



Frequency Electronics, Inc. Announces Fiscal Year 2009 Results

MITCHEL FIELD, N.Y., Jul 29, 2009 (GlobeNewswire via COMTEX News Network) -- Frequency Electronics, Inc. (Nasdaq:FEIM) reported revenues for fiscal year 2009 of \$52.7 million, compared to \$64.4 million in fiscal 2008, primarily reflecting a decline in sales to commercial customers in both the telecommunications and satellite payload markets. After recording a \$7.6 million valuation allowance against deferred tax assets, the Company recorded a net loss for the fiscal year ended April 30, 2009, of \$11.0 million, or (\$1.33) per diluted share, compared to net income of \$887,000, or \$0.10 per diluted share in fiscal 2008. As previously announced, fiscal year 2009 results include approximately \$3.4 million in additional inventory reserves related to the Company's products for the wireless telecommunications market. Accounting criteria requires a valuation allowance on deferred tax assets based on the Company's recent financial results. Net income for fiscal year 2008 included a pre-tax gain of \$3.0 million on a sale of assets.

The GAAP-basis operating loss for fiscal 2009 was \$5.9 million compared to a \$2.6 million loss in fiscal 2008. On a non-GAAP basis, excluding the wireless telecommunications inventory reserve, the operating loss for fiscal 2009 was \$2.5 million compared to the \$2.6 million for the prior year. The gross margin rate on a non-GAAP basis is 26% in fiscal 2009 compared to 27% in fiscal 2008.

For the fourth quarter of fiscal year 2009, revenues were \$12.4 million, the operating loss was \$3.4 million and net loss was \$9.5 million or (\$1.17) per diluted share. In the same period of last year, revenues were \$14.3 million, operating loss was \$3.0 million and net loss was \$1.7 million or (\$0.19) per diluted share. On a non-GAAP basis, excluding the wireless telecommunications inventory reserve, the operating loss for the fourth quarter of fiscal year 2009 was \$503,000 compared to the operating loss of \$3.0 million in the same period of fiscal year 2008. The gross margin rate on a non-GAAP basis was 30% in fiscal 2009 compared to a rate of 16% in the fourth quarter of fiscal 2008.

Chairman of the Board General Joseph Franklin made the following comments: "In fiscal 2009, the severe global economic downturn had a major impact on some of our commercial customers. Wireless telecommunication infrastructure sales continued a steep decline which led to a large inventory reserve in the fourth quarter. Although we took very substantial measures to reduce costs during the year, we were unable to achieve profitability by fiscal year end. Both the inventory reserve and the valuation allowance on our tax assets are non-cash items. We were able to generate \$7 million in operating cash flow and ended the year with an increase in net cash (cash and marketable securities less borrowings under a credit line) over last year even after reacquiring over \$3 million worth of our stock. Although revenues from U.S. Government satellites rose, revenues from commercial satellites fell significantly, as schedules for many commercial satellite programs were delayed. Industry studies predict more than 1,100 new satellites will be launched over the next ten years, which is a remarkable opportunity for Frequency. We expect to take full advantage of this opportunity with new and existing products, within our R&D budget, while maintaining our strong cash position and attaining profitability."

Reports on the Company's major business areas:

* **Satellite Payloads:** Revenues from U.S. Government space programs doubled in fiscal 2009 over the prior year; however, revenues from commercial projects fell almost to one-fourth the level in fiscal 2008 as tight credit and economic uncertainties caused commercial programs to be rescheduled and moved into the future. Overall revenues in this business area declined approximately 25%. For fiscal 2009, satellite payloads represented about one-third of consolidated revenues.

New industry studies estimate that, not including micro-satellites, an average of over 100 satellites will be built and launched per year over the next 10 years. Historically, Frequency has addressed a small, highly specialized segment of the satellite market. In order to generate substantial revenue growth, the Company will address a much broader portion of satellite payload electronics.

Development of the next generation of satellite timing systems (clocks) is funded in three current cost-plus government contracts, aggregating over \$20 million. These next generation clock products will give the Company a commanding lead in government and commercial satellite programs. Frequency will devote its internal research and development to enhance its RF microwave product line. Specifically, the Company will focus on completing the development of up/down converters, beacon transmitters, telemetry transmitters and reduce the size and cost of existing microwave frequency generators and DC-to-DC converters. This will enable Frequency to compete for a much larger dollar value per satellite.

* U.S. Government/DOD non-satellite programs: Revenues from this business area rose in the fourth quarter of fiscal 2009, but were relatively flat year-over-year and represented approximately 20% of consolidated revenues. Development work continued on the major DOD programs that have been awarded to Frequency, involving products for secure communications, high resolution radar, smart munitions and electronic intelligence. These programs remain in the prototype development and pilot production stages and are not yet in large scale production. Frequency will make additional investments within our target R&D budget for 2010 to improve the manufacturability and affordability of these products in large-scale production.

* Telecommunications infrastructure: Revenues from this business area continued to decline, down over 20% from the prior year, and represented approximately one-third of the Company's consolidated revenues for fiscal 2009. Demand for Frequency's wireless telecom products was curtailed as network build outs slowed considerably during the past year. There is a major trend in deployment of networks providing significantly lower levels of service performance. These networks utilize lower precision timing generators at a fraction of the cost of Frequency's high-precision devices. The Company does not intend to compete in that arena and will apply its energy and technology to higher value products. First year sales of Frequency's new US5G family of wireline products met expectations. These wireline synchronization systems have successfully penetrated major service provider networks, with excellent performance feedback from units in the field.

Reporting segments:

(Including inter-segment sales of \$3.8 million in fiscal 2009 compared to \$2.4 million in fiscal 2008.)

* FEI-NY revenues were \$35.8 million in fiscal 2009, compared to \$46.3 million in fiscal 2008. The FEI-NY segment includes revenues from satellite payloads, wireless telecommunications and U.S. Government/DOD non-space programs. During fiscal 2009, sales and support of the US5G synchronization systems were transferred to FEI-Zyfer.

* Gillam-FEI recorded revenues of \$11.3 million in fiscal 2009 compared to \$11.5 million in fiscal 2008. The Gillam-FEI segment includes revenues primarily from wireline telecommunications infrastructure and from other network management products

* FEI-Zyfer revenues were \$9.4 million in fiscal 2009, compared to \$9.1 million in fiscal 2008. The majority of FEI-Zyfer's sales are derived from U.S. Government/DOD programs and a family of commercial

wireline products.

Chief Financial Officer Alan Miller stated: "Excluding the additional allowance for wireless telecommunications inventory, fourth quarter gross margin continued to improve. During the year we reduced our annual cost run rate by over \$10 million primarily from a reduction in personnel and related costs and reducing other indirect costs, which was only partially realized in fiscal 2009, which will enable us to show substantial improvement in operating results in fiscal 2010 even at lower revenues levels. We generated positive operating cash flow of \$7.2 million, paid down our credit line, repurchased stock and ended the year with more net cash and marketable securities than at the beginning of the year. This positions us to continue the support of new product development which will enhance Frequency's growth opportunities and enable us to return to profitability."

Investor Conference Call

As previously announced, the Company will hold a conference call to discuss these results on Wednesday, July 29, 2009, at 12:00 Noon Eastern Time. Investors and analysts may access the call by dialing 1-888-349-9587. International callers may dial 1-719-325-2170. Ask for the Frequency Electronics conference call.

The call will be archived on the Company's website through August 28, 2009. The archived call may also be retrieved at 1-888-203-1112 (domestic) or 1-719-457-0820 (international) using Passcode ID 3818084.

About Frequency Electronics

Frequency Electronics, Inc. is a world leader in the design, development and manufacture of high precision timing, frequency control and synchronization products for space and terrestrial applications. Frequency's products are used in commercial, government and military systems, including satellite payloads, missiles, UAVs, aircraft, GPS, secure radios, SCADA, energy exploration and wireline and wireless communication networks. Frequency has received over 60 awards of excellence for achievements in providing high performance electronic assemblies for over 120 space programs. The Company invests significant resources in research and development and strategic acquisitions world-wide to expand its capabilities and markets. Subsidiaries and Affiliates: Gillam-FEI provides expertise in wireline network synchronization and SCADA; FEI-Zyfer provides GPS and secure timing ("SAASM") capabilities for critical military and commercial applications; FEI-Asia provides cost effective manufacturing and distribution capabilities in a high growth market. Frequency's Morion affiliate supplies high-quality, cost effective quartz oscillators and components. Elcom Technologies provides added resources for state-of-the-art RF microwave products. Additional information is available on the Company's website: www.frequencyelectronics.com.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: The Statements in this press release regarding the future constitute "forward-looking" statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements inherently involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, inability to integrate operations and personnel, actions by significant customers or competitors, general domestic and international economic conditions, consumer spending trends, reliance on key customers, continued acceptance of the Company's products in the marketplace, competitive factors, new products and technological changes, product prices and raw material costs, dependence upon third-party vendors, competitive developments, changes in manufacturing and transportation costs, the availability of capital, and other risks detailed in the Company's periodic report filings with the Securities and Exchange Commission. By making these forward-looking statements, the Company undertakes no obligation to update these statements for revisions or changes after the date of this release.

Frequency Electronics, Inc. and Subsidiaries Consolidated Condensed Summary of Operations Data

	Quarter Ended		Year Ended	
	April 30,		April 30,	
	2009	2008	2009	2008
	(unaudited)		(audited)	
	(in thousands except per share data)			
Net Revenues	\$ 12,443	\$ 14,291	\$ 52,740	\$ 64,397
Cost of Revenues	11,628	12,025	42,560	46,735
Gross Margin	815	2,266	10,180	17,662

Selling and Administrative	2,635	3,659	11,431	13,139
Research and Development	1,598	1,574	4,666	7,101
Operating Loss	(3,418)	(2,967)	(5,917)	(2,578)
Interest and Other, Net	(46)	30	190	4,025
Income (Loss) before Income Taxes	(3,464)	(2,937)	(5,727)	1,447
Income Tax Provision (Benefit)	6,005	(1,277)	5,309	560
Net (Loss) Income	\$ (9,469)	\$ (1,660)	\$ (11,036)	\$ 887

Net (Loss) Income per Share:

Basic	\$ (1.17)	\$ (0.19)	\$ (1.33)	\$ 0.10
Diluted	\$ (1.17)	\$ (0.19)	\$ (1.33)	\$ 0.10

Average Shares Outstanding

Basic	8,118,012	8,732,774	8,315,571	8,710,260
Diluted	8,118,012	8,732,774	8,315,571	8,778,059

Frequency Electronics, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	April 30, 2009	April 30, 2008
(in thousands)		
ASSETS		
Cash & Marketable Securities	\$14,909	\$15,443
Accounts Receivable	10,775	10,271
Costs and Estimated Earnings in Excess of Billings	2,193	9,556
Inventories	26,051	30,218
Other Current Assets	2,143	6,116
Property, Plant & Equipment	7,961	9,531
Other Assets	13,888	15,785
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	\$77,920	\$96,920
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LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities	\$ 8,040	\$12,077
Long-term Obligations and Other	10,714	11,233
Stockholders' Equity	59,166	73,610
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	\$77,920	\$96,920
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Frequency Electronics, Inc. and Subsidiaries
Consolidated Condensed Summary of Operations Data
Reconciliation of GAAP to Non-GAAP Data

	Quarter Ended		Year Ended	
	April 30,		April 30,	
	2009	2008	2009	2008
	(in thousands except per share data)			
GAAP-basis Gross Margin	\$ 815	\$ 2,266	\$ 10,180	\$ 17,662
(a)Writedown of wireless telecommunications inventory	2,915	--	3,415	--
Non-GAAP Gross Margin	3,730	2,266	13,595	17,662
Non-GAAP Gross Margin as a percent of revenues	30.0%	15.9%	25.8%	27.4%
Selling and Administrative Costs	2,635	3,659	11,431	13,139
Research and Development	1,598	1,574	4,666	7,101
Non-GAAP Operating Loss	(503)	(2,967)	(2,502)	(2,578)

(a) The writedown of wireless telecommunications inventory does not include additional adjustments to the allowance for inventory obsolescence made in the ordinary course of business of \$150,000 and \$1.1 million for the three month periods ended April 30, 2009 and 2008, respectively and \$1.6 million for each of the years ended April 30, 2009 and 2008, respectively.

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SOURCE: Frequency Electronics, Inc.

Frequency Electronics, Inc.
Alan Miller, CFO
General Joseph P. Franklin, Chairman
(516) 794-4500
www.frequencyelectronics.com

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