



December 14, 2016

Frequency Electronics, Inc. Announces Second Quarter Fiscal Year 2017 Results

MITCHEL FIELD, N.Y., Dec. 14, 2016 (GLOBE NEWSWIRE) -- Frequency Electronics, Inc. (NASDAQ:FEIM) reported revenues for the second quarter of fiscal 2017, which ended October 31, 2016, of \$12.9 million as compared to \$16.0 million in the same quarter of fiscal 2016. Revenues for the first six months of fiscal 2017 were \$25.6 million compared to \$32.7 million recorded in the same period of the prior year.

The Company recorded an operating loss of \$1.3 million for the quarter ended October 31, 2016, compared to an operating profit of \$48,000 in the second quarter of fiscal 2016. Operating loss for the first six months of fiscal year 2017 was \$2.1 million compared to an operating profit of \$1.0 million in the first half of fiscal year 2016.

Net loss for the second quarter of fiscal 2017 was \$1.0 million or (\$0.12) per diluted share compared to a net loss of \$69,000 or (\$0.01) per diluted share for the second quarter of the prior year. For the year to date, net loss was \$1.7 million or (\$0.20) per diluted share, compared to net income of \$822,000 or \$0.09 per diluted share.

Commenting on these results and the business outlook, Chairman of the Board Joel Girsky said: "Reversing the trend of these last six months, Frequency expects to achieve positive operating income in the current quarter and going forward.

"With respect to our satellite business, principal customers in both the Commercial and US Government arenas had indicated they expected an upturn in project releases late this year. This upturn appears to be underway. Our bookings to date are substantially higher than the rate of the past several months. We just reported approximately \$7 million in new key contracts.

"In our secure communications business area we are making excellent progress in bookings, production under existing contracts and, most importantly, product development for a market which over time can be as large or greater than any other we have ever addressed.

"Operating results for the first six months of fiscal 2017 were impacted not only by lower revenues and product mix but also by large one-time expenses which are not expected to reoccur during the balance of the year. Based on cost saving measures now in place along with rising revenues and our internal operating leverage, we expect to show an operating profit for the full fiscal year 2017.

"Internal research and development during the past six months rose substantially, approaching \$4 million as we focused available engineering efforts on meeting next generation product requirements for the new market opportunities ahead in both satellite payloads and secure communications.

"As well, we are actively addressing operations at each of our subsidiaries with a view toward improving consolidated performance and generating additional cash."

Fiscal 2017 Selected Financial Metrics and Other Items:

- | For the six months ended October 31, 2016, satellite payload revenues both US Government/DOD and Commercial was \$10.6 million and accounted for approximately 41% of consolidated revenues compared to \$18.9 million and 58% of consolidated revenues for the same period in prior year, a \$8.2 million decline.
- | Sales for U.S. Government/DOD, non-space end use accounted for approximately 35% of consolidated revenues compared to 24% of revenues for the same period of last year. We anticipate sales in this business area to remain at or above current levels during the balance of the year.
- | Gross margin rate for the quarter ended October 31, 2016 decreased to 32.1% as compared to 33.8% during the fourth quarter of fiscal 2016 and to 33.6% during the second quarter of last year. The decline in margin and gross margin rate resulted from respectively a decrease in sales and a higher cost product mix.
- | Research and development expense rose to \$2.2 million for the three months ended October 31, 2016 and \$3.8 million for the six months ended October 31, 2016, compared to \$1.9 million and \$3.1 million for the same periods of fiscal 2016. During periods of lower customer shipments the company can and will allocate increased available engineering resources to necessary R&D projects.
- | Backlog at the end of the quarter was \$39 million up from \$32 million at year end and \$23 million at the end of the

quarter ending October 31, of fiscal 2016.

Investor Conference Call

As previously announced, the Company will hold a conference call to discuss these results on Wednesday, December 14, 2016, 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 January 8, 2017. The archived call may also be retrieved at 1-877-660-6853 (domestic) or 1-201-612-7415 (international) using Conference ID #: 13651595.

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.

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

	Six Months ended		Quarter Ended	
	October 31,		October 31,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(unaudited)			
	(in thousands except per share data)			
Revenues	\$ 25,622	\$ 32,684	\$12,914	\$ 16,003
Cost of Revenues	17,395	21,686	8,801	10,779
Gross Margin	8,227	10,998	4,113	5,224
Selling and Administrative	6,598	6,916	3,272	3,230
Research and Development	3,772	3,093	2,188	1,946
Operating (Loss) Profit	(2,143)	989	(1,347)	48
Interest and Other, Net	209	713	159	63
(Loss) Income before Income Taxes	(1,934)	1,702	(1,188)	111

Income Tax Provision	<u>(204)</u>	<u>880</u>	<u>(164)</u>	<u>180</u>
Net (Loss) Income	<u>\$ (1,730)</u>	<u>\$ 822</u>	<u>\$ (1,024)</u>	<u>\$ (69)</u>
Net (Loss) Income per Share:				
Basic	<u>\$ (0.20)</u>	<u>\$ 0.09</u>	<u>\$ (0.12)</u>	<u>\$ (0.01)</u>
Diluted	<u>\$ (0.20)</u>	<u>\$ 0.09</u>	<u>\$ (0.12)</u>	<u>\$ (0.01)</u>
Average Shares Outstanding				
Basic	<u>8,771</u>	<u>8,716</u>	<u>8,781</u>	<u>8,725</u>
Diluted	<u>8,771</u>	<u>8,959</u>	<u>8,781</u>	<u>8,725</u>

Frequency Electronics, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

October 31, April 30,
2016 2016
(unaudited) (audited)
(in thousands)

ASSETS

Cash & Marketable Securities	\$ 14,390	\$ 17,193
Accounts Receivable	9,227	9,000
Costs and Estimated Earnings in Excess of Billings, net	10,710	12,377
Inventories	41,770	41,278
Other Current Assets	5,711	4,463
Property, Plant & Equipment	14,112	13,072
Other Assets	22,359	22,831
	<u>\$ 118,279</u>	<u>\$ 120,214</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities	\$ 6,659	8,758
Long-term debt	6,000	6,000
Other Long-term Obligations	12,881	12,104
Stockholders' Equity	92,739	93,352
	<u>\$ 118,279</u>	<u>\$ 120,214</u>

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