

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10Q

(Mark one)

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

For the Quarterly Period ended July 31, 2001

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-8061

FREQUENCY ELECTRONICS, INC.

(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

11-1986657  
(I.R.S. Employer Identification No.)

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

11553  
(Zip Code)

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of Registrant's Common Stock, par value \$1.00 as of September 7, 2001 - 8,308,701

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Frequency Electronics, Inc. and Subsidiaries

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Frequency Electronics, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets

	July 31, 2001 ----- (UNAUDITED)	April 30, 2001 ----- (NOTE A)
	(In thousands)	
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 3,043	\$ 2,121
Marketable securities	31,288	33,407
Accounts receivable, net of allowance for doubtful accounts of \$190	13,267	15,160
Inventories	19,986	20,471
Deferred income taxes	4,767	4,313
Prepaid expenses and other	1,595	4,662
Total current assets	----- 73,946	----- 80,134
Property, plant and equipment, at cost, less accumulated depreciation and amortization	12,132	11,997
Deferred income taxes	115	69
Intangible assets	5,259	4,987
Other assets	4,651	4,852
Total assets	----- \$96,103 =====	----- \$102,039 =====

See accompanying notes to condensed consolidated  
financial statements.

Frequency Electronics, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets (Continued)

	July 31, 2001 ---- (UNAUDITED)	April 30, 2001 ---- (NOTE A)
	(In thousands)	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
Current liabilities:		
Accounts payable - trade	\$ 2,016	\$ 2,408
Accrued liabilities and other	5,651	11,126
	-----	-----
Total current liabilities	7,667	13,534
Deferred compensation	5,815	5,726
Other liabilities	12,069	12,348
	-----	-----
Total liabilities	25,551	31,608
	-----	-----
Minority interest in subsidiary	217	226
Stockholders' equity:		
Preferred stock - \$1.00 par value	-0-	-0-
Common stock - \$1.00 par value	9,164	9,164
Additional paid-in capital	42,767	42,860
Retained earnings	22,046	21,226
	-----	-----
	73,977	73,250
Common stock reacquired and held in treasury -at cost, 863,489 shares at July 31, 2001 and 872,669 shares at April 30, 2001	(2,913)	(3,127)
Other stockholders' equity	(120)	(122)
Accumulated other comprehensive (loss) income	(609)	204
	-----	-----
Total stockholders' equity	70,335	70,205
	-----	-----
Total liabilities and stockholders' equity	\$ 96,103	\$102,039
	=====	=====

See accompanying notes to condensed consolidated  
financial statements.

Frequency Electronics, Inc. and Subsidiaries  
Condensed Consolidated Statements of Operations

Three Months Ended July 31,  
(Unaudited)

	2001 ----	2000 ----
	(In thousands except per share data)	
Net Sales	\$11,070	\$ 8,893
Cost of sales	7,000	4,981
	-----	-----
Gross Margin	4,070	3,912
Selling and administrative expenses	2,215	2,129
Research and development expense	1,113	1,204
	-----	-----
Operating profit	742	579
Other income (expense):		
Investment income	517	743
Interest expense	(78)	(69)
Other income (expense), net	1	(56)
	-----	-----
Income before minority interest and provision for income taxes	1,182	1,197
Minority Interest in loss of consolidated subsidiary	(8)	-
	-----	-----
Income before provision for income taxes	1,190	1,197
Provision for income tax	370	390
	-----	-----
Net income	\$ 820	\$ 807
	=====	=====
Net earnings per common share		
Basic	\$ 0.10	\$ 0.10
	=====	=====
Diluted	\$ 0.10	\$ 0.10
	=====	=====
Average shares outstanding		
Basic	8,332,557	8,031,530
	=====	=====
Diluted	8,551,214	8,488,530
	=====	=====

See accompanying notes to condensed consolidated financial statements.

Frequency Electronics, Inc. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows

Three Months Ended July 31,  
(Unaudited)

	2001	2000
	----	----
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 820	\$ 807
Non-cash charges to earnings	323	642
Insurance reimbursement	3,000	-
Litigation settlement	-	245
Net changes in assets and liabilities	(2,516)	(889)
	-----	-----
Net cash provided by operating activities	1,627	805
Cash flows from investing activities:		
Sale (Purchase) of marketable securities -net	1,448	(360)
Other - net	(741)	(357)
	-----	-----
Net cash provided by (used in) investing activities	707	(717)
Cash flows from financing activities:		
Dividends paid	(829)	(799)
Other - net	(543)	231
	-----	-----
Net cash used in financing activities	(1,372)	(568)
	-----	-----
Net increase (decrease) in cash and cash equivalents before effect of exchange rate changes	962	(480)
Effect of exchange rate changes on cash and cash equivalents	(40)	-
	-----	-----
Net increase (decrease) in cash and cash equivalents	922	(480)
Cash at beginning of period	2,121	4,994
	-----	-----
Cash at end of period	\$ 3,043	\$ 4,514
	=====	=====

See accompanying notes to condensed consolidated financial statements.

Frequency Electronics, Inc. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

NOTE A - CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management of the Company, the accompanying unaudited condensed consolidated interim financial statements reflect all adjustments (which include only normal recurring adjustments) necessary to present fairly, in all material respects, the consolidated financial position of the Company as of July 31, 2001 and the results of its operations and cash flows for the three months ended July 31, 2001 and 2000. The April 30, 2001 condensed consolidated balance sheet was derived from audited financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's April 30, 2001 Annual Report to Stockholders. The results of operations for such interim periods are not necessarily indicative of the operating results for the full year.

NOTE B - EARNINGS PER SHARE

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

	Three months ended July 31,	
	2001	2000
	----	----
Basic EPS Shares outstanding (weighted average)	8,332,557	8,031,530
Effect of Dilutive Securities	218,657	457,000
	-----	-----
Diluted EPS Shares outstanding	8,551,214	8,488,530
	=====	=====

Options to purchase 85,000 shares of common stock were outstanding during the three months ended July 31, 2001, but were not included in the computation of diluted earnings per share. Since the exercise price of these options was greater than the average market price of the Company's common shares during the respective periods, their inclusion in the computation would have been antidilutive. Consequently, these options are excluded from the computation of earnings per share. For the three months ended July 31, 2000, all exercisable options were included in the computation of diluted earnings per share.

NOTE C - ACCOUNTS RECEIVABLE

Accounts receivable at July 31, 2001 and April 30, 2001 include costs and estimated earnings in excess of billings on uncompleted contracts accounted for on the percentage of completion basis of approximately \$3,685,000 and \$3,814,000, respectively. Such amounts represent revenue recognized on long-term contracts that had not been billed at the balance sheet dates. Such amounts are billed pursuant to contract terms.

NOTE D - INVENTORIES

Inventories, which are reported net of reserves of \$3,949,000 and \$4,001,000 at July 31, 2001 and April 30, 2001, respectively, consist of the following:

	July 31, 2001	April 30, 2001
	-----	-----
	(In thousands)	
Raw materials and Component parts	\$ 9,271	\$ 9,227
Work in progress and Finished goods	10,715	11,244
	-----	-----
	\$19,986	\$20,471
	=====	=====

Frequency Electronics, Inc. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

NOTE E - -COMPREHENSIVE INCOME

For the three months ended July 31, 2001 and 2000, total comprehensive income was \$7,000 and \$2,352,000, respectively.

NOTE F - SEGMENT INFORMATION

The Company operates under three 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 products of the Company's Belgian subsidiary consist primarily of wireline synchronization and network monitoring systems.

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

	Three months ended July 31,	
	2001	2000
	----	----
Net sales:		
Commercial Communications	\$ 8,191	\$ 8,195
U.S. Government	983	698
Gillam-FEI	2,100	-
less intercompany sales	(204)	-
	-----	-----
Consolidated Sales	\$11,070	\$ 8,893
	=====	=====
Operating profit (loss):		
Commercial Communications	\$ 1,258	\$ 1,038
U.S. Government	213	134
Gillam-FEI	(383)	-
Corporate	(346)	(593)
	-----	-----
Consolidated Operating Profit	\$ 742	\$ 579
	=====	=====
	July 31, 2001	April 30, 2001
Identifiable assets:		
Commercial Communications	\$24,737	\$ 25,025
U.S. Government	2,050	1,580
Gillam-FEI	17,246	19,237
less intercompany balances	(516)	(234)
Corporate	52,586	56,431
	-----	-----
Consolidated Identifiable Assets	\$96,103	\$102,039
	=====	=====

NOTE G - ACQUISITION OF GILLAM S.A.

On September 13, 2000, the Company completed its acquisition of substantially all of the outstanding shares of Gillam S.A. ("Gillam"), a privately-held company organized under the laws of Belgium. Gillam's business is based in the telecommunications market and targeted to four main areas:



Frequency Electronics, Inc. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

(i) "Wireline Network Synchronization"--managing timing and interconnectivity for communication networks; (ii) "Remote Control"--consisting of network monitoring systems; (iii) "Rural Telephony"--equipment designed to connect isolated subscribers to a telephone network via satellite and (iv) "Power Supplies" --produced through a subsidiary, for telecom service providers. The acquired company has been renamed Gillam-FEI.

The Gillam acquisition was consummated pursuant to the terms of a Share Purchase Agreement dated as of August 29, 2000. Under terms of the agreement, the Company paid \$8,400,264 in cash and issued 154,681 shares of common stock ("FEI stock") to acquire the outstanding stock of Gillam. Based upon the market value of FEI's stock on July 25, 2002, the Share Purchase Agreement may require the Company to issue to the Gillam shareholders up to 35,000 additional shares of FEI stock. In addition, the Company paid approximately \$496,000 in direct transaction costs. Thus, the total purchase price is approximately as follows:

	(in thousands)
Cash paid for Gillam shares	\$ 8,400
Fair value of restricted shares issued	3,465
Direct transaction costs	496
	-----
Total purchase price	\$12,361
	=====

The Gillam acquisition is treated as a purchase. The purchase price is allocated to net assets acquired of approximately \$7,282,000 and to intangible assets, principally goodwill, of approximately \$5,079,000. On May 1, 2001, the Company adopted Statement 142 of the Financial Accounting Standards Board ("SFAS 142"), "Goodwill and Other Intangible Assets", under which goodwill is no longer amortized but is to be tested periodically for impairment. The adoption of SFAS 142 reduces general and administrative expenses by approximately \$85,000 per quarter.

The accompanying condensed consolidated statements of operations for the three-month period ended July 31, 2001, includes the results of operations of Gillam-FEI. The three-month period ended July 31, 2000, does not include any amounts from Gillam-FEI. The pro forma financial information set forth below is based upon the Company's historical consolidated statements of operations for the three months ended July 31, 2000, adjusted to give effect to the acquisition of Gillam-FEI as of the beginning of the period.

The pro forma financial information is presented for informational purposes only and may not be indicative of what actual results of operations would have been had the acquisition occurred on May 1, 2000, nor does it purport to represent the results of operations for future periods.

Pro forma  
Three months ended  
July 31, 2000  
-----

(In thousands except per share data)

Net Sales	\$11,178
	-----
Operating Profit	\$ 391
	-----
Income from continuing operations	\$ 612
	=====
Earnings per share- basic	\$ 0.07
	=====
Earnings per share- diluted	\$ 0.07
	=====

Frequency Electronics, Inc. and Subsidiaries

Item 2

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

RESULTS OF OPERATIONS

The table below sets forth for the respective first quarters of fiscal years 2001 and 2001 the percentage of consolidated net sales represented by certain items in the Company's consolidated statements of operations:

	Three months ended July 31,	
	2001	2000
	----	----
Net Sales		
Commercial Communications	72.1%	92.2%
U.S. Government	8.9	7.8
Gillam-FEI	19.0	-
	-----	-----
	100.0	100.0
Cost of Sales	63.2	56.0
Selling and administrative expenses	20.0	23.9
Research and development expenses	10.1	13.5
	-----	-----
Operating profit	6.7	6.6
Other income (expense)- net	4.0	6.9
	-----	-----
Pretax Income	10.7	13.5
Provision for income taxes	3.3	4.4
	-----	-----
Net earnings	7.4%	9.1%
	=====	=====

For the three months ended July 31, 2001, operating profit increased by \$163,000 (28%) over the comparable period of fiscal year 2001 and net earnings increased by \$13,000 (2%). The Company's consolidated financial statements for the first quarter of fiscal 2002 include the results from Gillam-FEI which was acquired in September 2000. Including Gillam-FEI, sales increased by 24% for the first quarter of fiscal 2002 over the first quarter of last fiscal year offset by a decrease in gross margin rates from 44% to 37% and a reduction in investment income. Results for the fiscal 2002 quarter were also impacted by the termination of a contract for receive/transmit modules for the fiber optics industry. No revenues or expenses were recognized under this contract during the fiscal 2002 quarter. Results for the fiscal 2001 quarter were impacted by certain one-time legal and final settlement costs of approximately \$245,000 relative to litigation initiated in fiscal 1994.

Margins on commercial communications revenues were 41% as compared to 37% for U.S. Government programs and 22% for Gillam-FEI. During the quarter ended July 31, 2000, gross margins on commercial communications sales were 44% while margins on U.S. Government programs were 38%. The commercial communications margins are within the Company's expectations given the current mix of production and long-term contracts. Margins on U.S. Government contracts and Gillam-FEI orders are historically lower than that of commercial communications. One of the goals of the Company is to introduce products and procedures which will increase Gillam-FEI's margins to a level comparable to that of the other segments. With the present mix of orders and recent contract bookings, the Company expects to maintain its profit margins at or near the current level for the remainder of fiscal 2001.

Frequency Electronics, Inc. and Subsidiaries  
(Continued)

Selling and administrative costs for the quarter ended July 31, 2001, increased by \$86,000 (4%) over the three months ended July 31, 2000. Excluding Gillam-FEI and the fiscal 2000 litigation settlement mentioned above, selling and administrative expenses decreased by \$210,000 (11%). The principle cause of this decrease was the approximately \$193,000 reduction in amortization of certain non-employee stock options as the options became exercisable in the prior year. The Company anticipates that selling and administrative expenses will be greater in fiscal 2002 than that incurred in fiscal 2001, although, as a percentage of sales, the ratio is expected to decrease.

Research and development costs in the fiscal 2002 period decreased by \$91,000 (8%) over the comparable three-month period ended July 31, 2000. The apparent slowing of research and development spending is not indicative of a decrease in the Company's development efforts. Some of the Company's development spending was customer-funded, the costs of which are included in cost of sales or in work-in-process inventory. The Company continues to devote significant resources to develop new products and enhance existing products for the commercial communications market. Approximately 23% of development spending in the fiscal 2002 quarter was incurred by Gillam-FEI. The Company intends to introduce Gillam-FEI's wireline synchronization product to the growing U.S market as well as to the rest of the world. In addition, the Company is continuing development of products in support of third generation (3G) wireless infrastructure systems, products which increase the capability of existing TDMA and GSM systems (2.5G or EDGE), as well as products for interconnectivity with wireline and fiber optic networks. The Company targets research and development spending at approximately 10% of sales but will spend additional amounts as opportunities present themselves. Internally generated cash and cash reserves are adequate to fund this development effort.

Net nonoperating income and expense decreased by \$178,000 (29%) in the three months ended July 31, 2001 from the comparable fiscal 2001 quarter. Investment income declined by \$226,000 (30%) as a result of lower interest rates on marketable securities and a 17% decrease in invested assets. The decrease in the level of marketable securities in the first quarter of fiscal 2002 is due to the investment in Gillam-FEI which was made in September 2000. Interest expense increased by \$9,000 (13%) while other income (expense) increased by \$57,000 during the fiscal 2002 quarter compared to the period ended July 31, 2000. Other income (expense), net, consists principally of certain non-recurring transactions and is generally not significant to net income.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's balance sheet continues to reflect a strong working capital position of \$66 million at July 31, 2001 which is comparable to working capital at April 30, 2001. Included in working capital at July 31, 2001 is \$34.3 million of cash, cash equivalents and marketable securities, including \$11.5 million of REIT units which are convertible to Reckson Associates Realty Corp. common stock.

Net cash provided by operating activities for the three months ended July 31, 2001, was \$1.6 million compared to \$805,000 in the comparable fiscal 2001 quarter. In the fiscal 2002 period, the Company received \$3.0 million for reimbursement of certain legal expenses covered under directors' and officers' liability insurance. This inflow was partially offset by payments against certain accrued expenses, including income taxes payable of \$2.0 million. Cash was also generated by collections on accounts receivable and reduced by repayment of amounts due to customers. The Company anticipates that it will continue to generate positive cash flow from operating activities this fiscal year.

Net cash provided by investing activities for the three months ended July 31, 2001, was \$707,000. Approximately \$1.4 million was obtained from the sale or redemption of certain marketable securities. These inflows were offset by the acquisition of capital equipment for approximately \$526,000 and additional investment of approximately \$176,000 in the Company's China subsidiary, FEI-Asia. The Company may continue to acquire or sell marketable securities as dictated by its investment strategies as

Frequency Electronics, Inc. and Subsidiaries  
(Continued)

well as by the cash requirements for its development activities. The Company will continue to acquire more efficient equipment to automate its production process and expand its capacity. The Company intends to spend approximately \$2 million on capital equipment during fiscal 2002. Internally generated cash will be adequate to acquire this capital equipment.

Net cash used in financing activities for the three months ended July 31, 2001, was \$1.4 million compared to \$568,000 for the comparable fiscal 2001 quarter. Included in both fiscal quarters is payment of the Company's semiannual dividend in the aggregate amount of \$829,000 and \$799,000, respectively. In addition, the Company made scheduled debt payments of \$585,000. Offsetting the fiscal 2001 cash outflow is approximately \$288,000 received on the exercise of stock options to acquire approximately 64,000 shares of Company stock.

At July 31, 2001, the Company's backlog amounted to approximately \$35 million compared to the approximately \$39 million backlog at April 30, 2001. Approximately 71% of the backlog represents orders for the commercial communications segment, 23% for the Gillam-FEI segment and 6% for the U.S. Government segment. Of this backlog, approximately 90% is realizable during fiscal 2002.

"Safe Harbor" Statement under the Private Securities Litigation  
Reform Act of 1995:

The statements in this quarterly report on Form 10Q 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, 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, changes in contractual terms, the availability of capital, and other risks detailed in the Company's periodic report filings with the Securities and Exchange Commission. 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.

PART II

ITEM 1 - Legal Proceedings

On March 14, 2000, FEI commenced an action in the state court against National Union Fire Insurance of Pittsburgh, PA ("National"). The complaint set forth causes of action for declaratory judgment and breach of contract relating to certain directors and officers' liability insurance policies in connection with the Muller qui tam action and certain other litigations. Pursuant to a Settlement Agreement dated April 18, 2001, the action against National was settled, FEI was paid \$3.0 million representing the full amount of the available coverage under the applicable National policy, FEI released its claims and the action was discontinued.

ITEM 6 - Exhibits and Reports on Form 8-K

(a) Exhibits - None

(b) Registrant's Form 8-K, dated April 18, 2001, containing disclosure under Item 5 thereof (settlement agreement with insurance carrier), was filed with the Securities and Exchange Commission during the quarter ended July 31, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FREQUENCY ELECTRONICS, INC.  
(Registrant)

Date: September 14, 2001

BY: /s/ Joseph P. Franklin  
-----  
Joseph P. Franklin  
Chairman of the Board of Directors

Date: September 14, 2001

BY: /s/ Alan Miller  
-----  
Alan Miller  
Chief Financial Officer  
and Controller