



Frequency Electronics, Inc. Announces Third Quarter Fiscal Year 2018 Results

March 15, 2018

MITCHEL FIELD, N.Y., March 15, 2018 (GLOBE NEWSWIRE) -- Frequency Electronics, Inc. (NASDAQ:FEIM) reported revenues for the third quarter of fiscal 2018, which ended January 31, 2018, of \$10.6 million as compared to \$11.4 million in the same quarter of fiscal 2017. Revenues for the first nine months of fiscal 2018 were \$31.9 million compared to \$34.4 million recorded in the same period of the prior year.

The Company recorded an operating loss of \$7.3 million for the quarter ended January 31, 2018, compared to an operating loss of \$904,000 in the third quarter of fiscal 2017. Operating loss for the first nine months of fiscal year 2018 was \$9.0 million compared to an operating loss of \$2.5 million in the first nine months of fiscal year 2017. For the nine months ended January 31, 2018 the Company incurred approximately \$8.3 million of non-cash charges compared to \$3.8 million of non-cash charges in the same period of the previous fiscal year.

Net loss for the third quarter of fiscal 2018 was \$10.4 million or (\$1.15) per diluted share compared to net income of \$338,000 or \$0.04 per diluted share for the third quarter of the prior year. Included in the \$10.4 million loss are miscellaneous charges of approximately \$300,000 and a non-cash charge for additional inventory write-down, reflected in cost of goods sold for the quarter, of \$5.0 million. Also, reductions in tax rates associated with the recent tax law change reduced the valuation of FEI's previously booked deferred tax asset by \$5 million, which resulted in an approximately \$5 million (non-cash) charge. This was offset by a \$2.2 million tax benefit (tax reduction) resulting from the operating loss in the quarter, for a net tax related change of \$2.8 million. For the year to date, net loss was \$11.3 million or (\$1.20) per diluted share, compared to \$1.4 million or (\$0.09) per diluted share for the same period of the prior year.

Commenting on these results and the business outlook, Chairman of the Board Joel Girsky said:

"While the last three and nine months results continued to be impacted by previously discussed delays in satellite related orders, change is underway at FEI. We expect over \$50 million of new satellite related contract awards this current 2018 calendar year, compared to under \$3 million of such awards for all of calendar 2017. We anticipate an imminent award of a particular contract that would be significant not only in terms of financial value, but also would result in the development of a key new timing technology which will be broadly applicable for future space and terrestrial systems. Despite the challenging environment, FEI generated positive cash flow from operations for the last three and nine-month periods.

The tax asset write-down is the result of the new income tax regulation of December 2017. The inventory write-down is primarily due to recent government mandates which impose age limits on the use of certain space qualified parts and recent technological advances in our designs which limited the utility of some of our existing parts inventory.

FEI CEO, Martin Bloch, commented: "In addition to being at an inflection point in the satellite business, I am particularly encouraged by the number of opportunities we see in our US Government/DOD non-space market, including secure communication/command and control and electronic warfare applications where our advanced technology provides critical performance advantages. We are pursuing a number of these opportunities presently."

Stanton Sloane, FEI's COO, added: "I am pleased with the progress we have made in restructuring manufacturing and inventory control, and am very excited about the new technologies we will be developing on the upcoming contracts. These will move us into a new era of frequency and timing standards."

Fiscal 2018 Selected Financial Metrics and Other Items:

- For the nine months ended January 31, 2018, satellite payload revenues both US Government/DOD and Commercial were \$11.4 million and accounted for approximately 36% of consolidated revenues compared to \$16.8 million and 49% of consolidated revenues for the same prior year period, a \$5.4 million decline, principally in commercial communication satellites.
- For the nine months ended January 31, 2018, sales for U.S. Government/DOD, non-space end use were \$13.9 million and accounted for approximately 44% of consolidated revenues compared to \$12.9 million and 37% of revenues for the same period last year.
- For the nine months ended January 31, 2018, sales for other commercial and industrial applications were \$6.6 million comparable to the \$4.8 million for the same period last year.
- Gross margin rate for the nine months ended January 31, 2018 decreased to 12.1% as compared to 31.4% during the nine months of the same period last year. The gross margin and gross margin rate decrease is primarily due to a \$5.0 million inventory write-down. Absent the inventory write down, the gross margin would be 28%. The inventory write-down was taken in anticipation of the enforcement of recent mandates by European and U.S. space governing agencies restricting, except for limited exceptions the use of older space qualified materials. In addition, the Company anticipates the rate of use of other identified legacy space parts will decline due to obsolescence and evolution of current designs which require reduced size and weight as well as lower power consumption.

- Research and development expense for the nine months and three months ended January 31, 2018 was \$5.1 million and \$1.7 million compared to \$4.8 million and \$1.3 million respectively during the same period in the prior year. In response to new business opportunities and satellite payload systems innovation which requires technology development, FEI has increased its investments in R&D to ensure competitiveness for anticipated industry requirements.
- Cash provided by operations for the nine months ended January 31, 2018 was \$2.8 million compared to \$1.5 million in the comparable fiscal year 2017 period. The increase in cash for the fiscal year 2018 period resulted primarily from an increase in accounts receivable collections, compared to the balances as of the end of the previous fiscal year.
- Liquidity remained at high levels with \$58 million of working capital at January 31, 2018. Cash increased to \$13.2 million at the end of the period compared to \$10 million at the beginning of the fiscal year.
- Funded backlog at January 31, 2018 was \$16 million compared to \$28 million at year end of the prior fiscal year. The Company anticipates a significant increase in bookings during the balance of the current and ensuing fiscal year.

Investor Conference Call

As previously announced, the Company will hold a conference call to discuss these results on Thursday, March 15, 2018, at 4:30 PM Eastern Time. Investors and analysts may access the call by dialing 1-877-407-9205. International callers may dial 1-201-689-8054. Ask for the Frequency Electronics conference call.

The call will be archived on the Company's website through June 15, 2018. The archived call may also be retrieved at 1-877-481-4010 (domestic) or 1-919-882-2331 (international) using Conference ID #: 13677685.

About Frequency Electronics

Frequency Electronics, Inc. is a world leader in the design, development and manufacture of high precision timing, frequency control and synchronization products for space and terrestrial applications. Frequency's products are used in satellite payloads and in other commercial, government and military systems including C4ISR markets, missiles, UAVs, aircraft, GPS, secure radios, energy exploration and wireline and wireless communication networks. Frequency has received over 100 awards of excellence for achievements in providing high performance electronic assemblies for over 150 space and DOD programs. The Company invests significant resources in research and development and strategic acquisitions world-wide to expand its capabilities and markets.

Frequency's Mission Statement: "Our mission is to provide precision time and low phase noise frequency generation systems from 1 Hz to 46 GHz, for space and other challenging environments."

Subsidiaries and Affiliates: Gillam-FEI provides expertise in network synchronization and monitoring; FEI-Zyfer provides GPS and secure timing ("SAASM") capabilities for critical military and commercial applications; FEI-Asia provides cost effective manufacturing capabilities; FEI-Elcom Tech provides added resources for state-of-the-art RF microwave products. Frequency's Morion affiliate supplies high-quality, cost effective oscillators and components. Additional information is available on the Company's website: www.frequencyelectronics.com

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

The Statements in this press release regarding 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 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 release.

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Frequency Electronics, Inc. and Subsidiaries Condensed Consolidated Statement of Operations (in thousands except per share data)

	Nine Months ended January 31,		Quarter Ended January 31,	
	2018	2017	2018	2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues	\$ 31,932	\$ 34,411	\$ 10,572	\$ 11,383
Cost of Revenues	28,060	23,590	13,424	8,116
Gross Margin	3,872	10,821	(2,852) 3,267

Selling and Administrative	7,796	8,483	2,749	2,834
Research and Development	5,071	4,832	1,708	1,337
Operating Loss	(8,995)	(2,494)	(7,309)	(904)
Interest and Other, Net	1,179	309	50	96
Loss before Income Taxes	(7,816)	(2,185)	(7,259)	(808)
Provision (benefit) for income taxes	2,750	(1,392)	2,848	(1,188)
Net (Loss) Income from Continuing Operations	(10,566)	(793)	(10,107)	380
Loss from Discontinued Operations, net of tax	(697)	(599)	(289)	(42)
Net (Loss) Income	\$ (11,263)	\$ (1,392)	\$ (10,396)	\$ 338
Basic and Diluted Net (Loss) Income per Share:				
(Loss) Income from Continued Operations	\$ (1.20)	\$ (0.09)	\$ (1.15)	\$ 0.04
(Loss) Income from Discontinued Operations	\$ (0.07)	\$ (0.07)	\$ (0.03)	\$ 0.00
(Loss) Income per Share	\$ (1.27)	\$ (0.16)	\$ (1.18)	\$ 0.04
Average Shares Outstanding				
Basic	8,836	8,780	8,846	8,797
Diluted	8,836	8,780	8,846	8,980

Frequency Electronics, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	January 31, 2018 (unaudited) (in thousands)	April 30, 2017 (audited)
ASSETS		
Cash & Marketable Securities	\$ 13,224	\$ 9,978
Accounts Receivable	7,835	10,986
Costs and Estimated Earnings in Excess of Billings, net	4,122	7,964
Inventories	25,899	29,051
Other Current Assets	3,253	3,711
Current Assets Held for Sale	8,477	8,165
Property, Plant & Equipment	13,868	14,813
Other Assets	27,132	28,082
Non-Current Assets Held for Sale	531	569
	\$ 104,341	\$ 113,319
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities	\$ 6,792	\$ 5,862
Current Liabilities Held for Sale	2,121	2,249
Other Long-term Obligations	14,982	14,661
Non-Current Liabilities Held for Sale	1,795	1,215
Stockholders' Equity	78,651	89,332
	\$ 104,341	\$ 113,319

Source: Frequency Electronics, Inc.