foreign currency translation adjustments
- (d) Includes \$30 reclassification of other liabilities to inventory reserves

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

NONE

Item 9A 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. Based on such evaluation, the Company's chief executive officer and chief financial officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

Internal Control Over Financial Reporting. There have not been any 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 fourth fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B Other Information

NONE

PART III

Item 10. Directors and Executive Officers of the Company

The information required to be furnished pursuant to this item with respect to Directors of the Company, in compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, and the Company's code of ethics is incorporated herein by reference from the Company's definitive proxy statement for the annual meeting of stockholders to be held on or about September 29, 2005. The information required to be furnished pursuant to this item with respect to Executive Officers is set forth, pursuant to General Instruction G of Form 10-K, under Part I of this Report.

Item 11. Executive Compensation

This item is incorporated herein by reference from the Company's definitive proxy statement for the annual meeting of stockholders to be held on or about September 29, 2005.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

This item is incorporated herein by reference from the Company's definitive proxy statement for the annual meeting of stockholders to be held on or about September 29, 2005.

Item 13. Certain Relationships and Related Transactions

This item is incorporated herein by reference from the Company's definitive proxy statement for the annual meeting of stockholders to be held on or about September 29, 2005.

Item 14. Principal Accountant Fees and Services

This item is incorporated herein by reference from the Company's definitive proxy statement for the annual meeting of stockholders to be held on or about September 29, 2005.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Index to Financial Statements, Financial Statement Schedule and Exhibits

The financial statements, financial statement schedule and exhibits are listed below and are filed as part of this report.

(1) FINANCIAL STATEMENTS

Included in Part II of this report:

	Page(s)
	-----
Reports of Independent Registered Public Accounting Firms	26-27
Consolidated Balance Sheets April 30, 2005 and 2004	28-29
Consolidated Statements of Operations - years ended April 30, 2005, 2004 and 2003	30
Consolidated Statements of Changes in Stockholders' Equity - years ended April 30, 2005, 2004 and 2003	31
Consolidated Statements of Cash Flows - years ended April 30, 2005, 2004 and 2003	32-33
Notes to Consolidated Financial Statements	34-49

(2) FINANCIAL STATEMENT SCHEDULE

Included in Part II of this report:

Schedule II - Valuation and Qualifying Accounts	50
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Other financial statement schedules are omitted because they are not required, or the information is presented in the consolidated financial statements or notes thereto.

(3) EXHIBITS

Exhibit 23.1 Consents of Independent Registered Public Accounting Firms	57
Exhibit 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	58
Exhibit 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	59
Exhibit 32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	60
Exhibit 32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	61

The exhibits listed on the accompanying Index to Exhibits beginning on page 54 are filed as part of this annual report.

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.

By /s/ Martin B. Bloch  
-----  
Martin B. Bloch  
President and CEO

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

Dated: July 28, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Joseph P. Franklin ----- Joseph P. Franklin	Chairman of the Board	7/28/05
/s/ Joel Girsky ----- Joel Girsky	Director	7/28/05
/s/ E. Donald Shapiro ----- E. Donald Shapiro	Director	7/28/05
/s/ S. Robert Foley ----- S. Robert Foley	Director	7/28/05
/s/ Richard Schwartz ----- Richard Schwartz	Director	7/28/05
/s/ Martin B. Bloch ----- Martin B. Bloch	President and CEO (Principal Executive Officer)	7/28/05
/s/ Alan L. Miller ----- Alan L. Miller	Chief Financial Officer and Controller (Principal Financial Officer)	7/28/05

INDEX TO EXHIBITS

ITEM 15(a)(3)

Certain of the following exhibits were filed with the Securities and Exchange Commission as exhibits, numbered as indicated below, to the Registration Statement or report specified below, which exhibits are incorporated herein by reference:

Exhibit No. in this Form 10-K	Description of Exhibit	NOTE
3.1	Copy of Certificate of Incorporation of the Registrant filed with the Secretary of State of Delaware	(1)
3.2	Amendment to Certificate of Incorporation of the Registrant filed with the Secretary of State of Delaware on March 27, 1981	(2)
3.3	Amendment to Certificate of Incorporation of the Registrant filed with Secretary of State of Delaware on October 26, 1984	(6)
3.4	Amendment to Certificate of Incorporation of the Registrant filed with the Secretary of State of Delaware on October 22, 1986	(8)
3.5	Amended and Restated Certificate of Incorporation of the Registrant filed with the Secretary of State of Delaware on October 26, 1987	(10)
3.6	Amended Certificate of Incorporation of the Company filed with the Secretary of State of Delaware on November 2, 1989	(10)
3.7	Copy of By-Laws of the Registrant, as amended to date	(3)
4.1	Specimen of Common Stock certificate	(1)
10.1	Registrant's 1997 Independent Contractor Stock Option Plan	(11)
10.2	Stock Bonus Plan of Registrant and Trust Agreement thereunder	(4)
10.3	Employment agreement between Registrant and Martin B. Bloch	(4)
10.4	Employment agreement between Registrant and Abraham Lazar	(4)
10.5	Employment agreement between Registrant and John C. Ho	(4)
10.6	Employment agreement between Registrant and Marvin Meirs	(4)
10.7	Employment agreement between Registrant and Alfred Vulcan	(4)
10.8	Employment agreement between Registrant and Harry Newman	(4)
10.9	Employment agreement between Registrant and Marcus Hechler	(4)
10.10	Employment agreement between Registrant and Charles Stone	(9)
10.11	Employment agreement between Registrant and Jerry Bloch	(9)

Exhibit No. in this Form 10-K	Description of Exhibit	NOTE
10.12	Contribution Agreement between Registrant and Reckson Operating Partnership L.P. dated January 6, 1998	(12)
10.13	Lease agreement between Registrant and Reckson Operating Partnership, L.P. dated January 6, 1998	(12)
10.14	Plea Agreement, Civil Settlement and Related Documents dated June 19, 1998	(12)
10.15	Registrant's 1984 Incentive Stock Option Plan	(6)
10.16	Registrant's Cash or Deferral Profit Sharing Plan and Trust under Internal Revenue Code Section 401, dated April 1, 1985	(7)
10.17	Amendment dated April 19, 1981 to Stock Bonus Plan of Registrant and Trust Agreement	(3)
10.18	Amendment Restated Effective as of May 1, 1984 of the Stock Bonus Plan and Trust Agreement of Registrant	(7)
10.19	Amendment Restated Effective as of May 1, 1984 of the Stock Bonus Plan and Trust Agreement of Registrant	(8)
10.20	Form of stock escrow agreement between Vincenti & Schickler as escrow agent and certain officers of Registrant	(4)
10.21	Form of Agreement concerning Executive Compensation	(2)
10.22	Registrant's 1987 Incentive Stock Option Plan	(9)
10.23	Registrant's Senior Executive Stock Option Plan	(9)
10.24	Amendment dated Jan. 1, 1988 to Registrant's Cash or Deferred Profit Sharing Plan and Trust under Section 401 of Internal Revenue Code	(9)
10.25	Executive Incentive Compensation Plan between Registrant and various employees	(9)
10.26	Registrant's Employee Stock Option Plan	(10)
10.27	Loan agreement between Registrant and Nat West dated May 22, 1990	(10)
10.28	Loan Agreement between Registrant's Employee Stock Ownership Plan and Registrant dated May 22, 1990	(10)
11	Computation of Earnings per Share of Common Stock	Included in the Financial Statements
15	Registrant's 1982 Incentive Stock Option Plan	(5)
21	List of Subsidiaries of Registrant	(10)

Exhibit No. in this Form 10-K	Description of Exhibit	NOTE
23.1	Consent of Independent Registered Public Accounting Firm to incorporation by reference of 2005 audit report in Registrant's Form S-8 Registration Statement.	Filed herewith
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith

NOTES:

- (1) Filed with the SEC as an exhibit, numbered as indicated above, to the registration statement of Registrant on Form S-1, File No. 2-29609, which exhibit is incorporated herein by reference.
- (2) Filed with the SEC as an exhibit, numbered as indicated above, to the registration statement of Registrant on Form S-1, File No. 2-71727, which exhibit is incorporated herein by reference.
- (3) Filed with the SEC as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K, File No. 1-8061 for the year ended April 30, 1981, which exhibit is incorporated herein by reference.
- (4) Filed with the SEC as an exhibit, numbered as indicated above, to the registration statement of Registrant on Form S-1, File No. 2-69527, which exhibit is incorporated herein by reference.
- (5) Filed with the SEC as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K, File No. 1-8061, for the year ended April 30, 1982, which exhibit is incorporated herein by reference.
- (6) Filed with the SEC as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K, File No. 1-8061, for the year ended April 30, 1985, which exhibit is incorporated herein by reference.
- (7) Filed with the SEC as exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K, File No. 1-8061, for the year ended April 30, 1986, which exhibit is incorporated herein by reference.
- (8) Filed with the SEC as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K, File No. 1-8061, for the year ended April 30, 1987, which exhibit is incorporated herein by reference.
- (9) Filed with the SEC as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K, File No. 1-8061, for the year ended April 30, 1989, which exhibit is incorporated herein by reference.
- (10) Filed with the SEC as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K, File No. 1-8061, for the year ended April 30, 1990, which exhibit is incorporated herein by reference.
- (11) Filed with the SEC as an exhibit, numbered as indicated above, to the registration statement of Registrant on Form S-8, File No. 333-42233, which exhibit is incorporated herein by reference.
- (12) Filed with the SEC as an exhibit, numbered as indicated above, to the annual report of Registrant on Form 10-K, File No. 1-8061, for the year ended April 30, 1998, which exhibit is incorporated herein by reference.



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
Frequency Electronics, Inc. and Subsidiaries  
Mitchel Field, New York

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-42233) of Frequency Electronics, Inc. of our report dated July 18, 2005 relating to the consolidated financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ Holtz Rubenstein Reminick LLP  
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Melville, New York  
July 28, 2005

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-42233) of Frequency Electronics, Inc. of our report dated July 6, 2004, except for Note 10 as to which the date is September 28, 2004, relating to the consolidated financial statements and financial statement schedule as of April 30, 2004 and 2003 and for the years then ended, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

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Melville, New York  
July 28, 2005

## Certification

I, Martin B. Bloch, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Frequency Electronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2005

By: /s/ Martin B. Bloch  
 -----  
 Martin B. Bloch  
 Chief Executive Officer

## Certification

I, Alan L. Miller, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Frequency Electronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2005

By: /s/ Alan L. Miller

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Alan L. Miller  
Chief Financial Officer

CERTIFICATIONS PURSUANT TO  
SECTION 906 OF  
THE SARBANES-OXLEY ACT OF 2002

Certification of CEO  
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In connection with the Annual Report of Frequency Electronics, Inc. (the "Company") on Form 10-K for the year ended April 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Martin B. Bloch, Chief Executive Officer of the Company, certify, pursuant to Section 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Martin B. Bloch  
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July 28, 2005

Martin B. Bloch  
Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Certification of CFO  
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In connection with the Annual Report of Frequency Electronics, Inc. (the "Company") on Form 10-K for the year ended April 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alan L. Miller, Chief Financial Officer of the Company, certify, pursuant to Section 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Alan L. Miller  
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July 28, 2005

Alan L. Miller  
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.