

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10K

(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, 2000

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)

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

Securities registered pursuant to Section 12 (b) of the Act:  
Securities registered pursuant to Section 12 (g) of the Act: None

COMMON STOCK (PAR VALUE \$1.00 PER SHARE)	AMERICAN STOCK EXCHANGE, INC.
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Title of each class	Name of each exchange on which registered

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

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.

The aggregate market value of voting stock held by non-affiliates of the Registrant as of July 21, 2000 - \$181,000,000

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of Registrant's Common Stock, par value \$1.00 as of July 21, 2000 - 8,046,066

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 October 19, 2000.

(Cover page 1 of 59 pages)  
Exhibit Index at Page 52

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 area 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).

The current authorized capital of the Registrant consists of 20,000,000 shares of \$1.00 par value common stock, of which 7,992,707 shares were outstanding at April 30, 2000, and 600,000 shares of \$1.00 par value preferred stock, none of which have been issued to date.

The Company is a high-tech provider of precision time and frequency products used to synchronize voice, data and video transmissions in satellite and terrestrial commercial communications. The Company has segmented its operations into two principal industries: products for commercial communications which are based either on the ground or in space and products used by the United States Government for defense or space applications. 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.

At its inception, the Company was involved principally in military defense contracting by way of the design, development, manufacture, and marketing of precision time and frequency control products. Its products are used in guidance and navigation, communications, surveillance and electronic counter-measure and timing systems. Such products are used on many of the United States' most sophisticated military aircraft, satellites, and missiles. The Company's business was highly dependent upon the defense and space spending policies of the U.S. Government. In recent years, changing defense priorities and severe federal government budget pressures have significantly changed the market environment for defense related products.

The Company has focused its internal research and development on re-engineering its core technologies for the commercial markets. The Company believes a substantial commercial market exists for its legacy technologies and has developed several new commercial product lines as discussed later in this Item 1.

REPORTABLE SEGMENTS

The Company designs, develops, manufactures and markets precision time and frequency control products for two principal markets: (1) commercial communications applications, either space- or ground-based and (2) the traditional heritage government and military markets.

The Company's products for the two reportable segments are similar in function and are manufactured by the same personnel in a single production facility. The Company has chosen these two reportable segments 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.

During fiscal 2000, 1999 and 1998 approximately 85%, 77%, and 82%, respectively, of the Company's sales were for products used for terrestrial or space-based commercial communications and foreign governments. For the years ended April 30, 2000, 1999 and 1998, approximately 15%, 23%, and 18%, respectively, of the Company's sales were for U.S. Government end-use. Sales summaries for the Commercial Communications and U.S. Government markets during each of the last five years are set forth in Item 6 (Selected Financial Data). Segment information regarding revenues, operating profits, depreciation and assets is more fully disclosed in Note 13 to the accompanying financial statements.

#### COMMERCIAL COMMUNICATIONS SEGMENT:

The Company has transformed itself from a defense contract manufacturer into a high-tech provider of time and frequency products used to synchronize voice, data and video transmissions in satellites and digital commercial communications. The Company has focused its internal research and development on re-engineering its core technologies for the commercial markets. As a result, the Company has experienced accelerating growth in commercial communications revenues and anticipates continued substantial sales growth in these areas.

#### TERRESTRIAL

The telecommunications industry is rapidly expanding as a result of the conversion from analog to digital systems, the expansion of cellular and PCS networks including the introduction of data and video transmissions and Internet access through cellular phones and other handheld devices. Wireless communication services have become an integral part of the telecommunications market.

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 in order to expand network coverage, increase capacity and improve transmission quality. This upgrade requires very accurate frequency control at the base stations accomplished through quartz or rubidium oscillators to achieve a higher degree of precision.

Currently three leading digital technologies are utilized: Time Division Multiple Access, Code Division Multiple Access and Global System for Mobile Communications. These transmission protocols are segmented and transmitted over a wider spectrum of bandwidths than available under analog systems. Wide-band digital systems such as wideband-CDMA, have a need for more accurate synchronization which is accomplished through use of precise timing devices located throughout the system. The Company manufactures a Rubidium Atomic Standard, an extremely small, low cost, low phase noise, stable atomic standard and temperature stable quartz crystal oscillators ideally suited for use in advanced wireless and wireline telecommunications, including fiber optics.

#### SPACE-BASED

The commercial use of satellites launched for communications, navigation, weather forecasting, video and data transmissions has led to the increased need and ability to transmit information to earth based receivers. This requires precise timing and frequency control at the satellite. For example, 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 subminiature oven-controlled quartz crystal oscillator is a low cost, small size, precision crystal oscillator suited for high-end performance required in satellite transmissions, airborne telephony and geophysical survey positioning systems. Commercial satellite programs such as Globalstar, Eutelsat, Inmarsat and Worldstar have utilized the Company's space-qualified products. New products based on the Company's heritage military designs are being introduced to take advantage of this emerging market. These new products include local frequency generators, up and down converters, low noise amplifiers and complete satellite transponders.

#### U.S. GOVERNMENT SEGMENT:

The Company's sales in the U.S. Government segment are 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, as well as the MILSTAR Satellite System, are two 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 low frequency secure communications, surveillance and positioning systems for the United States Air Force, Navy and Army.

#### PRODUCTS

The Company's products are manufactured from raw material which, when combined with conventional electronic components available from multiple sources, become finished products, subsystems and systems used for commercial wireless and wireline communications, satellite applications, space exploration, position location, radar, sonar and electronic counter-measures. These products, subsystems and systems 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 and delivery schedule.

**COMPONENTS** - The Company's key technologies include quartz, rubidium and cesium from which it manufactures precision time and frequency standards and higher level assemblies which allow the users to generate, synchronize, transmit, and receive signals in order to locate their position, secure a communications system, or guide a missile. The components class of the Company's products is rounded out with 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 units for satellite systems, and fast warm-up, low power consumption units for mobile applications, including wideband-CDMA 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 an electronically controlled device using a temperature sensitive device to directly compensate for the effect of temperature on the oscillator's frequency.

The key components for the atomic instrument products (cesium and rubidium) are manufactured totally from raw materials. The rubidium lamp, filter and resonance cell provide the optical subassembly used in the manufacture of the Company's optically pumped atomic rubidium frequency standards. The cesium tube resonator is also manufactured totally from raw materials and is used in the manufacture of the Company's cesium primary standard atomic clocks.

High reliability, MIL-M-38510 Class S and B, 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, cesium beam atomic standards and VSAT transceivers.

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 than other types of quartz frequency generators. The 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.

The VSAT transceivers consisting of C and KU Bands are intended for use in satellite communications primarily for private data and voice earth stations.

As communications systems become more precise, 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 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 - Essentially, the Company's systems portion of its business is achieved by manufacturing and integrating selections of its products into subsystems and systems that meet customer-defined needs. This is done by utilizing its unique knowledge of interfacing these technologies and experience in applying them to a wide range of systems. The Company's 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.

The Systems portion of the 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. The time and frequency control systems combine the Company's cesium, rubidium and/or crystal instruments with its other products, to 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. A number of these time and frequency control systems provide up to quadruple redundancy to assure operational longevity.

#### BACKLOG

As of April 30, 2000, the Company's consolidated backlog amounted to approximately \$24 million (see Item 7) and includes orders for the commercial communications segment of approximately \$23 million. Approximately 67% of this backlog is expected to be filled during the Company's fiscal year ending April 30, 2001. The backlog, which includes 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 27 independent sales representative organizations located principally in the United States. Sales to non-U.S. customers totaled approximately 12%, 20% and 18% of net sales in fiscal years 2000, 1999 and 1998, respectively.

The Company's products are sold to a variety of customers, both commercial and governmental. For the years ended April 30, 2000, 1999 and 1998, approximately 15%, 23% and 18%, 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, 2000, 1999 and 1998 included sales to Motorola Corp. ("Motorola") of approximately \$14.0 million, \$6.5 million and \$6.9 million, respectively. These amounts represent 53%, 34% and 22%, respectively, of consolidated sales for each of those years. For the year ended April 30, 1998, sales to Space Systems Loral ("SSL") were \$8.9 million or 28% of the Company's consolidated sales. During the three years ended April 30, 2000, sales to Motorola and SSL were made by the Company's commercial communications segment, accounting for 62% in fiscal 2000, 45% in fiscal 1999 and 60% in fiscal 1998 of that segment's total sales. 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 in its recent growth. Until a few years ago, virtually all research and development activities had taken place in connection with customer-sponsored development-oriented products conducted under fixed price contracts and subcontracts in support of U.S. Government programs. The Company was successful in applying its resources to develop prototypes and preproduction hardware for use in navigation, communication, guidance and electronic countermeasure programs and space application. The output of these customer-sponsored projects, in all cases, was of a proprietary nature.

In the last two years, 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 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 and terrestrial commercial communications systems which it anticipates will result in future growth and increased profits. During fiscal 2000, 1999 and 1998, the Company expended \$5.4 million, \$5.8 million and \$1.4 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 2001, the Company is targeting to spend approximately 10% of revenues on research and development of third generation (3G) cellular telephony products, completion of high-precision crystal oscillators for the telecommunications marketplace as well as other emerging wireless and wireline communications technologies.

#### PATENTS AND LICENSES

The Company believes that 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, the rights to inventions of employees working for the Company are assigned to the Company and the Company presently holds such patents and licenses. Also, in certain limited circumstances, the U.S. Government may use or permit the use by the Company's competitors, certain patents or licenses it has funded. The Company does not believe that patents and licenses are material to its business.

#### COMPETITION

The Company experiences intense competition with respect to 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 in severe environments encountered in space, prompt and responsive contract performance, and the Company's technical competence and price. The Company has a unique and broad product line which includes all three frequency standards - quartz, rubidium, and cesium. The Company believes its ability to take such raw materials, manufacture finished products, integrate them into systems and sub-systems, and to interface these systems with end-user applications, all under one roof, provides the Company with an advantage over many of its competitors.

Many of the Company's competitors are larger, have greater financial resources and have larger research and development and marketing staffs.

With respect to the cesium beam atomic clock, quartz crystal standard and rubidium frequency standard, the Company competes with Hewlett-Packard Company, Datum, Inc., and E. G. and G., Inc. The Company's principal competition for space products is the in-house capability of its major customers.

#### EMPLOYEES

The Company employs 248 persons, none of whom are represented by labor unions.

#### OTHER ASPECTS

The Company's business is not seasonal and no unusual working capital requirements exist.

#### ITEM 2. PROPERTIES

The Company occupies 93,000 square feet of a manufacturing and office facility located in Mitchel Field, Long Island, New York. This facility 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 with the County of Nassau, to Reckson Associates Realty Corp. ("Reckson"), and leased 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 present and future operational needs.

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 486,000 participation units of Reckson Operating Partnership, L.P. ("REIT units") which were valued at closing at \$12 million. Each REIT unit is convertible into one share of the common stock of the REIT. In addition, approximately 27,000 REIT units have been placed in escrow which may be released to the Company based upon the price per share of the REIT on the date of conversion of REIT units. Under the accounting provisions for sale and leaseback transactions, the sale of this building is considered a financing and the REIT units received are reflected as a noncurrent liability while the related building continues to be reflected as an asset. Upon liquidation of the REIT units, a portion of the resulting gain on this sale will be deferred and recognized into income over the term of the leaseback with the balance recognized in income on the date of liquidation. (See Note 6 to the accompanying financial statements.)

### ITEM 3. LEGAL PROCEEDINGS

A qui tam action was commenced in the United States District Court for the Eastern District of New York entitled, "The United States of America ex rel. Ralph Muller, Plaintiff, against Frequency Electronics, Inc., Raytheon Company, Raytheon Company Subsidiaries #1-10, fictitious names for subsidiaries of Raytheon Company, Hughes Aircraft Company, Hughes Aircraft Company subsidiaries #1-20, fictitious names for subsidiaries of Hughes Aircraft Company, and Martin Bloch, Defendants", index number CV-92 5716 ("Muller Qui Tam Action"). The Muller Qui Tam Action was brought pursuant to the provisions of the False Claims Act and is an action by which an individual may, under certain circumstances, sue one or more third persons on behalf of the Government for damages and other relief.

The complaint was filed on or about December 3, 1992, in camera and under seal pursuant to the provisions of the False Claims Act. The Court unsealed the complaint by order dated December 3, 1993, after FEI complained to the United States Attorney for the Eastern District of New York regarding newspaper articles that charged FEI with manufacturing defective products based upon claims in an unspecified and undisclosed qui tam action. It is believed that the Government made applications to the Court on one or more occasions after December 3, 1992, to continue to have the file in the Muller Qui Tam Action remain under seal. The complaint was served on FEI and Martin B. Bloch on March 28, 1994 and March 30, 1994, respectively. Under the provisions of the False Claims Act, the Government is permitted to take over the prosecution of the action. The Government has declined to prosecute the Muller Qui Tam Action and the plaintiff, Ralph Muller ("Muller"), is proceeding with the action on behalf of the Government as is permitted under the False Claims Act. Moreover, while the action named as parties defendant, Hughes Aircraft Company ("Hughes") and Raytheon Company ("Raytheon"), along with several of their subsidiaries, the Muller Qui Tam Action was dismissed voluntarily by Muller on April 6, 1994, as to Hughes, Raytheon and their respective subsidiaries. FEI and Martin Bloch moved to dismiss the complaint on various grounds and at the oral argument of the motion to dismiss, the Court granted the motion to the extent that the complaint failed to plead fraud with sufficient particularity as is required under the Federal Rules of Civil Procedure and the plaintiff was

directed to serve an amended complaint. On February 6, 1996, plaintiff served an amended complaint ("Amended Complaint").

The Amended Complaint, insofar as it pertains to FEI and Martin Bloch, contains a series of allegations to the effect that Hughes and Raytheon contracted with the Government to supply it with Advanced Medium Range Air to Air Missiles ("AMRAAMS"); Hughes and Raytheon (collectively, the "Contractors") entered into a subcontract with FEI pursuant to which FEI was to design, manufacture, test, sell and deliver to the Contractors certain oscillators which constituted components of the AMRAAMS; that FEI improperly designed, manufactured and tested the oscillators; that numerous faulty and defective oscillators were delivered to the Contractors; that the oscillators did not meet contract specifications; that FEI was aware of the defective and faulty nature of the oscillators; that FEI and Martin Bloch knowingly directed non-disclosure of the design flaws; that the concealed design defects in developmental oscillators permitted FEI to manufacture additional defective oscillators which were used in operational missiles; that as a direct result of FEI's fraudulent concealment of the defects, FEI was contracted to design and manufacture additional oscillators; that when missiles were returned to FEI for repair, FEI charged the Government for repair even though FEI knew the units had been defective at the time of delivery; that FEI falsified test results and FEI and Martin Bloch directed the falsification of test results; and that FEI sold and delivered the oscillators to the Contractors; as a result of the faulty and defective oscillators, many of the AMRAAMS failed to function properly; and that the Government sustained damages. The complaint demands an unspecified amount of damages allegedly suffered by the Government, and asks that the Court determine the damages and assess civil penalties as provided under the False Claims Act, and that the plaintiff Muller be awarded a bounty. Under the False Claims Act, a recovery can be made in favor of the Government for a civil penalty of not less than \$5,000 and not more than \$10,000 as to each false claim and for each false record and statement, plus three times the amount of damages it is determined the Government sustained, plus legal fees and expenses.

FEI has determined to vigorously defend the Muller Qui Tam Action. It has answered the Amended Complaint, denied the material allegations, asserted seventeen affirmative defenses, and counterclaims for: libel and product libel - demanding damages of \$3,000,000; republication of the libel and product libel - demanding damages of \$3,000,000; slander - demanding damages of \$3,000,000; tortious interference with prospects for additional business relations - demanding damages of \$1,865,010; prima facie tort - demanding damages of \$1,865,010; conversion - demanding damages of \$11 plus an amount to be determined at trial; breach of employment contract - demanding damages of \$1,865,010; breach of fiduciary duty - demanding damages of \$1,865,010; plus punitive damages in the amount of \$30,000,000 on each of the tort causes of action, and legal fees and expenses. The substance of the counterclaims alleged against Muller are predicated upon a letter dated November 23, 1992 ("November 23 Letter") written by Muller's attorneys Schneider, Harris, Harris and Furman ("SHHF") to the Government which allegedly contained false and libelous statements concerning FEI's design, manufacture and production of components for Hughes and Raytheon in connection with the AMRAAMS.

In addition, FEI has instituted a third party action against SHHF, Robert Harris, Esq. and Rod Kovel, Esq., attorneys for Muller, in connection with their alleged authoring and publishing of the November 23 Letter provided to the Government. The third-party complaint asserts the same claims against the attorneys as are asserted in the counterclaims against Muller, for libel and product libel, republication of the libel and product libel, slander, tortious interference with contractual relations, prima facie tort and conversion. The counterclaims and third-party complaint have been served. Muller has replied to the counterclaims asserted in FEI's answer to the Amended Complaint, denied the substantive allegations and asserted various affirmative defenses. The third-party defendants have replied to the third-party complaint and have denied the allegations and asserted various affirmative defenses.

Muller moved to dismiss the counterclaims in the answer and the third party defendants moved to dismiss the third-party complaint. FEI and Martin Bloch moved to dismiss the complaint in the Muller Qui Tam Action. The motions were argued on January 5, 1996 and at the time the Court directed the plaintiff to serve the Amended Complaint. At the oral argument, the Court deferred a portion of its decision and, in addition, it indicated a formal decision and order would be provided as to certain of the relief requested. By order dated August 29, 1996, the Court stated that on January 5, 1996, the Government had agreed to unseal the case file and that the balance of the relief requested was denied or otherwise dealt with as reflected on the record at the oral argument on January 5, 1996. On April 11, 1997, in open Court and on the record, the Court ordered that the Muller Qui Tam Action was stayed pending resolution of the Criminal Cases. (For a description of the Litigations including the Criminal Cases, Indictment, Superseding Indictment, related matters and the Settlement Agreement concluding a Global Disposition with the Government, reference is made to Item 3 of the Registrant's Annual Report on Form 10-K for the year ended April 30, 1998, a copy of which is on file with the Securities and Exchange Commission.) Since the disposition of the Criminal Cases, litigation has resumed. To date, the parties have engaged in limited discovery since the Government has determined that all classified and unclassified documents relating to this action are deemed classified documents subject to Department of Defense security regulations. As a result, extraordinary procedures have been put in place for purposes of conducting discovery. On January 21, 2000, the Court stayed further proceedings pending a decision of the Supreme Court of the United States in a case where certain legal issues were raised that could have been dispositive of certain legal issues in the Muller Qui Tam Action. That case was recently decided and on July 21, 2000, the Court determined that this litigation will resume.

No opinion can be offered as to the outcome of the Muller Qui Tam Action, the FEI counterclaims, or the third-party action.

On December 1, 1993, FEI was served with a complaint in an action entitled, "In the Court of Chancery of the State of Delaware In and For New Castle County, Diane Solash Derivatively, on behalf of Frequency Electronics, Inc., a Delaware corporation, Plaintiff, vs. Martin B. Bloch, Peter O. Clark, Joseph P. Franklin, Joel Girsky, Abraham Lazar, John C. Ho, E. John Rosenwald, Jr., individuals, Defendants and Frequency Electronics, Inc., a Delaware Corporation, Nominal Defendant", Civil Action No. 13266 ("Solash Action"). At the time this action was instituted, all of the individual defendants named in the complaint were directors of FEI, Martin B. Bloch was president and chairman of the board of directors and Abraham Lazar was a vice-president. Joseph P. Franklin is presently chairman of the board of directors, Lazar has retired and is no longer a vice president. On January 24, 1994, plaintiff served an amended complaint adding as named defendants Harry Newman, FEI's then secretary/treasurer and Marvin Norworth, then FEI's contracts manager who has since retired. This is a derivative action which is permitted by law to be instituted by a shareholder for the benefit of a corporation to enforce an alleged right or claim of the corporation where it is alleged that such corporation has either failed and refused to do so or may not reasonably be expected to do so. FEI is named as a nominal defendant. In the Solash Action, the complaint alleges that the members of FEI's board of directors may not reasonably be expected to authorize an action against themselves.

The substance of the amended complaint contains allegations, in general, as follows: the Indictment was issued naming FEI, its directors at the time and certain of its officers and employees as defendants and, generally alleged, that they defrauded the government, submitted false statements and invoices on government projects, destroyed and altered records, and made false statements and submitted false documents to government officials (The Indictment has been dismissed with prejudice. FEI pled guilty to a single charge under a Superseding Indictment of submitting a false statement which failed to disclose the full explanation of costs on a highly classified government project and the Superseding Indictment was otherwise dismissed with prejudice as to all defendants. The Indictment and Superseding Indictment generally contained

similar allegations. For a description of the Litigations including the Criminal Cases, Indictment, Superseding Indictment, related matters and the Settlement Agreement concluding a Global Disposition with the Government, reference is made to Item 3 of the Registrant's Annual Report on Form 10-K for the year ended April 30, 1998, a copy of which is on file with the Securities and Exchange Commission.); the misconduct of FEI's personnel as alleged in the Indictment is such that FEI is exposed to material and substantial monetary judgments and penalties as well as the loss of significant Government business; such misconduct is likely to continue; the individual defendants were under a fiduciary obligation to FEI and its shareholders to supervise, manage and control with due care and diligence the business operations of FEI and the business conduct of its personnel; that they failed to do so and as a direct consequence, the matters alleged in the Indictment occurred; and that the individual defendants breached their fiduciary duty. The amended complaint seeks judgment against the individual defendants in the amount of all losses and damages suffered by FEI and indemnification, on account of the matters alleged in the amended complaint, together with interest, costs, legal and other experts' fees.

FEI and all of the individual defendants moved to dismiss the complaint in the Solash Action ("Motion(s)"). To date, the Motions have not been heard by the Court. FEI has determined to vigorously defend the Solash Action. Discovery has not commenced. No opinion can be offered as to the outcome of the Motions or with respect to the Solash Action.

On February 4, 1994, FEI was served with a complaint in an action entitled "Supreme Court of the State of New York, County of New York, Moise Katz, Plaintiff, against Martin B. Bloch, Joseph P. Franklin, Joel Girsky, John C. Ho, Abraham Lazar, E. John Rosenwald, Jr., Defendants, and Frequency Electronics, Inc., Nominal Defendant", Index Number 93-129450 ("Katz Action"). This was a derivative action which is permitted by law to be instituted by a shareholder for the benefit of a corporation to enforce an alleged right or claim of the corporation where it is alleged that such corporation has either failed and refused to do so or may not reasonably be expected to do so. FEI is named as a nominal defendant. In the Katz Action, the complaint alleges that the members of FEI's board of directors may not reasonably be expected to authorize an action against themselves. At the time this action was instituted, all of the individual defendants named in the complaint were directors of FEI, Martin B. Bloch was president and chairman of the board of directors and Abraham Lazar was a vice president. Joseph P. Franklin is presently chairman of the board of directors. Lazar has retired and is no longer a vice president.

The substance of the complaint contains allegations, in general, as follows: the Indictment was issued naming FEI, its directors at the time and certain of its officers and employees as defendants and, generally alleged, that they defrauded the government, submitted false statements and invoices on government projects, destroyed and altered records, and made false statements and submitted false documents to government officials (The Indictment has been dismissed with prejudice. FEI pled guilty to a single charge under a Superseding Indictment of submitting a false statement which failed to disclose the full explanation of costs on a highly classified government project and the Superseding Indictment was otherwise dismissed with prejudice as to all defendants. The Indictment and Superseding Indictment generally contained similar allegations. For a description of the Litigations including the Criminal Cases, Indictment, Superseding Indictment, related matters and the Settlement Agreement concluding a Global Disposition with the Government, reference is made to Item 3 of the Registrant's Annual Report on Form 10-K for the year ended April 30, 1998, a copy of which is on file with the Securities and Exchange Commission.); the misconduct of FEI's personnel as alleged in the Indictment is such that FEI is exposed to material and substantial monetary judgments and penalties as well as the loss of significant Government business; such misconduct is likely to continue; the individual defendants were under a fiduciary obligation to FEI and its shareholders to supervise, manage and control with due care and diligence the business operations of FEI and the business conduct of its personnel; that they failed to do so and as a consequence, the matters alleged in the Indictment occurred; that the individual defendants were grossly negligent and as a consequence the matters alleged in the

Indictment occurred; that the individual defendants voluntarily participated in such wrongdoing and attempted to conceal it; and that the individual defendants intentionally and negligently breached their fiduciary duty to FEI and its shareholders. The complaint seeks judgment against these defendants in favor of FEI in the amount of all losses and damages suffered by FEI on account of the facts alleged in the complaint, together with interest, costs, legal and other experts' fees.

FEI and all of the defendants moved to dismiss the complaint in the Katz Action ("Motion(s)"). At the time of the Motions, the plaintiff moved to amend the complaint by setting forth certain additional allegations of wrongdoing including, among others, amplifying allegations with respect to the Indictment, setting forth allegations relating to the Muller Qui Tam Action, and allegations attempting to clarify the relationship of the parties to the New York forum, the latter allegations having been attacked on the Motions. In connection with the Motions, the defendants stipulated that they would not object to any application by the plaintiff Katz to intervene in the Solash action. By order dated September 21, 1994, the Court granted the defendants' Motions, dismissed the complaint and denied the plaintiff's cross-motions.

On or about November 17, 1994, FEI was served with a complaint in an action entitled, "In the Court of Chancery of the State of Delaware In and For New Castle County, Moise Katz Derivatively, on behalf of Frequency Electronics, Inc., a Delaware corporation, Plaintiff, vs. Martin B. Bloch, Peter O. Clark, Joseph P. Franklin, Joel Girsky, John C. Ho, Abraham Lazar, E. John Rosenwald, Jr., Harry Newman, Marvin Norworth, individuals, Defendants and Frequency Electronics, Inc., a Delaware corporation, Nominal Defendant", Civil Action No. 13841 ("Katz Delaware Action"). All of the individual defendants named in the complaint, with the exception of Harry Newman ("Newman") and Marvin Norworth ("Norworth"), were all directors of FEI, Martin B. Bloch was president and chairman of the board of directors, Abraham Lazar was a vice-president, and Joseph P. Franklin is presently chairman of the board of directors. Lazar has retired and is no longer a vice president. Newman was FEI's secretary/treasurer and is FEI's secretary and Norworth was FEI's contracts manager and is retired. This is a derivative action which is permitted by law to be instituted by a shareholder for the benefit of a corporation to enforce an alleged right or claim of the corporation where it is alleged that such corporation has either failed or refused to do so or may not reasonably be expected to do so. FEI is named as a nominal defendant. In the Katz Delaware Action, the complaint alleged that the members of FEI's board of directors may not reasonably be expected to authorize an action against themselves.

The substance of the complaint contains allegations, in general, as follows: the Indictment was issued naming FEI, its directors at the time and certain of its officers and employees as defendants and, generally alleged, that they defrauded the government, submitted false statements and invoices on government projects, destroyed and altered records, and made false statements and submitted false documents to government officials (The Indictment has been dismissed with prejudice. FEI pled guilty to a single charge under a Superseding Indictment of submitting a false statement which failed to disclose the full explanation of costs on a highly classified government project and the Superseding Indictment was otherwise dismissed with prejudice as to all defendants. The Indictment and Superseding Indictment generally contained similar allegations. For a description of the Litigations including the Criminal Cases, Indictment, Superseding Indictment, related matters and the Settlement Agreement concluding a Global Disposition with the Government, reference is made to Item 3 of the Registrant's Annual Report on Form 10-K for the year ended April 30, 1998, a copy of which is on file with the Securities and Exchange Commission.); the misconduct of FEI's personnel as alleged in the Indictment is such that FEI is exposed to material and substantial monetary judgments and penalties as well as the loss of significant Government business; such misconduct is likely to continue; the individual defendants were under a fiduciary obligation to FEI and its shareholders to supervise, manage, and control with due care and diligence the business operations of FEI and the business conduct

of its personnel; that they failed to do so and as a direct consequence, the matters alleged in the Indictment occurred; and that the individual defendants breached their fiduciary duty. The complaint seeks judgment against the individual defendants in the amount of all losses and damages suffered by FEI and indemnification, on account of the matters alleged in the complaint, together with interest, costs, legal, and other experts' fees.

Pursuant to the order of the Court, the Solash Action and the Katz Delaware Action have been consolidated under consolidated Civil Action No. 13266, with the caption "In Re Frequency Electronics Derivative Litigation" ("Derivative Litigation").

In the Derivative Litigation, FEI and all of the individual defendants have moved to dismiss the consolidated complaint and to stay the Derivative Litigation pending a disposition of the Indictment and the Superseding Indictment ("Motion(s)"). To date, the Motions have not been heard by the Court. However, as a result of the Motions, pursuant to a Stipulation and Order of the Court dated May 17, 1995, and a Stipulation and Order of the Court dated June 14, 1995, the Derivative Litigation has been dismissed as to Newman and Norworth and was otherwise stayed pending a disposition of the Indictment, Superseding Indictment and related investigations until the further order of the Court. The Indictment, Superseding Indictment and the related investigations have been disposed of by reason of the Global Disposition. Since the disposition of the Criminal Cases, the litigation has resumed, the plaintiff in the Derivative Litigation has served an amended complaint. FEI is attempting to settle the Derivative Litigation, which settlement would be subject to execution of a final settlement agreement by counsel for all parties, notice to shareholders and Court approval. Management believes that such settlement, if finalized, would not have a material adverse affect on the Company's financial position or results of operations. In the event a settlement cannot be reached, no opinion can be offered as to the outcome of the Motion(s) or with respect to the Derivative Litigation.

FEI has filed claims with its insurance carriers as follows: (1) National Union Fire Insurance Company of Pittsburgh, PA ("National") and (2) the Home Insurance Company ("Home"). The claims filed pertain to potential coverages for directors and officers relating to the Muller Qui Tam Action, the Solash Action, the Katz Action, the Katz Delaware Action, the Derivative Litigation, the AMRAAM Investigation and the Geldart Qui Tam Action (the last two matters were included in the Settlement Agreement and Global Disposition; refer to Item 3 of the Registrant's Annual Report on Form 10-K for the year ended April 30, 1998, a copy of which is on file with the Securities and Exchange Commission).

On November 17, 1998, FEI settled its claim with Associated International Insurance Company and FEI received payment from Associated in the amount of \$4.5 million. The remaining carriers with respect to certain of these matters have made certain disclaimers of coverage. No opinion can be offered as to coverage or the extent of coverage under any of the foregoing policies. FEI believes any recovery under these policies will require litigation. On March 14, 2000, FEI commenced an action in the Supreme court of the State of New York, Nassau County, entitled "Frequency Electronics, Inc. Plaintiff, against National Union Fire Insurance of Pittsburgh, PA, Defendants," index number 004075/00 ("National Action"). The National Action sets forth causes of action for a declaratory judgment and breach of contract relating to certain directors and officers liability insurance policies in connection with the Muller Qui Tam Action, the AMRAAM Grand Jury Investigation, the Geldart Qui Tam Action, the Solash Action, the Katz Action, the Katz Delaware Action and the Derivative Litigation. After the complaint was served, the defendant made a motion to dismiss, which was returnable and submitted to the Court on June 28, 2000. No opinion can be offered as to the outcome of the National Action. The Home policy is excess insurance coverage above the National policy during certain periods. Home's liability will not be triggered until National pays the full amount of its policy for a period to which the Home coverage is applicable.

Included in selling and administrative expenses are legal fees incurred in connection with the above matters of approximately \$274,000, \$221,000 and \$741,000 for fiscal years 2000, 1999 and 1998, respectively.

GOVERNMENT CONTRACT SUSPENSION AND DEBARMENT

By letter dated July 9, 1998, FEI was notified by the U.S. Department of the Air Force of FEI's debarment from Government contracting and from directly or indirectly receiving the benefits of federal assistance programs. The debarment was based upon FEI's guilty plea entered in connection with the Global Disposition and the Settlement Agreement. Such debarment was terminated on December 12, 1998 and, as a consequence, FEI may engage in projects related to U.S. Government military and space related efforts if it chooses to do so.

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 2000.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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 -----
2000 -		
FIRST QUARTER	\$10 7/8	\$ 7 1/2
SECOND QUARTER	13	8 5/8
THIRD QUARTER	11 15/16	8 1/8
FOURTH QUARTER	30 1/4	10 5/8
1999 -		
FIRST QUARTER	\$19 3/8	\$10
SECOND QUARTER	11	5 9/16
THIRD QUARTER	11 3/4	6 7/8
FOURTH QUARTER	9 1/8	6 3/16

As of July 21, 2000, the approximate number of holders of record of common stock was 762.

DIVIDEND POLICY

On March 24, 1997, the Company announced a policy of distributing a cash dividend to shareholders of record on 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.

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, 2000. The information has been derived from the audited financial statements of the Company for the respective periods.

	2000	1999	Years Ended April 30, 1998	1997	1996
	----	----	----	----	----
	(in thousands, except share data)				
Net Sales					
Commercial Communications	\$ 22,554	\$ 14,547	\$ 26,364	\$ 19,612	\$ 11,220
U.S. Government	3,981	4,411	5,633	8,317	13,872
	-----	-----	-----	-----	-----
Total Net Sales	\$ 26,535	\$ 18,958	\$ 31,997	\$ 27,929	\$ 25,092
	=====	=====	=====	=====	=====
Operating Profit (Loss)	\$ 1,008	\$ (701)(1)	\$ (9,105)(2)	\$ 2,675	\$ 1,047
	=====	=====	=====	=====	=====
Net Earnings	\$ 3,144	\$ 1,173	\$ 64(3)	\$ 4,863	\$ 2,822
	=====	=====	=====	=====	=====
Average Common Shares Outstanding (4)					
Basic	7,673,497	7,502,260	7,368,472	6,967,109	6,939,872
Diluted	8,043,727	7,820,742	7,787,140	7,319,250	6,995,133
Earnings (Loss) per Common Share (4)					
Basic	\$ 0.41	\$ 0.16	\$ 0.01	\$ 0.70	\$ 0.41
	=====	=====	=====	=====	=====
Diluted	\$ 0.39	\$ 0.15	\$ 0.01	\$ 0.66	\$ 0.40
	=====	=====	=====	=====	=====
Total Assets	\$ 80,847	\$ 78,355	\$ 88,780	\$ 74,866	\$ 68,770
	=====	=====	=====	=====	=====
Long-Term Obligations and Deferred Items	\$ 16,849	\$ 16,959	\$ 18,841	\$ 5,460	\$ 14,877
	=====	=====	=====	=====	=====
Cash dividend declared per common share (4)	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.10	-
	=====	=====	=====	=====	=====

(1) Includes insurance reimbursement of \$4.5 million for legal fees related to certain litigation with the U.S. Government.

(2) Includes litigation settlement of \$8 million and U.S. Government-related inventory writedowns and reserves of \$4.8 million.

(3) In addition to items in (2) above, includes net gain on sale of buildings of \$4.9 million and the reversal of the valuation allowance on deferred tax assets of \$2.6 million.

(4) All share and per share amounts have been adjusted to reflect a 3-for-2 stock split in the form of a 50% stock dividend, effective October 31, 1997.



ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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:

	2000 ----	1999 ----	1998 ----
Net Sales			
Commercial Communications	85.0%	76.7%	82.4%
U.S. Government	15.0	23.3	17.6
	-----	-----	-----
	100.0	100.0	100.0
Cost of Sales	56.1	68.5	80.9
Selling and administrative expenses	19.9	28.4	18.1
Insurance reimbursement	-	(23.7)	-
Litigation settlement	-	-	25.0
Research and development expenses	20.2	30.5	4.5
	-----	-----	-----
Operating profit (loss)	3.8	(3.7)	(28.5)
Other income (expense)	12.9	12.0	24.3
Provision (benefit) for income taxes	4.8	2.1	(4.4)
	-----	-----	-----
Net Earnings	11.9%	6.2%	0.2%
	=====	=====	=====

FISCAL 2000 PERFORMANCE

The fiscal year 2000 results of operations reflect a refocused Frequency Electronics. After the year of significant investment and other special events in fiscal 1999, as detailed below, the Company was able to build an expanded base for its evolving communications products. Sales of the Company's rubidium atomic standard continued to grow at nearly a 100% rate as it realized the benefits of the first full year of the two-year pricing agreement with Motorola. In addition, the Company was successful in selling this and related communications products to other original equipment manufacturers (OEMs). The Company is becoming a product-oriented entity versus the historical contract-based business. The Company continues to devote significant resources to research and development in order to remain at the leading edge of the continually evolving communications marketplace.

SIGNIFICANT FISCAL 1999 & 1998 EVENTS

As more thoroughly described elsewhere in this Form 10-K and in the notes to the financial statements, the Company's fiscal 1999 and 1998 results of operations were materially impacted by several specific events as well as a strategic management decision. In fiscal 1999, the Company recovered \$4.5 million from an insurance company related to legal expenses incurred in defense of the Company's litigation with the U.S. Government. (Item 3. Legal Proceedings and Note 9 to the financial statements.) In addition, the Company recognized an opportunity to provide generic satellite transponder components for the anticipated growth in the space-based wireless communications industry. Accordingly, during fiscal 1999, the Company committed significant resources to developing a line of generic satellite transponder products to meet the expected demand while it also continued development of generic terrestrial commercial communications products. The Company spent an aggregate of \$5.8 million on research and development efforts during fiscal year 1999 as compared to approximately \$1.4 million in each of the preceding two years.

Fiscal 1998 results were impacted by: (1) the settlement of litigation with the U.S. Government (Item 3. Legal Proceedings and Note 9 to the financial statements); (2) the sale of its real estate holdings (Item 2. Properties and Note 6 to the financial statements) and (3) the writedown or reserve for inventories related to phasing out U.S. Government business.

In June 1998, the Company settled all outstanding criminal and civil cases brought by the U.S. Government and made total payments of \$8 million (Item 3. Legal Proceedings). Accordingly, including related accrued litigation expenses, the Company recorded a charge of \$8.15 million against fiscal 1998 earnings.

In January 1998, in two transactions, the Company sold two buildings to Reckson Associates Realty Corp., a real estate investment trust, and leased back a portion of the building which it occupies. (Item 2. Properties and Note 6 to the financial statements.) In one sale transaction, the Company sold the building which it had leased to Laboratory Corporation of America, receiving cash of approximately \$15.6 million and realizing a gain of approximately \$5.4 million after selling expenses. A portion of the proceeds were used to repay the \$9 million loan obtained to finance the original construction of this building. In the other sale, the Company effected a tax-deferred exchange of the building which it occupies for approximately 486,000 participation units of Reckson Operating Partnership, L.P. ("REIT units") which were valued at closing at \$12 million. The Company leased back approximately 43% of this building from Reckson and incurred approximately \$500,000 of relocation expenses related to this leaseback during fiscal 1998. Under the accounting provisions for sale and leaseback transactions, a portion of the resulting gain on this sale will be deferred and recognized into income over the term of the lease with the balance recognized in income upon sale or conversion of the REIT units into shares of Reckson Associates Realty Corp., a publicly-traded company. Preceding the sale of its building, the Company prepaid the balance of its Nassau County Industrial Development Bonds in the amount of \$820,000, including accrued interest.

During fiscal 1998, the Company determined that a writeoff or reserve of \$4.8 million of certain work-in-progress and component parts inventory related to U.S. Government programs was appropriate. These inventory adjustments result from the Company's transformation to a commercial communications equipment manufacturer as well as its expectation for reduced procurement volumes by the U.S. Government due to both smaller Defense Department budgets and the Government's migration to alternate technologies.

As of the end of fiscal 1998, the Company had utilized most of its tax net operating loss carryforward. In addition, with the settlement of the U.S. Government litigation, the uncertainty regarding realizability of the Company's net deferred income tax asset was removed, thus eliminating the need for a valuation allowance on such amount. Accordingly, during fiscal 1998, the Company recorded a deferred tax benefit of \$2.6 million (net).

Without these significant events, the Company's fiscal 1999 and 1998 operating profit, pre-tax earnings and net earnings would be materially different from that reported in the financial statements as illustrated below:

	2000 ----	1999 ----	1998 ----
Operating profit (loss)- as reported	\$ 1,008	\$ (701)	\$(9,105)
Less:			
Insurance reimbursement	-	(4,500)	-
Add back:			
Litigation settlement and expenses	-	-	8,150
Inventory writedowns and reserves	-	-	4,764
Adjusted operating profit (loss)	----- 1,008	----- (5,201)	----- 3,809
Other income (expense) - as reported	3,416	2,274	7,769
Less:			
Gain on building sale, net of expenses	-	-	(4,927)
Adjusted other income (expense)	----- 3,416	----- 2,274	----- 2,842
Adjusted pretax earnings (loss)	----- \$ 4,424	----- (\$2,927)	----- \$6,651

#### OPERATING PROFIT (LOSS)

The operating profit for the year ended April 30, 2000, increased by \$1.7 million over the operating loss of the preceding fiscal year. Excluding the insurance reimbursement, as noted above, the increase in operating profits for fiscal 2000 was \$6.2 million. The increase is the result of a 40% increase in sales and significantly improved gross margins.

The operating loss for the year ended April 30, 1999, decreased by \$8.4 million from fiscal 1998. Excluding the one-time items discussed above and as shown in the preceding table, the Company would have incurred a loss of \$5.2 million or a decrease of \$9.0 million from fiscal 1998's adjusted operating profit. This decline is due to the sizable increase (\$4.3 million) in research and development spending during fiscal 1999 versus fiscal 1998, coupled with a \$13 million decrease in sales volume in 1999 compared to fiscal 1998.

#### NET SALES

Net sales for fiscal 2000 increased by \$7.6 million (40%) over fiscal 1999 sales. Sales in the commercial communications segment improved by \$8.0 million (55%) over fiscal 1999 while revenues from the U.S. Government segment declined by \$430,000 (10%). Revenues in the commercial communications segment were led by the growing demand for the Company's rubidium atomic standard which is the key synchronization element of many cellular network base stations. The Company expects demand to remain high for such products as OEMs continue the buildout of the cellular network infrastructure and particularly as they move to the next generation (3G) of such systems. Commercial communications revenues related to space programs remained at low levels as the industry continued to experience low demand for its products. The Company anticipates that this trend will reverse in the next few years as replacement satellites and new communications programs will increase the demand for the Company's time, frequency and synchronization product lines.

Net sales for fiscal 1999 decreased by \$13 million (41%) over fiscal 1998 sales. The largest decline (\$11.8 million or 45%) was in the commercial communications segment, principally in sales to the space industry. Significant launch failures by the major satellite manufacturers in the 18-month period ended April 30, 1999, coupled with the 1998 economic slowdown in Asia, resulted in major delays in new satellite programs. This also led to lower levels of outsourcing for component parts for existing satellite programs.

Sales of the Company's products to the terrestrial commercial communications market in fiscal 1999 were also negatively impacted by the Company's decision to renegotiate an exclusive contract with a customer for the Company's VSAT product line. This action resulted in a fiscal 1999 fourth quarter reduction of sales and cost of sales of approximately \$1.7 million and \$1.0 million, respectively. During fiscal 1999, the Company was developing this product for the customer under a fixed-unit contract and recorded revenues through the third quarter of the year. As a result of the renegotiations, the Company removed the exclusivity feature of the contract, thus broadening its potential customer base.

Sales to the U.S. Government were down by \$1.2 million (22%) from fiscal 1998 levels. The decrease in U.S. Government revenue was anticipated by the Company as it de-emphasizes this aspect of its business.

The Company believes that its 37-year legacy in building high-reliability, precision timing and frequency generation devices for U.S. Government programs (principally DOD and NASA), uniquely positions it to successfully exploit the much greater emerging markets in commercial communications both in space and on the ground. The Company therefore intends to focus its energies on these markets and has de-emphasized its business with the U.S. Government. However, the Company will continue to fulfill its current contractual obligations to U.S. Government programs and will make its proprietary technology available for these and future programs where applicable. Consequently, the proportion of sales generated from U.S. Government programs is expected to continue to decline in future years. This will be significantly offset by increasing demands for the Company's commercial communications products used in space and terrestrial applications.

#### GROSS MARGINS

Gross margins for the fiscal year ended April 30, 2000 were 44% versus 32% in fiscal 1999. The improved margins are a result of the successful migration to producing components and systems in higher volumes versus the Company's legacy of contract manufacturing which generally included the costs of unique product designs and smaller, less efficient, production quantities. This larger-quantity production mode is also applicable to U.S. Government sales as the Company sells more of its Commercial Off-the-Shelf (COTS) products under contracts for U.S. Government programs. Margins were also favorably impacted by the higher volume of business which permitted fixed costs to be absorbed over a broader range of orders.

Gross margins for the fiscal year ended April 30, 1999, were 32% versus 19% in fiscal 1998. Excluding the inventory writedowns and reserves in fiscal 1998's results, the gross margin rate realized in fiscal 1999 was 2% less than fiscal 1998's 34% rate. The gross margin realized on U.S. Government sales improved from 16% in fiscal 1998 to 18% in fiscal 1999 as the Company completed certain low margin projects. Aggregate margins on the Company's commercial communications revenues declined from 38% to 35%. Margins were negatively impacted by the lower volume of business that required a smaller number of projects to absorb fixed costs.

Gross margins for the fiscal year ended April 30, 1998 were negatively impacted by the inventory writedowns and reserves described above. Without such charges, gross margins would have been 34%. During fiscal 1998, the profitability of commercial communications programs versus U.S. Government programs became more distinct. Aggregate gross margins on commercial communications programs were 38%. U.S. Government programs showed margins of 16% before inventory adjustments and recorded negative margins of 69% after such adjustments.

Included in the Company's manufacturing overhead pool, a component of cost of sales, is a charge for amortization of the Company's ESOP program (see Notes 11 and 12 to the financial statements). The Company recognized an annual expense based upon the average market

value of the underlying shares of Company stock which were allocated to the ESOP each year. As a result of the significant increase in the value of the Company's stock over the last three years, the charge to ESOP amortization also increased significantly. The amount charged to the Company's overhead pool was approximately \$870,000 in fiscal 2000, \$915,000 in fiscal 1999 and \$1.2 million in fiscal 1998. These amounts included a substantial non-cash charge, as the actual cash obligation of the Company was \$500,000 annually through fiscal 2000. Without this excess amortization charge, aggregate gross margins on the Company's sales during fiscal years 2000, 1999 and 1998 would have improved by approximately 1.5%, 1.5% and 2.5%, respectively. As of December 1999, the ESOP program has contributed all of its shares to participants in the plan. As a consequence, the non-cash amortization charge will not occur in fiscal 2001 and beyond. Thus, the Company believes that gross margins can be maintained at or near the current level realized in fiscal 2000.

#### SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative costs in fiscal 2000 decreased by \$109,000 (2%) from those incurred in fiscal 1999. The lower costs are the result of several factors including an \$800,000 reduction in amortization expense of deferred compensation costs (a return to normal levels) and a reduction of \$200,000 in computer software and related services as a result of implementation of new enterprise software and consolidation of computer hardware. These savings were offset by accruals for bonuses as a result of improved profit margins, increased selling expenses as the Company seeks to continue the expansion of its commercial markets, increased amortization of certain stock-based compensation and higher depreciation due to the installation of new computer hardware and software.

Selling and administrative costs in fiscal 1999 decreased by \$407,000 (7%) from those incurred in fiscal 1998. During fiscal 1999, the Company made adjustments to deferred compensation benefits which resulted in a charge to earnings which was approximately \$800,000 greater than the normally expected amortization expense (see Note 11 to the financial statements). Without that adjustment and excluding the litigation settlement and related costs incurred in fiscal 1998, the decline in selling and administrative costs would have been \$1.1 million (19%). This significant decrease in expenses is a result of greater efficiencies gained from the move to new operating space (lower property taxes, utility charges, and depreciation expense), lower legal fees due to the settlement of the litigation with the U.S. Government, reduction in non-cash charges tied to the value of the Company's stock and reduced accruals for bonuses due to lower operating profits in fiscal 1999.

As sales increase, the ratio of selling and administrative expenses to net sales is expected to decrease.

#### RESEARCH AND DEVELOPMENT EXPENSES

Research and development spending in fiscal 2000 was \$5.37 million compared to \$5.79 million in fiscal 1999, a 7% decrease. These costs were incurred to develop a high-precision quartz oscillator, improvement of rubidium atomic standards for wireless communications infrastructure, finalization of certain generic space transponder components and to continue the development of more efficient manufacturing procedures.

The Company expended \$5.79 million on research and development efforts during fiscal 1999 compared to \$1.44 million in fiscal 1998, an increase of \$4.4 million or 302%. Such efforts included development of the next generation of commercial rubidium and VSAT products and other new products for the terrestrial wireless communication markets and successfully designing more efficient manufacturing procedures to keep its products competitive.

The Company will continue to focus its research and development activities on those commercial products which it expects will provide the best return on investment and greatest prospects for the future growth of the Company. For fiscal 2001, the Company will continue to

devote substantial financial and technical resources to development of new products for the burgeoning cellular infrastructure buildout as well as continue to invest in more efficient product designs and manufacturing procedures. 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 (expense) increased by \$1.1 million (50%) in fiscal 2000 compared to fiscal 1999 but declined by \$5.5 million (71%) in fiscal 1999 compared to fiscal 1998. Excluding the \$4.9 million net gain on the sale of the Company's real estate holdings in fiscal 1998, other income (expense) decreased by \$568,000 (20%) in fiscal 1999 compared to fiscal 1998.

Investment income in fiscal 2000 includes \$1.6 million of realized gains on the sale of marketable securities as compared to \$678,000 of realized gains in fiscal 1999. There were no comparable realized gains in fiscal 1998. Excluding these gains, investment income in fiscal 2000 was \$178,000 (8%) higher than fiscal 1999 and fiscal 1999 investment income was \$38,000 (2%) lower than fiscal 1998. In addition to interest income, the Company also realizes quarterly dividend income on its REIT units. The Company anticipates that investment income in future years will remain fairly constant assuming a relatively stable interest rate environment and if the level of investments remains the same.

Interest expense in fiscal 2000 decreased by \$26,000 (7%) from fiscal 1999 and fiscal 1999 interest expense decreased by \$342,000 or 51% from fiscal 1998. During the third quarter of fiscal 1998, the Company repaid its real estate-related loans thus realizing significant reductions in its interest payments. As of April 30, 2000, the Company has repaid all outstanding loans. It will continue to incur interest expense on the financing arrangement for the leaseback of its building and for certain deferred compensation payments. As a result, the Company anticipates that interest expense in fiscal 2001 will be approximately the same as the expense for fiscal 2000.

During fiscal 2000, other income, net was reduced by \$36,000 (21%) from fiscal 1999. Excluding the fiscal 1998 one-time gain on the sale of the Company's real estate holdings, this category declined by \$1.6 million during fiscal 1999 compared to fiscal 1998. This decrease is principally attributable to the cessation of finance lease income from Laboratory Corporation of America as a result of the sale of the leased property during January 1998. In addition, the Company incurred costs during fiscal 1998 and early fiscal 1999 to move its operations to new and more efficient space within the leased back property. The Company anticipates that in future years other income, net, will not be a significant contributor to pretax earnings.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's balance sheet continues to reflect a highly liquid position with working capital of \$62.2 million at April 30, 2000. Included in working capital at April 30, 2000 is \$41.0 million of cash, cash equivalents and short-term investments, including approximately \$10 million representing the fair market value of REIT units which are convertible to Reckson Associates Realty Corp. common stock. (See Note 6 to the financial statements.) The Company's current ratio at April 30, 2000 is 13.4 to 1 which is comparable to the ratio at April 30, 1999.

Net cash provided by operating activities for the year ended April 30, 2000, was approximately \$3.5 million compared to \$1.8 million used by operations in fiscal 1999. This increase in cash inflow is due to increased profits in fiscal 2000 and the absence of certain

litigation items as compared to fiscal 1999. In June 1998, the Company paid \$8 million in settlement of certain litigation matters which was partially offset in November 1998 by receipt of \$4.5 million from directors' and officers' liability insurance coverage. Unbilled receivables decreased by \$4.1 million (61%) as the Company shipped and billed more product on maturing long-term contracts. Inventories have grown by \$3.7 million (37%) over fiscal 1999 levels as the Company acquires more component parts and builds more product to have available for customers on a quick turn-around basis. Accounts payable and accrued expenses increased by 32% from the balances at April 30, 1999, principally due to accruals for amounts due to customers under certain contractual agreements.

Net cash provided by investing activities for the year ended April 30, 2000, was \$2.2 million. This net cash inflow resulted principally from the gains realized on the sale of certain marketable securities. Other investment activity included buying and selling marketable securities offered by certain agencies of the U.S. Government. 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 strategies. The Company also invested approximately \$668,000 in production equipment which will improve the efficiency of its manufacturing operations. The Company will continue to acquire more efficient equipment to automate its production process and intends to spend approximately \$1 million on capital equipment during fiscal 2001. Internally generated cash will be adequate to acquire this capital equipment.

Net cash used by financing activities for the year ended April 30, 2000, was \$1.3 million. Of this amount, \$1.53 million was used to pay the Company's semi-annual cash dividends to shareholders and \$700,000 was used to make regularly scheduled long-term liability payments. These outflows were partially offset by payments of \$927,000 received from the sale of shares of common stock from treasury to satisfy the exercise of stock options granted to certain employees and repayment of certain notes for the purchase of the Company's stock in prior years. The Company will continue to use treasury shares to satisfy the future exercise of stock options granted to officers and employees in previous years. The Company may repurchase 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 its resources and efforts to develop products for commercial communication systems for satellite programs and terrestrial-based operations, which management believes will result in future growth and continued profitability. During fiscal 2001, the Company intends to make a substantial investment of capital and technical resources to continue to develop new products to meet the needs of the commercial communications marketplace 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.

As of April 30, 2000, the Company's consolidated backlog amounted to approximately \$24 million (see Item 1) and includes orders for the commercial communications segment of approximately \$23 million. Approximately 67% of this backlog is expected to be filled during the Company's fiscal year ending April 30, 2001.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk related to changes in interest rates and market values of securities, including participation units in the Reckson Operating Partnership, L.P. (REIT units, see Item 2. Properties and Note 6 to the financial statements). The Company's investments in fixed income and equity securities were \$24.3 million and \$11.7 million, respectively, at April 30, 2000. The investments are carried at fair value with changes in unrealized gains and losses 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, 2000, a 10 percent 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).

### YEAR 2000 ISSUE

The Year 2000 Issue ("Y2K") is the result of computer programs being written using two digits rather than four to define the applicable year. Any computer programs or hardware that have date-sensitive software or embedded computer chips may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

The Company's products do not contain imbedded microchips or other components which are date sensitive. The same is generally true of the products that are acquired from third-party vendors. Consequently, the Company's products are Y2K compliant. The Company has not experienced any transactional or operational problems due to Y2K issues.

### 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 2000, 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

The information required by this item is included in the text in response to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, above and is incorporated herein by reference.



ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT ACCOUNTANTS

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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 14(a)(1) on page 51 present fairly, in all material respects, the financial position of Frequency Electronics, Inc. and Subsidiaries as of April 30, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 2000 in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14(a)(2) on page 51 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 the financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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 the opinion expressed above.

PRICEWATERHOUSECOOPERS LLP

Melville, New York  
June 20, 2000

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Consolidated Balance Sheets

April 30, 2000 and 1999

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ASSETS:	2000	1999
	----	----
		(In thousands)
Current assets:		
Cash and cash equivalents	\$ 4,994	\$ 567
Marketable securities (Note 5)	36,013	38,720
Accounts receivable, net of allowance for doubtful accounts of \$190 (Note 3)	9,590	12,190
Inventories (Note 4)	13,307	9,696
Deferred income taxes (Note 12)	1,940	2,336
Prepaid expenses and other	1,329	1,182
	-----	-----
Total current assets	67,173	64,691
Property, plant and equipment, at cost, less accumulated depreciation and amortization (Note 6)	9,040	9,489
Deferred income taxes (Note 12)	600	500
Other assets	4,034	3,675
	-----	-----
Total assets	\$80,847	\$78,355
	=====	=====

Continued

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Consolidated Balance Sheets

April 30, 2000 and 1999

(Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY:	2000	1999
	-----	-----
	(In thousands)	
Current liabilities:		
Current maturities of long-term debt (Note 7)	\$ -	\$ 489
Accounts payable - trade	1,019	837
Accrued liabilities (Note 8)	3,190	2,342
Dividend payable	799	766
Income taxes payable	-	455
	-----	-----
Total current liabilities	5,008	4,889
Deferred compensation (Note 11)	5,276	5,165
Other liabilities (Note 6)	11,573	11,794
	-----	-----
	21,857	21,848
	-----	-----
Commitments and contingencies (Notes 6 and 9)		
Stockholders' equity (Note 11):		
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 - 9,009,259 shares	9,009	9,009
Additional paid-in capital	37,929	36,940
Retained earnings	17,239	15,653
	-----	-----
	64,177	61,602
Common stock reacquired and held in treasury - at cost (1,016,552 shares in 2000 and 1,346,850 shares in 1999)	(3,644)	(4,058)
Unamortized ESOP debt (Notes 7 and 11)	-	(500)
Notes receivable-common stock (Note 10)	(115)	(287)
Unearned compensation	(20)	(47)
Accumulated other comprehensive loss	(1,408)	(203)
	-----	-----
Total stockholders' equity	58,990	56,507
	-----	-----
Total liabilities and stockholders' equity	\$80,847	\$78,355
	=====	=====

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

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Consolidated Statements of Operations

Years ended April 30, 2000, 1999 and 1998

	2000	1999	1998
	-----	-----	-----
	(In thousands, except share data)		
Net sales (Note 13)	\$ 26,535	\$ 18,958	\$ 31,997
	-----	-----	-----
Cost of sales	14,884	12,985	25,870
Selling and administrative expenses (Note 9)	5,275	5,384	5,791
Insurance reimbursement (Note 9)	-	(4,500)	-
Litigation settlement (Note 9)	-	-	8,000
Research and development expenses	5,368	5,790	1,441
	-----	-----	-----
Total operating expenses	25,527	19,659	41,102
	-----	-----	-----
Operating profit (loss)	1,008	(701)	(9,105)
Other income (expense):			
Investment income	3,929	2,775	2,135
Interest expense	(306)	(330)	(672)
Other, net (Note 6)	(207)	(171)	6,306
	-----	-----	-----
Earnings (Loss) before provision (benefit) for income taxes	4,424	1,573	(1,336)
Provision (Benefit) for income taxes (Note 12)	1,280	400	(1,400)
	-----	-----	-----
Net Earnings	\$ 3,144	\$ 1,173	\$ 64
	=====	=====	=====
Net Earnings per common share:			
Basic	\$ 0.41	\$ 0.16	\$ 0.01
	=====	=====	=====
Diluted	\$ 0.39	\$ 0.15	\$ 0.01
	=====	=====	=====
Average shares outstanding (Note 2):			
Basic	7,673,497	7,502,260	7,368,472
	=====	=====	=====
Diluted	8,043,727	7,820,742	7,787,140
	=====	=====	=====

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, 2000, 1999 and 1998  
(In thousands, except share data)

	COMMON STOCK		ADDITIONAL PAID IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK (AT COST)		UNAMORTIZED ESOP DEBT
	SHARES	AMOUNT			SHARES	AMOUNT	
BALANCE AT MAY 1, 1997	6,006,300	\$6,006	\$35,190	\$20,414	1,032,812	(\$4,612)	(\$1,500)
Exercise of stock options			(83)		(162,495)	938	
Amortization of ESOP debt			976				500
Shares issued under restricted stock plan			15		(7,500)	42	
Independent Contractor stock options granted			208				
Payment received for common stock subscribed							
Amortization of unearned compensation							
Stock dividend, 3-for-2	3,002,959	3,003		(3,007)	434,096		
Cash dividend				(1,488)			
Increase in market value of marketable securities							
Net Earnings				64			
Comprehensive income- 1998							
BALANCE AT APRIL 30, 1998	9,009,259	9,009	36,306	15,983	1,296,913	(3,632)	(1,000)
Exercise of stock options			12		(20,063)	61	
Purchase of treasury stock					70,000	(487)	
Amortization of Independent Contractor stock options			58				
Amortization of ESOP debt			564				500
Amortization of unearned compensation							
Cash dividend				(1,503)			
Decrease in market value of marketable securities							
Net Earnings				1,173			
Comprehensive income- 1999							
BALANCE AT APRIL 30, 1999	9,009,259	9,009	36,940	15,653	1,346,850	(4,058)	(500)
Exercise of stock options			341		(330,298)	414	
Amortization of Independent Contractor stock options			170				
Amortization of ESOP debt			478				500
Payment received for common stock subscribed							
Amortization of unearned compensation							
Cash dividend				(1,558)			
Decrease in market value of marketable securities							
Net Earnings				3,144			
Comprehensive income- 2000							
Balance at April 30, 2000	9,009,259	\$9,009	\$37,929	\$17,239	1,016,552	(\$3,644)	\$0

	Note receivable common STOCK	Unearned COMPENSATION	Accumulated other comprehensive INCOME (LOSS)	TOTAL
BALANCE AT MAY 1, 1997	(\$435)	(\$77)	\$80	\$55,066
Exercise of stock options				855
Amortization of ESOP debt				1,476
Shares issued under restricted stock plan		(52)		5
Independent Contractor stock options granted				208
Payment received for common stock subscribed				148
Amortization of unearned compensation		40		40
Stock dividend, 3-for-2				(4)
Cash dividend				(1,488)
Increase in market value of marketable securities			37	37
Net Earnings				64
Comprehensive income- 1998				101

BALANCE AT APRIL 30, 1998	(287)	(89)	117	56,407
Exercise of stock options				73
Purchase of treasury stock				(487)
Amortization of Independent Contractor stock options				58
Amortization of ESOP debt				1,064
Amortization of unearned compensation		42		42
Cash dividend				(1,503)
Decrease in market value of marketable securities			(320)	(320)
Net Earnings				1,173
Comprehensive income- 1999				853
BALANCE AT APRIL 30, 1999	(287)	(47)	(203)	56,507
Exercise of stock options				755
Amortization of Independent Contractor stock options				170
Amortization of ESOP debt				978
Payment received for common stock subscribed				172
Amortization of unearned compensation		27		27
Cash dividend				(1,558)
Decrease in market value of marketable securities			(1,205)	(1,205)
Net Earnings				3,144
Comprehensive income- 2000				1,939
Balance at April 30, 2000	(\$115)	(\$20)	(\$1,408)	\$58,990

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, 2000, 1999 and 1998  
 -----

	2000 -----	1999 -----	1998 -----
		(In thousands)	
Cash flows from operating activities:			
Net earnings	\$3,144	\$ 1,173	\$     64
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Deferred tax expense (benefit)	840	(100)	(2,600)
Depreciation and amortization	1,117	1,224	963
Provision for losses on accounts receivable and inventories	151	186	4,537
Gains on marketable securities and notes receivable	(1,654)	(678)	(42)
Gain on sale or disposal of property, plant and equipment	-	-	(5,869)
Amortization resulting from allocation of ESOP shares	978	1,064	1,476
Employee benefit plan provisions	766	1,461	444
Noncash interest on finance lease	-	-	(15)
Changes in assets and liabilities:			
Accounts receivable	2,583	6,414	(3,843)
Inventories	(3,745)	(3,546)	48
Prepaid and other	(174)	312	247
Other assets	(359)	(554)	(579)
Accounts payable trade	182	(446)	401
Litigation settlement accrual	-	(8,150)	8,150
Accrued liabilities	773	(362)	(217)
Income taxes payable	(676)	310	72
Other liabilities	(383)	(137)	(81)
	-----	-----	-----
Net cash provided by (used in) operating activities	3,543	(1,829)	3,156
	-----	-----	-----
Cash flows from investing activities:			
Purchase of marketable securities	(24,611)	(22,920)	(13,030)
Proceeds from sale or redemption of marketable securities	27,468	20,575	9,560
Capital expenditures	(668)	(1,366)	(1,043)
Proceeds from sale of property, plant and equipment	-	-	6,587
	-----	-----	-----
Net cash provided by (used in) investing activities	2,189	(3,711)	2,074
	-----	-----	-----

Continued

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES  
Consolidated Statements of Cash Flows  
Years ended April 30, 2000, 1999 and 1998  
(Continued)  
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	2000 ----	1999 ----	1998 ----
		(In thousands)	
Cash flows from financing activities:			
Principal payments of long-term debt and other long-term obligations	(700)	(665)	(1,374)
Purchase of treasury stock	-	(487)	-
Payment of cash dividend	(1,532)	(1,539)	(1,520)
Payment on notes receivable from employees	172	-	148
Proceeds from loan receivable	-	-	1,879
Exercise of stock options	755	73	914
	-----	-----	-----
Net cash (used in) provided by financing activities	(1,305)	(2,618)	47
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	4,427	(8,158)	5,277
Cash and cash equivalents at beginning of year	567	8,725	3,448
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 4,994	\$ 567	\$8,725
	=====	=====	=====
Supplemental disclosures of cash flow information (Note 15):			
Cash paid during the year for:			
Interest	\$ 312	\$ 331	\$ 766
	=====	=====	=====
Income taxes	\$ 1,159	\$ 190	\$1,128
	=====	=====	=====

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

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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 13 for information regarding the Company's commercial communications and U.S. government business segments. Intercompany accounts and significant intercompany transactions are eliminated in consolidation.

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.

INVENTORIES:

Inventories, which consist of 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 is recorded at cost and includes 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.

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 income 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

For smaller contracts and orders, 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.

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.

### 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.

All shares and per share amounts have been adjusted to reflect a 3-for-2 stock split in the form of a 50% stock dividend, effective October 31, 1997.

### MARKETABLE SECURITIES:

Marketable securities consist of investments in common stocks, mutual funds, and debt securities of U.S. government agencies. In addition, as a result of the sale of the Company's real estate holdings (Note 6), marketable securities include participation units in the Reckson Operating Partnership, L.P. ("REIT units") which are convertible to common shares of Reckson Associates Realty Corp. Except for the REIT units and certain investments in common stock, substantially all other marketable securities at April 30, 2000 and 1999 were held in the custody of two financial institutions. Investments in certain 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.

### 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.

### 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.

STOCK-BASED PLANS:

The Company applies the disclosure-only provisions of SFAS No. 123, "ACCOUNTING FOR STOCK-BASED COMPENSATION," and continues to measure compensation cost in accordance with Accounting Principles Board 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 SFAS No. 123, the Company provides pro forma disclosures of net earnings (loss) and earnings (loss) per share as if the fair value method had been applied beginning in fiscal 1996.

2. EARNINGS PER SHARE

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

	YEARS ENDED APRIL 30,		
	2000	1999	1998
Basic EPS Shares outstanding (weighted average)	7,673,497	7,502,260	7,368,472
Effect of Dilutive Securities	370,230	318,482	418,668
Diluted EPS Shares outstanding	8,043,727	7,820,742	7,787,140

For the year ended April 30, 2000, all exercisable options were included in the computation of diluted earnings per share. Options to purchase 178,500 and 6,000 shares of common stock were outstanding during the years ended April 30, 1999 and 1998, 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.

3. 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 \$2,584,000 at April 30, 2000 and \$6,657,000 at April 30, 1999. 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.

4. INVENTORIES

Inventories, which are reported net of reserves of \$1,188,000 and \$1,054,000 at April 30, 2000 and 1999, respectively, consisted of the following (in thousands):

	2000	1999
Raw Materials and Component Parts	\$ 6,188	\$3,028
Work in Progress	7,119	6,668
	\$ 13,307	\$9,696

5. MARKETABLE SECURITIES

Marketable securities at April 30, 2000 and 1999 are summarized as follows (in thousands):

APRIL 30, 2000			
	Cost	Market Value	Unrealized Holding Gain (Loss)
REIT units	\$ 12,000	\$ 10,297	(\$ 1,703)
Fixed income securities	24,867	24,269	(598)
Equity Securities	1,494	1,447	(47)
	<u>\$ 38,361</u>	<u>\$ 36,013</u>	<u>(\$ 2,348)</u>
	=====	=====	=====

  

APRIL 30, 1999			
	Cost	Market Value	Unrealized Holding Gain (Loss)
REIT units	\$12,000	\$ 11,548	(\$ 452)
Fixed income securities	25,376	25,484	108
Equity Securities	1,683	1,688	5
	<u>\$39,059</u>	<u>\$38,720</u>	<u>(\$ 339)</u>
	=====	=====	=====

Maturities of fixed income securities classified as available-for-sale at April 30, 2000 are as follows (in thousands):

Current	\$6,360
Due after one year through five years	15,807
Due after five years through ten years	2,700
	<u>\$24,867</u>
	=====

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following (in thousands):

	2000	1999
Buildings and building improvements	\$ 8,751	\$ 8,751
Machinery, equipment and furniture	19,523	18,915
	<u>28,274</u>	<u>27,666</u>
Less, accumulated depreciation and amortization	19,234	18,177
	<u>\$ 9,040</u>	<u>\$ 9,489</u>
	=====	=====

Depreciation and amortization expense for the years ended April 30, 2000, 1999 and 1998 was \$1,117,000, \$1,211,000, and \$943,000, respectively.

Maintenance and repairs charged to operations for the years ended April 30, 2000, 1999 and 1998 was approximately \$369,000, \$353,000, and \$369,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

In January 1998, in two transactions, the Company sold two buildings to Reckson Associates Realty Corp., a real estate investment trust ("REIT") whose shares are traded on the New York Stock Exchange. In one sale transaction, the Company sold the building which it had leased to Laboratory Corporation of America ("LCA"), receiving cash of approximately \$15.6 million and realizing a gain of approximately \$5.4 million after selling expenses which amount was included in "Other income, net" in fiscal year 1998.

In the other sale, the Company effected a tax-deferred exchange of the building which it occupies for approximately 486,000 participation units of Reckson Operating Partnership, L.P. ("REIT units") which were valued at closing at \$12 million. Each REIT unit is convertible into one share of the common stock of the REIT. In addition, approximately 27,000 REIT units have been placed in escrow which may be released to the Company based upon the price per share of the REIT on the date of conversion of REIT units.

The Company leased back approximately 43% of the latter building from the purchaser (the "Reckson lease"). Under the accounting provisions for sale and leaseback transactions, the sale of this building is considered a financing and the REIT units received are reflected as a noncurrent liability while the related building continues to be reflected as an asset. Upon liquidation of the REIT units, a portion of the resulting gain on this sale will be deferred and recognized into income over the term of the leaseback with the balance recognized in income on the date of liquidation. The Company's annual rental payment of \$400,000 is characterized as repayment of the financing with a portion allocated to interest expense at an assumed interest rate of 6.5% and the balance is considered repayment of principal. During the years ended April 30, 2000 and 1999, the Company charged \$180,000 and \$194,000, respectively, to interest expense under the financing agreement. Lease rental expense charged to operations under the Company's former land lease with Nassau County and for certain equipment was approximately \$308,000 for the year ended April 30, 1998.

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 2010. Under the terms of the lease the Company is required to pay its proportional share of real estate taxes, insurance and other charges.

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

Years ending April 30, -----	
2001	\$ 400
2002	400
2003	400
2004	400
2005	400
2006 and thereafter	1,467
	-----
	\$3,467
	=====

7. LONG-TERM DEBT

Long-term debt consisted of a note payable, originally in the amount of \$5,000,000, which was used to fund the purchase of 1,071,652 shares of the Company's common stock for the Employee Stock Ownership Plan (ESOP). The note was payable in forty equal quarterly installments of \$125,000 through April 1, 2000 with interest at adjusted LIBOR plus 1.00% (6.439% at April 30, 1999). Dividends received on ESOP shares (\$11,000 and \$21,000 at April 30, 2000 and 1999, respectively) which had not been allocated to participant accounts were used to pay a portion of the principal of this note. (see Note 11.) The note was collateralized by a portion of the Company's common stock held in treasury. During the year ended April 30, 2000, the Company made the remaining principal payments on the debt which aggregated \$489,000.

8. ACCRUED LIABILITIES

Accrued liabilities at April 30, 2000 and 1999 consist of the following (in thousands):

	2000	1999
	----	----
Due customers	\$ 1,470	\$ -
Accrued Bonus	535	325
Other Compensation	201	187
Vacation accrual	390	395
Sales commissions	84	797
Other	510	638
	-----	-----
	\$ 3,190	\$2,342
	=====	=====

9. COMMITMENTS AND CONTINGENCIES

LITIGATION SETTLEMENT:

On June 19, 1998, FEI and the United States Government (referred to as either "U.S." or "Government") entered into a Plea Agreement, Civil Settlement Agreement and Related Documents ("Settlement Agreement") thereby concluding a global disposition ("Global Disposition") of certain previously reported pending litigations and matters with the Government. Under the terms of the Settlement Agreement, FEI paid an aggregate of \$8 million to the Government. These settlement payments are reflected in the Company's consolidated results of operations for the fiscal year ended April 30, 1998. Included in selling and administrative expenses for that year are accruals for additional legal fees related to this settlement in the amount of \$150,000.

PRIVATE CIVIL DERIVATIVE ACTIONS:

On December 1, 1993, and February 4, 1994, two separate derivative shareholder actions (pursuant to a court order, now consolidated under one civil action) were served in state court naming FEI, as a nominal defendant, and its directors at the time and certain of its officers and employees as defendants. The shareholder actions generally allege, based upon a November 1993 federal grand jury indictment, that the defendants defrauded the government, submitted false statements and invoices on government projects, destroyed and altered records, and made false statements and submitted false documents to government officials. (The indictment has been dismissed with prejudice. FEI pled guilty to a single charge under a superseding indictment, of submitting a false statement which failed to disclose the full explanation of costs on a highly

classified government project, and the superseding indictment was otherwise dismissed with prejudice as to all defendants. The indictment and superseding indictment generally contained similar allegations.) The shareholder actions assert that, as a result of the indictment, FEI is exposed to material and substantial monetary judgments and penalties and the loss of significant business and the directors were under a fiduciary obligation to manage and control the business operations of FEI and the conduct of its personnel. A derivative action is one permitted by law to be instituted by a shareholder for the benefit of a corporation to enforce an alleged right or claim of the corporation where it is alleged that such corporation has either failed and refused to do so or may not reasonably be expected to do so. The complaint seeks judgment against the directors in the amount of all losses and damages suffered by FEI on account of the facts alleged in the complaint, together with interest costs, legal and other professional fees. FEI and the other defendants have denied the allegations. Since the disposition of the criminal cases covered by the Settlement Agreement executed on June 19, 1998, the litigation has resumed. FEI is attempting to settle the Derivative Litigation, which settlement would be subject to execution of a final settlement agreement by counsel for all parties, notice to shareholders and Court approval. Management believes that such settlement, if finalized, would not have a material adverse affect on the Company's financial position or results of operations. In the event a settlement cannot be reached, no opinion can be offered as to the outcome of the Motion(s) or with respect to the Derivative Litigation.

QUI TAM ACTION:

In March 1994, a qui tam action brought by Ralph Muller, a former FEI employee, was served upon FEI and Martin Bloch, its president. A qui tam action is an action wherein an individual may, under certain circumstances, bring a legal action against one or more third persons on behalf of the Government for damages and other relief by reason of one or more alleged wrongs perpetrated against the Government by such third persons. The complaint alleges that FEI, in connection with its subcontract to design and manufacture certain oscillators which are components of the Government's Advance Medium Range Air to Air Missiles ("AMRAAMS"), improperly designed, manufactured and tested the oscillators and as a result the Government sustained damages. The complaint demands an unspecified amount of damages allegedly suffered by the Government, and asks that the Court determine the damages and assess civil penalties as provided under the False Claims Act. Under the False Claims Act, a recovery can be made in favor of the Government for a civil penalty of not less than \$5,000 and not more than \$10,000 as to each false claim and for each false record and statement, plus three times the amount of damages it is determined the Government sustained, plus legal fees and expenses. Under the provisions of the False Claims Act, the Government is permitted to take over the prosecution of the action. The Government has declined to prosecute the action and Muller is proceeding with the action on behalf of the Government.

The Company and Mr. Bloch have denied the allegations of and intend to vigorously defend the qui tam action. On April 11, 1997, the Court ordered the qui tam action stayed pending resolution of the criminal cases. Since the disposition of the criminal cases, litigation has resumed. Limited discovery has taken place due to the government's determination that all documents related to this action are classified which has necessitated extraordinary procedures, recently put in place, for purposes of conducting discovery. On January 21, 2000, the Court stayed further proceedings pending a decision of the U.S. Supreme Court in an unrelated case with certain legal issues that could have bearing on the qui tam action. That case was recently decided and the Court determined that this litigation will resume.

COMPANY POSITION AND LEGAL FEES:

FEI and the individual defendants in each of the legal matters described above consider the allegations and the charges asserted to be unjustified. They further consider the actions of FEI and the individual defendants with respect to the subject matter of these charges to have been

taken in good faith and without wrongful intent, criminal or otherwise. Because of the uncertainty associated with the foregoing matters, FEI is unable to estimate the potential liability or loss that may result, if any, and, accordingly, no provision has been made in the accompanying consolidated financial statements. However, an unfavorable outcome of these matters could have a material impact on the Company's financial position, results of operations and cash flows.

Included in selling and administrative expenses are legal fees incurred in connection with the litigation settlement and the above matters of approximately \$274,000, \$221,000 and \$741,000 for the fiscal years ended April 30, 2000, 1999 and 1998, respectively.

On November 17, 1998, the Company received \$4.5 million in settlement of its claim against Associated International Insurance Company under applicable directors and officers insurance coverage. This payment related to legal fees incurred by FEI in previous years in defense of the litigation brought against it by agencies of the U.S. Government.

On March 14, 2000, FEI commenced an action in the state court against National Union Fire Insurance of Pittsburgh, PA ("National"). The complaint sets forth causes of action for a declaratory judgment and breach of contract relating to certain directors' and officers' liability insurance policies in connection with the Muller qui tam action, the AMRAAM Grand Jury Investigation, the Geldart qui tam action, and the derivative actions. After the complaint was served, the defendant made a motion to dismiss, which was returnable and submitted to the Court. No opinion can be offered as to the outcome of this action. FEI also has coverage from the Home Insurance Company (the "Home") which policy is excess insurance coverage above the National policy during certain periods. Home's liability will not be triggered until National pays the full amount of its policy for a period to which the Home coverage is applicable.

GOVERNMENT CONTRACT SUSPENSION AND DEBARMENT:

By letter dated July 9, 1998, FEI was notified by the U.S. Department of the Air Force of FEI's debarment from Government contracting and from directly or indirectly receiving the benefits of federal assistance programs. The debarment was based upon FEI's guilty plea entered in connection with the Global Disposition and the Settlement Agreement. Such debarment was terminated on December 12, 1998 and, as a consequence, FEI may engage in projects related to U.S. Government military and space related efforts if it chooses to do so.

OTHER:

The Company is subject to various other legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of the Company.

10. 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, accrue interest at 1/2% above prime (8.5% at April 30, 2000) which is payable and adjusted annually. The principal was due in its entirety at the earlier of termination of employment or October 1999. (Certain officers requested and received an extension of the due date of the notes to October 2001.) During the years ended April 30, 2000 and 1998, certain officers and employees made payments on their notes in the aggregate amount of \$172,000 and \$148,000, respectively. No payments were received during fiscal 1999.



11. 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 year ended April 30, 2000, the Company will contribute 3,976 shares of common stock with an approximate value at the date of issuance of \$75,000. There were no such contributions in fiscal 1999 or 1998.

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 \$175,000 and \$490,000 to operations under these plans for the fiscal years ended April 30, 2000 and 1998, respectively. The Company incurred no expenses for such bonuses for the year ended April 30, 1999 due to lower operating profits.

INDEPENDENT CONTRACTOR STOCK OPTION PLAN

During fiscal 1998, the Company established 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. Each of the option grants in fiscal 2000 and 1998, as indicated in the table below, were granted to certain independent contractors at a price equal to the then fair market value of the Company's common stock. Each option grant permitted immediate exercise of a portion of the options (24% to 34% of the total grant) with the balance exercisable proportionately over the next two to three years. For the years ended April 30, 2000, 1999 and 1998, the Company recognized compensation expense of \$170,000, \$58,000 and \$208,000, respectively, as a result of these stock option grants.

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

	2000		1999		1998	
	Shares	Wtd Avg Price	Shares	Wtd Avg Price	Shares	Wtd Avg Price
Outstanding at beginning of year	112,500	\$15.75	112,500	\$15.75	-	-
Granted	12,000	\$8.98	-	-	112,500	\$15.75
Exercised	(2,200)	\$8.88	-	-	-	-
Outstanding at end of year	122,300	\$15.21	112,500	\$15.75	112,500	\$15.75
Exercisable at end of year	89,200	\$15.63	57,500	\$15.75	27,250	\$15.75
Available for grant at end of year	75,500		87,500		87,500	
Weighted average fair value of options granted during the year	\$ 4.35		\$ -		\$15.75	

INCENTIVE STOCK OPTION PLANS:

The Company has various Incentive Stock Option Plans ("ISOP's") for key management employees (including officers and directors who are employees). The ISOP's provide that eligible employees may be granted options to purchase an aggregate of 1,725,000 shares of the Company's common stock. Under one 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. The 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.

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

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

	2000		1999		1998	
	Shares	Wtd Avg Price	Shares	Wtd Avg Price	Shares	Wtd Avg Price
Outstanding at beginning of year	792,625	\$6.14	505,688	\$6.14	625,489	\$3.38
Granted	156,500	\$7.50	325,000	\$8.25	106,500	\$10.26
Exercised	(316,825)	\$3.82	(20,063)	\$3.72	(216,551)	\$3.48
Expired or canceled	(20,500)	\$7.26	(18,000)	\$10.84	(9,750)	\$5.64
Outstanding at end of year	611,800	\$7.65	792,625	\$6.14	505,688	\$6.14
Exercisable at end of year	304,593	\$6.83	419,346	\$4.11	369,236	\$3.44
Available for grant at end of year	205,000		64,000		289,500	
Weighted average fair value of options granted during the year	\$3.68		\$4.26		\$4.39	

The weighted average remaining contractual life of options outstanding at April 30, 2000, 1999 and 1998 is 8.1, 6.2 and 4.7 years, respectively. At April 30, 2000, 1999 and 1998, option prices per share were from \$3.25 to \$18.875.

The Company applies the disclosure-only provision for SFAS No. 123 in accounting for the ISOP's. Had compensation cost for stock option awards under the ISOP's been determined based on the fair value at the grant dates consistent with the provisions of SFAS No. 123, the pro forma effect on the Company's financial statements would have been as follows:

	2000	1999	1998
Net Earnings, as reported	\$3,144	\$1,173	\$ 64
Net Earnings (Loss)- pro forma	\$2,468	\$ 843	(\$ 69)
Earnings per share, as reported:			
Basic	\$ 0.41	\$ 0.16	\$ 0.01
Diluted	\$ 0.39	\$ 0.15	\$ 0.01
Earnings (Loss) per share- pro forma			
Basic	\$ 0.32	\$ 0.11	(\$ 0.01)
Diluted	\$ 0.31	\$ 0.11	(\$ 0.01)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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 2000, 1999 and 1998, respectively: dividend yield of 3.0%, 1.5% and 3.0%; expected volatility of 47%, 37% and 40%; risk free interest rate (ranging from 6.5% to 8.0%); and expected lives ranging from seven to ten years.

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.

	2000		1999		1998	
	Shares	Wtd Avg Price	Shares	Wtd Avg Price	Shares	Wtd Avg Price
Outstanding at beginning of year	99,000	\$3.93	105,000	\$3.98	135,000	\$4.00
Granted	-	-	1,500	\$1.00	7,500	\$0.67
Expired	-	-	(7,500)	\$4.00	-	-
Exercised	(30,000)	\$4.00	-	-	(37,500)	\$3.40
Outstanding at end of year	69,000	\$3.94	99,000	\$3.93	105,000	\$3.98
Exercisable at end of year	69,000	\$3.94	98,000	\$3.96	105,000	\$3.98
Balance of shares available for grant at end of year	98,250		98,250		92,250	

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). This amendment became effective January 1, 1990. A loan in the amount of \$5,000,000 was negotiated with a bank on May 22, 1990 to fund the Trust. The loan was for a ten year period with forty equal quarterly installments of \$125,000, plus interest at various rates at the Company's option. 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 the ratio of the current year's debt service to the sum of the current year's debt service plus the principal to be paid for all future years. Through April 30, 2000, 1,071,652 shares have been allocated to participant accounts of which 717,183 shares remain in the ESOP.

Effective May 1, 1994, the Company changed its method of accounting for its ESOP in accordance with Statement of Position ("SOP") 93-6. In accordance with SOP 93-6 the annual expense related to the leveraged ESOP, determined as interest incurred on the note plus compensation cost based on the fair value of the shares released was approximately \$978,000, \$1,064,000, and \$1,569,000 for the years ended April 30, 2000, 1999 and 1998, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

The SOP also requires that ESOP shares that are committed to be released be considered outstanding for purposes of calculating earnings per share. The fair value of unallocated shares approximated \$830,000 at April 30, 1999.

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 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, 2000, 1999 and 1998 was approximately \$494,000, \$1,360,000, and \$227,000, respectively. During fiscal 1999, the Company made modifications to the benefits of certain employees and added two new participants. Accordingly, deferred compensation expense in fiscal 1999 included approximately \$800,000 to account for the benefit modifications.

12. INCOME TAXES

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

	2000	1999	1998
	----	----	----
Current Federal	\$ 200	\$ 300	\$ 225
Current State and Local	240	200	975
	-----	-----	-----
Current provision	440	500	1,200
Deferred tax (benefit) provision	840	(100)	8
Reduction in valuation allowance	-	-	(2,608)
	-----	-----	-----
Total provision (benefit)	\$1,280	\$ 400	(\$1,400)
	=====	=====	=====

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

	2000	1999	1998
	----	----	----
	(In thousands)		
Computed "expected" tax expense (benefit)	\$1,504	\$ 535	(\$ 454)
State and local tax, net of federal benefit	161	161	640
Excess ESOP amortization	163	192	332
Nondeductible expenses	26	35	361
Nontaxable investment income	(99)	(145)	(62)
Research & Development Tax Credit	(330)	(330)	-
Adjustment to deferred tax balances			
due to tax rates	-	-	374
Reduction in valuation allowance	-	-	(2,608)
Other items, net, none of which individually exceeds 5% of federal taxes at statutory rates	(145)	(48)	17
	-----	-----	-----
	\$ 1,280	\$ 400	(\$1,400)
	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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

	2000	1999
	----	----
Deferred tax assets:		
Employee benefits	\$2,722	\$2,594
Inventory	606	518
Accounts receivable	76	76
Marketable securities	940	136
Research & Development Credit	-	640
Net operating loss carryforwards	-	688
Miscellaneous	52	11
	-----	-----
Total deferred tax asset	4,396	4,663
	-----	-----
Deferred tax liabilities:		
Property, plant and equipment	1,856	1,827
	-----	-----
Net deferred tax asset	\$2,540	\$2,836
	=====	=====

At April 30, 2000, the Company has fully applied all previously available net operating loss carryforwards.

13. SEGMENT INFORMATION

In fiscal 1999, the Company adopted SFAS 131. The segment information for fiscal year 1998 has been restated to present the Company's two reportable segments for each of the three years ended April 30, 2000.

The Company's reportable segments are:

- (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.

The accounting policies of the two 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 operates out of a single manufacturing facility and both segments share the same managers, manufacturing personnel, and machinery and equipment. Consequently, segment data includes allocations of depreciation and corporate-wide general and administrative charges. Segment assets consist principally of inventory and accounts receivable. All other assets are assigned to the corporation for the benefit of both segments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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:

	2000 ----	1999 ----	1998 ----
Net sales:			
Commercial Communications	\$22,554	\$14,547	\$26,364
U.S. Government	3,981	4,411	5,633
	-----	-----	-----
Consolidated Sales	\$26,535 =====	\$18,958 =====	\$31,997 =====
Operating (loss) profit:			
Commercial Communications	(\$ 91)	(\$4,682)	\$ 6,130
U.S. Government	1,711	(137)	(4,522)
Corporate	(612)	4,118	(10,713)
	-----	-----	-----
Consolidated Operating Profit (Loss)	\$ 1,008 =====	(\$ 701) =====	(\$ 9,105) =====
Identifiable assets:			
Commercial Communications	\$18,447	\$16,968	\$18,701
U.S. Government	4,450	4,918	6,415
Corporate	57,950	56,469	63,664
	-----	-----	-----
Consolidated Identifiable Assets	\$80,847 =====	\$78,355 =====	\$88,780 =====
Depreciation (allocated):			
Commercial Communications	\$ 971	\$ 910	\$698
U.S. Government	127	282	226
Corporate	19	19	19
	-----	-----	-----
Consolidated depreciation expense	\$1,117 =====	\$1,211 =====	\$943 =====

MAJOR CUSTOMERS

During fiscal year 2000, sales to one customer accounted for approximately \$14.0 million of the commercial communications segment's total sales. This amount represents 62% of the commercial communications total revenues and 53% of consolidated sales. In the U.S. Government segment, sales to three customers accounted for \$2.4 million of sales or 61% of the segment's revenue and 9% of consolidated revenue. No U.S. Government customer accounted for more than 10% of consolidated revenue.

Sales to one customer in the commercial communications segment were approximately \$6.5 million or 45% of that segment's revenues and 34% of consolidated sales for fiscal 1999. In the U.S. Government segment, sales to two customers accounted for \$2.3 million of sales or 53% of the segment's revenue and 12% of consolidated revenue. Neither U.S. Government customer accounted for more than 10% of consolidated revenue.

During fiscal year 1998, sales to two customers accounted for approximately \$8.9 million and \$6.9 million, respectively, of the commercial communications segment's total sales. These amounts represent 60% of the commercial communications total revenues and 49% of consolidated sales.

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 segment 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):

	2000 -----	1999 -----	1998 -----
United Kingdom	\$1,068	\$ 811	\$1,003
Israel	635	-	-
France	616	987	855
Korea	339	638	1,881
Italy	-	277	1,427
Other	591	1,028	518
	-----	-----	-----
	\$3,249	\$3,741	\$5,684
	=====	=====	=====

14. INTERIM RESULTS (UNAUDITED)

Quarterly results for fiscal years 2000 and 1999 are as follows (in thousands, except per share data):

	2000 QUARTER -----			
	1ST -----	2ND -----	3RD -----	4TH -----
Net sales	\$5,464	\$6,036	\$7,117	\$7,918
Gross profit	2,392	2,681	3,144	3,434
Net earnings	444	478	1,203	1,019
*Earnings per share				
Basic	\$0.06	\$0.06	\$0.16	\$0.13
Diluted	\$0.06	\$0.06	\$0.15	\$0.12
	1999 QUARTER -----			
	1ST -----	2ND -----	3RD -----	4TH -----
Net sales	\$7,015	\$6,180	\$3,060	\$2,703
Gross profit	2,389	2,025	888	671
Net earnings (loss)	518	3,209	(1,357)	(1,197)
*Earnings (loss) per share				
Basic	\$0.07	\$0.43	(\$0.18)	(\$0.16)
Diluted	\$0.07	\$0.41	(\$0.18)	(\$0.16)

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

The Company decided to renegotiate an exclusive fixed unit contract with a customer for one of the Company's commercial communications products. This action resulted in a fiscal 1999 fourth quarter reduction of sales and cost of sales of approximately \$1.7 million and \$1.0 million, respectively. During the fourth quarter of fiscal 1999, the Company also recorded an additional \$800,000 accrual to deferred compensation expense as a result of benefit modifications. (see Note 11)

15. OTHER INFORMATION

The following provides information about investing and financing activities of the Company that affect assets or liabilities but did not result in cash flow for the three years ended April 30, 2000, 1999 and 1998 and, therefore, are excluded from the Consolidated Statements of Cash Flows (in thousands):

	2000 -----	1999 -----	1998 -----
Declaration of cash dividend	\$ 799	\$ 766	\$ 771
3-for-2 stock split in the form of a 50% stock dividend	-	-	3,003
Proceeds from sale of LCA building used to pay down construction loan	-	-	9,000
REIT units received in connection with building sale	-	-	12,000
Transfer of work-in-process inventory to equipment	-	175	-



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, 2000					
Allowance for doubtful accounts	\$190	\$17		\$17(a)	\$190
Inventory reserves	\$1,054	\$134		-	\$1,188
YEAR ENDED APRIL 30, 1999					
Allowance for doubtful accounts	\$190	\$36		\$36(a)	\$190
Inventory reserves	\$1,400	\$150		\$496(b)	\$1,054
YEAR ENDED APRIL 30, 1998					
Allowance for doubtful accounts	\$190	\$49		\$49(a)	\$190
Inventory reserves	\$350	\$4,488		\$3,438(b)	\$1,400

(a) Accounts written off

(b) Inventory disposed or written off

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NONE

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

ITEM 10(A) DIRECTORS OF THE COMPANY

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 October 19, 2000.

ITEM 10(B) 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 and Assistant Secretary
Alfred Vulcan	-	Vice President, Systems Engineering
Charles S. Stone	-	Vice President, Low Noise Development
Leonard Martire	-	Vice President, Space Systems and Business Development
Thomas McClelland	-	Vice President, Commercial Products
Alan Miller	-	Treasurer and Chief Financial Officer
Harry Newman	-	Secretary and Assistant to the Executive Vice President

None of the officers and directors is related.

Joseph P. Franklin, age 66, has served as a Director of the Company since March 1990. In December 1993 he was elected Chairman of the Board of Directors and Chief Executive Officer. He also served as Chief Financial Officer from September 15, 1996 through October 5, 1998. He has been the Chief Executive Officer of Franklin S.A., since August 1987, 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 64, has been a Director of the Company and of its predecessor since 1961. Mr. Bloch is the Company's President and Chief Executive Officer. Previously, he served as chief electronics engineer of the Electronics Division of Bulova Watch Company.

Markus Hechler, age 54, 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. He has served as Assistant Secretary since 1978.

Alfred Vulcan, age 63, joined the Company as an engineer in 1973 and has served as its Vice President, Systems Engineering since 1978.

Charles S. Stone, age 69, 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 63, 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, Space Systems and Business Development.

Thomas McClelland, age 45, joined the Company as an engineer in 1984 and was elected Vice President, Commercial Products in March 1999.

Alan Miller, age 51, 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 53, Secretary and Assistant to the Executive Vice President, 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 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 October 19, 2000.

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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 October 19, 2000.

#### 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 October 19, 2000.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) INDEX TO FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES 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)
Report of Independent Accountants	25
Consolidated Balance Sheets April 30, 2000 and 1999	26-27
Consolidated Statements of Operations - years ended April 30, 2000, 1999 and 1998	28
Consolidated Statements of Changes in Stockholders' Equity - years ended April 30, 2000, 1999 and 1998	29
Consolidated Statements of Cash Flows - years ended April 30, 2000, 1999 and 1998	30-31
Notes to Consolidated Financial Statements	32-47

(2) Financial Statement Schedules

Included in Part II of this report:

Schedule II - Valuation and Qualifying Accounts	48
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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 - Consent of Independent Accountants.	58
Exhibit 27 - Article 5 Financial Data Schedule	

The exhibits listed on the accompanying Index to Exhibits beginning on page 52 are filed as part of this annual report.

(b) REPORTS ON FORM 8-K

Registrant's Form 8-K, dated March 23, 2000, containing disclosure under Item 5 thereof (dividend declaration), was filed with the Securities and Exchange Commission during the quarter ended April 30, 2000.

INDEX TO EXHIBITS

ITEM 14(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 -----	IDENTIFICATION PER REG. 229.601(B) -----	DESCRIPTION OF EXHIBIT -----	EXHIBIT NO. AS FILED WITH REGISTRATION STATEMENT OR REPORT SPECIFIED BELOW -----
1	(3)	Copy of Certificate of Incorporation of the Registrant filed with the Secretary of State of Delaware (1)	3.1
2	(3)	Amendment to Certificate of Incorporation of the Registrant filed with the Secretary of State of Delaware on March 27, 1981 (2)	3.2
3	(3)	Copy of By-Laws of the Registrant, as amended to date (3)	3.3
4	(4)	Specimen of Common Stock certificate (1)	4.1
5	(10)	Stock Bonus Plan of Registrant and Trust Agreement thereunder (4)	10.2
6	(10)	Employment agreement between Registrant and Martin B. Bloch (4)	10.3
7	(10)	Employment agreement between Registrant and Abraham Lazar (4)	10.4
8	(10)	Employment agreement between Registrant and John C. Ho (4)	10.5

EXHIBIT NO. IN THIS FORM 10-K -----	IDENTIFICATION PER REG. 229.601(B) -----	DESCRIPTION OF EXHIBIT -----	EXHIBIT NO. AS FILED WITH REGISTRATION STATEMENT OR REPORT SPECIFIED BELOW -----
9	(10)	Employment agreement between Registrant and Marvin Meirs (4)	10.6
10	(10)	Employment agreement between Registrant and Alfred Vulcan (4)	10.7
11	(10)	Employment agreement between Registrant and Harry Newman (4)	10.8
12	(10)	Employment agreement between Registrant and Marcus Hechler (4)	10.9
13	(10)	Form of stock escrow agreement between Vincenti & Schickler as escrow agent and certain officers of Registrant (4)	10.10
14	(10)	Form of Agreement concerning Executive Compensation (2)	10.11
15	(10)	Registrant's 1982 Incentive Stock Option Plan (5)	15
16	(10)	Amendment dated April 19, 1981 to Stock Bonus Plan of Registrant and Trust Agreement (3)	20.1
17	(3)	Amendment to Certificate of Incorporation of the Registrant filed with Secretary of State of Delaware on October 26, 1984 (6)	17
18	(10)	Registrant's 1984 Incentive Stock Option Plan (6)	18

EXHIBIT NO. IN THIS FORM 10-K -----	IDENTIFICATION PER REG. 229.601(B) -----	DESCRIPTION OF EXHIBIT -----	EXHIBIT NO. AS FILED WITH REGISTRATION STATEMENT OR REPORT SPECIFIED BELOW -----
19	(10)	Registrant's Cash or Deferral Profit Sharing Plan and Trust under Internal Revenue Code Section 401, dated April 1, 1985 (7)	19
20	(10)	Computation of Earnings per Share of Common Stock	Included in the Financial Statements
21	(10)	Amendment Restated Effective as of May 1, 1984 of the Stock Bonus Plan and Trust Agreement of Registrant (7)	21
22	(3)	Amendment to Certificate of Incorporation of the Registrant filed with the Secretary of State of Delaware on October 22, 1986 (8)	22
23	(10)	Amendment Restated Effective as of May 1, 1984 of the Stock Bonus Plan and Trust Agreement of Registrant (8)	23
24	(3)	Amended and Restated Certificate of Incorporation of the Registrant filed with the Secretary of State of Delaware on October 26, 1987 (10)	24
25	(22)	List of Subsidiaries of Registrant (10)	25
26	(10)	Employment agreement between Registrant and Charles Stone (9)	26
27	(10)	Employment agreement between Registrant and Jerry Bloch (9)	27

EXHIBIT NO. IN THIS FORM 10-K -----	IDENTIFICATION PER REG. 229.601(B) -----	DESCRIPTION OF EXHIBIT -----	EXHIBIT NO. AS FILED WITH REGISTRATION STATEMENT OR REPORT SPECIFIED BELOW -----
28	(10)	Registrant's 1987 Incentive Stock Option Plan (9)	28
29	(10)	Registrant's Senior Executive Stock Option Plan (9)	29
30	(10)	Amendment dated Jan. 1, 1988 to Registrant's Cash or Deferred Profit Sharing Plan and Trust under Section 401 of Internal Revenue Code (9)	30
31	(10)	Executive Incentive Compensation Plan between Registrant and various employees (9)	31
32	(10)	Amended Certificate of In- corporation of the Company filed with the Secretary of State of Delaware on November 2, 1989 (10)	32
33	(10)	Registrant's Employee Stock Option Plan (10)	33
34	(10)	Loan agreement between Registrant and Nat West Dated May 22, 1990 (10)	34
35	(10)	Loan Agreement between Registrant's Employee Stock Ownership Plan and Registrant dated May 22, 1990 (10)	35
36	(23)	Consent of Independent Accountants to incorporation by reference of 2000 audit report in Registrant's Form S-8 Registration Statement.	23.1



EXHIBIT NO. IN THIS FORM 10-K	IDENTIFICATION- PER REG. 229.601(B)	DESCRIPTION OF EXHIBIT	EXHIBIT NO. AS FILED WITH REGISTRATION STATEMENT OR REPORT SPECIFIED BELOW
37	(10)	Registrant's 1997 Independent Contractor Stock Option Plan (11)	4.14
38	(10)	Contribution Agreement between Registrant and Reckson Operating Partnership L.P. dated January 6, 1998 (12)	10.12
39	(10)	Lease agreement between Registrant and Reckson Operating Partnership, L.P. dated January 6, 1998 (12)	10.13
40	(10)	Plea Agreement, Civil Settlement and Related Documents dated June 19, 1998 (12)	10.14
41	(27)	Financial Data Schedule	27

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, 1999, which exhibit is incorporated herein by reference.

CONSENT OF INDEPENDENT ACCOUNTANTS

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 June 20, 2000 relating to the consolidated financial statements and financial statement schedule, which appears in this Form 10-K.

PRICEWATERHOUSECOOPERS LLP

Melville, New York  
July 28, 2000

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.  
Registrant

By: /s/ JOSEPH P. FRANKLIN  
-----  
Joseph P. Franklin  
Chairman of the Board

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

Dated: July 28, 2000

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/ MARTIN B. BLOCH ----- Martin B. Bloch	President & Director	7/28/00
/s/ JOEL GIRSKY ----- Joel Girsky	Director	7/28/00
/s/ JOHN HO ----- John Ho	Director	7/28/00
/s/ MARVIN MEIRS ----- Marvin Meirs	Director	7/28/00

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APR-30-2000

MAY-01-1999

APR-30-2000

4,994

36,013

9,780

190

13,307

67,173

28,274

19,234

80,847

5,008

0

0

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9,009

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3,144

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