

FISCAL YEAR 2005 CHAIRMAN'S LETTER to STOCKHOLDERS

In Fiscal 2005 Frequency Electronics recorded another year of revenue growth and improved profitability with gains in both the commercial and government/defense sectors of our business. Commercial communications sales, which include commercial wireless and satellite applications, continued to represent the largest component of revenues. Our newly-developed US5G wireline synchronization system will, for the first time in FEI's history, give us the capability to address the US wireline synchronization market, adding to the market for our products in commercial wireless base stations and satellite systems worldwide. Our government/defense business experienced a significant increase in proposal activity, and we anticipate an accelerating upward trend in sales in the coming year. R&D spending in Fiscal 2005 resulted in outstanding advances in new product development. We expect these new products to generate substantial revenue growth in rapidly expanding markets.

FINANCIAL REPORT

Revenues for the year ended 30 April 2005 were \$55.2 million, compared to \$50.1 million for fiscal year 2004. Net income was \$5.0 million, or \$0.58 per diluted share, compared to \$320 thousand, or \$0.04 per share, for the previous fiscal year. Excluding the effects of a \$6.5 million dollar pretax gain from real estate investments, the Company would have recorded pretax profit of \$630 thousand compared to \$431 thousand for the prior fiscal year. The fiscal year 2005 performance illustrates the Company's operating leverage: over 50% of the \$5 million of increased sales flowed to gross margin. Stockholders were paid \$1.7 million in dividends, and stockholders' equity increased 9% to \$69.2 million. The Company ended the year in a strong financial position, with no long term debt and \$30 million in cash, cash equivalents, and marketable securities.

THE YEAR IN REVIEW

A strong performance in the first half of Fiscal 2005 was followed by lower results in the third and fourth quarters, reflecting a decline in sales of wireless infrastructure products as key OEMs postponed deliveries from previously forecasted requirements. Sales for government/defense and commercial space applications continued to show strong growth. Revenues increased at our subsidiaries Gillam-FEI, FEI- Zyfer, FEI Asia, and our affiliate Morion.

The Company achieved significant new advances in precision time and frequency technology. This technology gives the Company an important advantage in competing for large, new space and military programs that are in early stages of implementation.

LOOKING AHEAD TO NEXT YEAR

The Company today is better positioned to take advantage of expanding market opportunities than at any time in its history. In the coming year we expect to see increasing sales of these new products:

- Quartz-based, patented products for UMTS and WCDMA wireless cell sites.
- A family of generic frequency generation systems (RFGs) to be used in commercial and military satellites.

- Low-g sensitivity quartz products for a variety of U.S. Government aircraft, missile, secure communication and satellite programs which yield 1,000-fold, state-of-the-art performance improvement.
- A family of ruggedized rubidium standards that maintains frequency accuracy under severe conditions (missiles, helicopters, UAV's, manned aircraft) which operates in conjunction with low-g sensitivity quartz products.
- Precision clocks that operate in high temperatures (145° C) and harsh environments for deep-earth drilling equipment exploring for natural resources.
- The US5G wireline synchronization system.
- The US5E, which is the European version of the US5G.
- UniSync, a GPS-based synchronization system that complements the US5G.
- A high-precision C-band to L-band transponder for GCCS (WAAS).
- Quartz clocks with unparalleled long-term stability (25 parts per billion for 10 years).
- Various software-based synchronization systems and associated hardware.
- A rubidium-based timing system for the Advanced EHF satellite.
- An advanced atomic clock for GPS navigation satellites (in development).

Our objective in Fiscal 2006 is to continue our emphasis on R&D and to use the products of our technology development to generate higher revenues. We see fiscal year 2006 starting slowly and ramping up in revenues and earnings as the year goes forward, reversing the profile of Fiscal 2005. With the operating leverage on increased sales demonstrated in Fiscal 2005, annual revenues above current levels should yield very healthy operating results for Fiscal 2006.

CORPORATE DEVELOPMENT

On 30 September 2004, the Company announced that it had increased its investment in OAO Morion to 36% of the privately-held company's outstanding shares. Located in St. Petersburg, Russia, Morion manufactures precision quartz products. Morion's earnings are now reflected on an equity basis in the Company's financial reports.

Gillam-FEI and FEI-Zyfer have created strong technology partnerships with FEI that are contributing to the development of our new and improved products. FEI-Asia, our subsidiary in Tianjin, China, is turning out very cost-competitive quality products.

Summarizing this matrix of resources:

- Frequency Electronics provides a strong core and a proven legacy of precision time and frequency control technologies.
- Gillam-FEI provides exceptional capabilities in synchronization software.
- FEI-Zyfer adds state-of-the-art GPS technology.
- FEI-Asia provides additional, readily expandable manufacturing facilities.
- Morion provides a cost-effective source of supply for crystals, oscillators, and other components and subsystems.

Taken together, these resources give Frequency Electronics the opportunity to exploit a robust product pipeline that addresses the rapidly growing worldwide markets for precision time and frequency control.

As in the past, we will continue to review additional opportunities by which to grow the Company through merger, acquisition, and strategic partnerships.

THE FUTURE

The need for high precision time and frequency controls is driven by the increasing demand for services that require more efficient spectrum utilization and increased bandwidth, and systems that perform with greater stability and dependability. Historically, this need represented a very small market. Today the total annual market for high precision time and frequency products addressable by FEI is some \$400 million. Within the next five years that market is projected to grow to over \$1 billion annually. The fastest growing components of this larger market will include government/defense platforms and systems for space, communications, guidance, navigation, and weapons. In these market segments, FEI competes with a significant advantage that has been built over many years from our unmatched legacy and the high technical barriers to competition.

Our advanced technology represents the real shareholder value of Frequency Electronics. Thanks to the loyalty and skills of our senior staff and employees the Company today is stronger and better positioned for growth than at any time in its history. On behalf of the Officers and Directors of Frequency Electronics, I also thank our shareholders for the confidence you have expressed in our Company. The future is very bright for Frequency Electronics.

JOSEPH P. FRANKLIN

Chairman of the Board