

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period ended October 31, 2020

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)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock (par value \$1.00 per share)	FEIM	NASDAQ Global Market

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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Emerging growth company

Accelerated filer

Smaller Reporting Company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of Registrant's Common Stock, par value \$1.00 as of December 10, 2020 – 9,177,963

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

TABLE OF CONTENTS

	<u>Page No.</u>
Part I. Financial Information:	
<u>Item 1 - Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets – October 31, 2020 (unaudited) and April 30, 2020</u>	3
<u>Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) Six and Three Months Ended October 31, 2020 and 2019 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows Six Months Ended October 31, 2020 and 2019 (unaudited)</u>	5
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity Three and Six Months Ended October 31, 2020 (unaudited)</u>	6
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity Three and Six Months Ended October 31, 2019 (unaudited)</u>	7
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	8-17
<u>Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18-24
<u>Item 3 - Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4 - Controls and Procedures</u>	25
Part II. Other Information:	
<u>Item 1 - Legal Proceedings</u>	26
<u>Item 6 - Exhibits</u>	27
<u>Signatures</u>	28

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands except par value)

	October 31, 2020 (UNAUDITED)	April 30, 2020
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 3,654	\$ 3,808
Marketable securities	9,948	10,570
Accounts receivable, net of allowance for doubtful accounts of \$183 at October 31, 2020 and April 30, 2020	10,298	4,392
Costs and estimated earnings in excess of billings, net	3,201	6,953
Inventories, net	21,028	22,958
Prepaid income taxes	460	849
Prepaid expenses and other	2,333	1,705
Total current assets	<u>50,922</u>	<u>51,235</u>
Property, plant and equipment, at cost, net of accumulated depreciation and amortization	10,511	11,267
Goodwill	617	617
Cash surrender value of life insurance	15,174	14,790
Other assets	2,160	2,503
Right-of-Use assets – operating leases	10,235	10,864
Total assets	<u>\$ 89,619</u>	<u>\$ 91,276</u>
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Line of credit	3,000	-
Accounts payable – trade	\$ 1,188	\$ 1,424
Accrued liabilities	5,351	3,982
Loss provision accrual	92	748
Operating lease liability	1,612	1,869
Current debt	-	4,965
Total current liabilities	11,243	12,988
Deferred compensation	14,411	14,258
Deferred taxes	8	8
Operating lease liability – non-current	8,937	9,444
Other liabilities	364	342
Total liabilities	<u>34,963</u>	<u>37,040</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock - \$1.00 par value; authorized 600 shares, no shares issued	-	-
Common stock - \$1.00 par value; authorized 20,000 shares, 9,176 shares issued and 9,175 shares outstanding at October 31, 2020; 9,164 shares issued and 9,121 shares outstanding at April 30, 2020	9,176	9,164
Additional paid-in capital	57,071	56,914
Accumulated deficit	(12,070)	(12,137)
	<u>54,177</u>	<u>53,941</u>
Common stock reacquired and held in treasury - at cost (1 share at October 31, 2020 and 43 shares at April 30, 2020)	(6)	(195)
Accumulated other comprehensive income	485	490
Total stockholders' equity	<u>54,656</u>	<u>54,236</u>
Total liabilities and stockholders' equity	<u>\$ 89,619</u>	<u>\$ 91,276</u>

See accompanying notes to condensed consolidated financial statements.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(In thousands except per share data)
(Unaudited)

	<u>Six Months Ended October 31,</u>		<u>Three Months Ended October 31,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Condensed Consolidated Statements of Operations				
Revenues	\$ 26,940	\$ 21,641	\$ 13,990	\$ 9,087
Cost of revenues	17,530	18,870	8,668	10,269
Gross margin (loss)	9,410	2,771	5,322	(1,182)
Selling and administrative expenses	7,352	4,743	4,124	2,290
Research and development expenses	2,177	3,731	979	1,450
Operating (loss) income	(119)	(5,703)	219	(4,922)
Other income (expense):				
Investment income	157	224	50	45
Interest expense	(75)	(50)	(36)	(25)
Other income (expense), net	129	58	113	2
Income (loss) before provision for income taxes	92	(5,471)	346	(4,900)
Provision for income taxes	25	29	17	9
Net income (loss)	<u>\$ 67</u>	<u>\$ (5,500)</u>	<u>\$ 329</u>	<u>\$ (4,909)</u>
Net income (loss) per common share:				
Basic and diluted earnings (loss) per share	<u>\$ 0.01</u>	<u>\$ (0.61)</u>	<u>\$ 0.04</u>	<u>\$ (0.54)</u>
Weighted average shares outstanding:				
Basic	<u>9,154</u>	<u>9,037</u>	<u>9,170</u>	<u>9,072</u>
Diluted	<u>9,206</u>	<u>9,037</u>	<u>9,236</u>	<u>9,072</u>
Condensed Consolidated Statements of Comprehensive Income (Loss)				
Net income (loss)	<u>\$ 67</u>	<u>\$ (5,500)</u>	<u>\$ 329</u>	<u>\$ (4,909)</u>
Unrealized gain (loss) on marketable securities:				
Change in market value of marketable securities before reclassification, net of tax	5	207	(176)	72
Reclassification adjustment for realized gains included in net income, net of tax	(10)	(1)	-	-
Total unrealized (loss) gain on marketable securities, net of tax	(5)	206	(176)	72
Comprehensive income (loss)	<u>\$ 62</u>	<u>\$ (5,294)</u>	<u>\$ 153</u>	<u>\$ (4,837)</u>

See accompanying notes to condensed consolidated financial statements.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended October 31,	
	2020	2019
Cash flows from operating activities:		
Net income (loss)	\$ 67	\$ (5,500)
Non-cash charges to earnings	2,580	3,939
Net changes in operating assets and liabilities	(667)	1,741
Net cash provided by operating activities	<u>1,980</u>	<u>180</u>
Cash flows from investing activities:		
Proceeds on redemption of marketable securities	1,521	2,480
Purchase of marketable securities	(909)	(2,463)
Purchase of fixed assets and other assets	(781)	(1,274)
Net cash used in investing activities	<u>(169)</u>	<u>(1,257)</u>
Net cash used in financing activities:		
Repayment of PPP Loan	(4,965)	-
Proceeds from UBS line of credit	3,000	-
Net cash used in financing activities	<u>(1,965)</u>	<u>-</u>
Net decrease in cash and cash equivalents	(154)	(1,077)
Cash and cash equivalents at beginning of period	<u>3,808</u>	<u>3,683</u>
Cash and cash equivalents at end of period	<u>\$ 3,654</u>	<u>\$ 2,606</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	<u>\$ 46</u>	<u>\$ 50</u>
Cash refunded during the period for:		
Income Taxes	<u>\$ 477</u>	<u>\$ 467</u>

See accompanying notes to condensed consolidated financial statements.

FREQUENCY ELECTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Stockholders' Equity
Three and Six Months Ended October 31, 2020
(In thousands except share data)
(Unaudited)

	Common Stock		Additional paid in capital	Accumulated Deficit	Treasury stock (at cost)		Accumulated other comprehensive Income (loss)	Total
	Shares	Amount			Shares	Amount		
Balance at April 30, 2020	9,163,940	\$ 9,164	\$ 56,914	\$ (12,137)	42,696	\$ (195)	\$ 490	\$ 54,236
Contribution of stock to 401(k) plan			68		(14,926)	68		136
Stock-based compensation expense			54					54
Exercise of stock options and stock appreciation rights - net of shares tendered for exercise price			(109)		(23,808)	109		-
Other comprehensive income, net of tax							171	171
Net income (loss)				(262)				(262)
Balance at July 31, 2020	9,163,940	\$ 9,164	\$ 56,927	\$ (12,399)	3,962	\$ (18)	\$ 661	\$ 54,335
Contribution of stock to 401(k) plan	9,496	9	86					95
Stock-based compensation expense			73					73
Exercise of stock options and stock appreciation rights - net of shares tendered for exercise price	2,654	3	(15)		(2,586)	12		(0)
Other comprehensive income, net of tax							(176)	(176)
Net income (loss)				329				329
Balance at October 31, 2020	9,176,090	\$ 9,176	\$ 57,071	\$ (12,070)	1,376	\$ (6)	\$ 485	\$ 54,656

See accompanying notes to condensed consolidated financial statements.

FREQUENCY ELECTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Stockholders' Equity
Three and Six Months Ended October 31, 2019
(In thousands except share data)
(Unaudited)

	Common Stock		Additional paid in capital	Accumulated Deficit	Treasury stock (at cost)		Accumulated other comprehensive Income (loss)	Total
	Shares	Amount			Shares	Amount		
Balance at April 30, 2019	9,163,940	\$ 9,164	\$ 56,831	\$ (2,111)	183,661	\$ (841)	\$ 46	\$ 63,089
Contribution of stock to 401(k) plan			74		(10,906)	50		124
Stock-based compensation expense			80					80
Exercise of stock options and stock appreciation rights - net of shares tendered for exercise price			(189)		(41,325)	189		-
Other comprehensive income, net of tax							134	134
Net loss				(591)				(591)
Balance at July 31, 2019	9,163,940	\$ 9,164	\$ 56,796	\$ (2,702)	131,430	\$ (602)	\$ 180	\$ 62,836
Contribution of stock to 401(k) plan			66		(8,703)	39		105
Stock-based compensation expense			64					64
Exercise of stock options and stock appreciation rights - net of shares tendered for exercise price			(268)		(58,387)	268		-
Other comprehensive income, net of tax							72	72
Net loss				(4,909)				(4,909)
Balance at October 31, 2019	9,163,940	\$ 9,164	\$ 56,658	\$ (7,611)	64,340	\$ (295)	\$ 252	\$ 58,168

See accompanying notes to condensed consolidated financial statements.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE A – CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management of Frequency Electronics, Inc. (the “Company”), the accompanying unaudited condensed consolidated interim financial statements reflect all adjustments (which include only normal recurring adjustments) necessary to present fairly, in all material respects, the consolidated financial position of the Company as of October 31, 2020 and the results of its operations, changes in Stockholders’ Equity for the three and six months ended October 31, 2020 and 2019, and cash flows for the six months ended October 31, 2020 and 2019. The April 30, 2020 condensed consolidated balance sheet was derived from audited financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”) have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended April 30, 2020, filed on July 29, 2020 with the Securities and Exchange Commission. The results of operations for such interim periods are not necessarily indicative of the operating results for the full fiscal year.

COVID-19 Pandemic and the CARES Act

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic may have on the Company’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the potential adverse effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

The Company faces various risks related to COVID-19 outbreak. The Company is dependent on its workforce to deliver its products primarily to the U.S. Government. If significant portions of the Company’s workforce are unable to work effectively, or if the U.S. Government, state and/or other customers or supplier operations are curtailed due to illness, quarantines, government actions, facility closures, or other restrictions in connection with the COVID-19 pandemic, the Company’s operations may be impacted. The Company may be unable to perform fully on its contracts and costs may increase as a result of the COVID-19 outbreak. These cost increases may not be fully recoverable or adequately covered by insurance. Since the COVID-19 outbreak began, no facilities have been fully shut down (other than temporarily for disinfecting) and such measures to disinfect facilities have not had a significant impact on production. Certain of the Company’s vendors have been unable to deliver materials on time due to the COVID-19 outbreak. Such delays have had a minor impact on the Company’s production schedules to date, but vendor delivery performance is being closely monitored and alternate sources of supply are generally available if necessary.

On March 27, 2020, President Trump signed into law the “Coronavirus Aid, Relief, and Economic Security (CARES) Act.” The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. The CARES Act also appropriated funds for the Small Business Administration (SBA) Paycheck Protection Program loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by the COVID-19 outbreak. The Company received a loan under the Paycheck Protection Program (“PPP”) in April 2020, which it repaid in full in May 2020. For more detail regarding the Company’s PPP Loan, see Note K below.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE B – EARNINGS PER SHARE

Reconciliation of the weighted average shares outstanding for basic and diluted loss per share for the six and three months ended October 31, 2020 and 2019, respectively, were as follows:

	Periods ended October 31,			
	Six months		Three months	
	2020	2019	2020	2019
Weighted average shares outstanding:				
Basic EPS Shares outstanding (weighted average)	9,154,434	9,036,732	9,169,758	9,072,141
Effect of Dilutive Securities	51,389	**	66,019	**
Diluted EPS Shares outstanding	<u>9,205,823</u>	<u>9,036,732</u>	<u>9,235,777</u>	<u>9,072,141</u>

**For the six and three-month periods ended October 31, 2019 dilutive securities are excluded from the calculation of earnings per share since the inclusion of such shares would be antidilutive due to the net loss for those periods. The exercisable shares excluded for the three and six months ended October 31, 2020 are 303,000 and 436,000 options, respectively. The exercisable shares excluded as of October 31, 2019 are 178,000 options for both periods. The effect of dilutive securities would have been 239,866 options and 230,670 options for the six and three-month periods ended October 31, 2019, respectively.

NOTE C – COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS, NET

At October 31, 2020 and April 30, 2020, costs and estimated earnings in excess of billings, net, consisted of the following:

	October 31, 2020	April 30, 2020
	(In thousands)	
Costs and estimated earnings in excess of billings	\$ 13,858	\$ 10,460
Billings in excess of costs and estimated earnings	(10,657)	(3,507)
Net asset	<u>\$ 3,201</u>	<u>\$ 6,953</u>

Such amounts represent revenue recognized on long-term contracts that had not been billed at the balance sheet dates or represent a liability for amounts billed in excess of the revenue earned. Amounts are billed to customers pursuant to contract terms. In general, the recorded amounts will be billed and collected or revenue recognized within twelve months of the balance sheet date. Revenue on these long-term contracts is accounted for on the percentage of completion (“POC”) basis. During the six and three months ended October 31, 2020, revenue recognized under POC contracts was approximately \$24.6 million and \$12.9 million, respectively. During the six and three months ended October 31, 2019, revenue recognized under POC contracts was approximately \$19.1 million and \$7.7 million, respectively. If contract losses are anticipated, costs and estimated earnings in excess of billings are reduced for the full amount of such losses when they are determinable. Contract losses of approximately \$731,000 and \$121,000 were recorded for the six and three months ended October 31, 2020, respectively. Contract losses recognized for the six and three months ended October 31, 2019 were approximately \$1.9 million and \$1.6 million, respectively.

NOTE D – TREASURY STOCK TRANSACTIONS

During the six month period ended October 31, 2020, the Company made contributions of 24,422 shares of its common stock and common stock held in treasury to the Company’s profit-sharing plan and trust under Section 401(k) of the Internal Revenue Code. Such contributions are in accordance with the Company’s discretionary match of employee voluntary contributions to this plan.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE E – INVENTORIES

Inventories, which are reported at the lower of cost and net realizable value, consisted of the following:

	<u>October 31, 2020</u>	<u>April 30, 2020</u>
	(In thousands)	
Raw Materials and Component Parts	\$ 12,822	\$ 15,470
Work in Progress	6,799	6,104
Finished Goods	1,407	1,384
	<u>\$ 21,028</u>	<u>\$ 22,958</u>

The amounts above are net of reserves of \$7.0 million and \$6.6 million as of October 31, 2020 and April 30, 2020, respectively.

NOTE F – RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company's leases primarily represent offices, warehouses, vehicles, and manufacturing and research and development facilities which expire at various times through 2029 and are generally operating leases. Contractual arrangements are evaluated at inception to determine if the agreement contains a lease. Certain lease agreements contain renewal options, rent abatement, and escalation clauses that are factored into our determination of lease payments when appropriate. Right-of-use ("ROU") assets and lease liabilities are recorded based on the present value of future lease payments which factor in certain qualifying initial direct costs incurred as well as any lease incentives that may have been received. Lease expenses for operating lease payments are recognized on a straight-line basis over the lease term. Lease terms may factor in options to extend or terminate the lease.

The Company elected the practical expedient for short-term leases which allows leases with terms of twelve months or less to be recorded on a straight-line basis over the lease term without being recognized on the balance sheet.

Effective May 1, 2019, the Company adopted ASU 2016-02. The table below presents ROU assets and liabilities recorded on the respective consolidated balance sheets, related to ASU 2016-02 (in thousands):

	<u>Classification</u>	<u>October 31, 2020</u>	<u>April 30, 2020</u>
		(unaudited)	
Assets			
Operating lease ROU assets	Right-of-Use assets leases	\$ 10,235	\$ 10,864
Liabilities			
Operating lease liabilities (short-term)	Lease liability, current	1,612	1,869
Operating lease liabilities (long-term)	Lease liability, non-current	8,937	9,444
Total lease liabilities		<u>\$ 10,549</u>	<u>\$ 11,313</u>

Total operating lease expense was \$1.2 million and \$500,000 for the six and three months ended October 31, 2020, respectively, the majority of which is included in cost of revenues and the remaining amount in selling and administrative expenses on the unaudited condensed consolidated statements of operations. Total operating lease expense was approximately \$1.0 million and \$504,000 for the six and three months, respectively, ended October 31, 2019, respectively, the majority of which is included in cost of revenues and the remaining amount in selling and administrative expenses on the unaudited condensed consolidated statements of operations.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The table below reconciles the undiscounted cash flows for each of the first five years and total of the remaining years to the operating lease liabilities recorded on the unaudited consolidated balance sheet as of October 31, 2020:

Fiscal Year Ending April 30,
(in thousands)

Remainder of 2021	\$	756
2022		1,809
2023		1,829
2024		1,834
2025		1,723
Thereafter		5,492
Total lease payments		13,443
Less imputed interest		(2,894)
Present value of future lease payments		10,549
Less current obligations under leases		(1,612)
Long-term lease obligations		8,937

As of October 31, 2020, the weighted-average remaining lease term for all operating leases was 7.9 years. The Company does not generally have access to the rate implicit in the leases and therefore utilized the Company's borrowing rate as the discount rate. The weighted average discount rate for operating leases as of October 31, 2020 was 6.20%.

NOTE G – SEGMENT INFORMATION

The Company operates under two reportable segments based on the geographic locations of its subsidiaries:

- (1) FEI-NY – operates out of New York and its operations consist principally of precision time and frequency control products used in three principal markets: satellites (both commercial and U.S. Government-funded); terrestrial cellular telephone or other ground-based telecommunication stations; and other components and systems for the U.S. military.

The FEI-NY segment also includes the operations of the Company's wholly-owned subsidiary, FEI-Elcom. FEI-Elcom, in addition to its own product line, provides design and technical support for the FEI-NY segment's satellite business.

- (2) FEI-Zyfer – operates out of California and its products incorporate Global Positioning System (GPS) technologies into systems and subsystems for secure communications, both government and commercial, and other locator applications. FEI-Zyfer's products also incorporate precision time references for terrestrial secure communications and command and control, and frequency products that incorporate GPS. FEI-Zyfer's GPS capability complements the Company's existing technologies and permits the combined entities to provide a broader range of embedded systems for a variety of timing functions and anti-spoofing ("SAASM") applications.

The Company measures segment performance based on total revenues and profits generated by each geographic location rather than on the specific types of customers or end-users. Consequently, the Company determined that the segments indicated above most appropriately reflect the way the Company's management views the business.

The accounting policies of the two segments are the same as those described in the "Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2020, filed on July 29, 2020 with the Securities and Exchange Commission. 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. All acquired assets, including intangible assets, are included in the assets of both reporting segments.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The tables below present information about reported segments with reconciliation of segment amounts to consolidated amounts as reported in the condensed consolidated statements of operations or the condensed consolidated balance sheets for each of the periods (in thousands):

	Periods ended October 31,			
	Six months		Three months	
	2020	2019	2020	2019
Revenues:				
FEI-NY	\$ 20,996	\$ 16,794	\$ 11,156	\$ 7,784
FEI-Zyfer	7,353	5,701	3,430	2,000
less intersegment revenues	(1,409)	(854)	(596)	(697)
Consolidated revenues	<u>\$ 26,940</u>	<u>\$ 21,641</u>	<u>\$ 13,990</u>	<u>\$ 9,087</u>
Operating profit (loss):				
FEI-NY	\$ (582)	\$ (5,475)	\$ 41	\$ (4,296)
FEI-Zyfer	667	(44)	306	(561)
Corporate	(204)	(184)	(128)	(65)
Consolidated operating (loss) income	<u>\$ (119)</u>	<u>\$ (5,703)</u>	<u>\$ 219</u>	<u>\$ (4,922)</u>

	October 31, 2020	April 30, 2020
Identifiable assets:		
FEI-NY	\$ 42,472	\$ 44,599
FEI-Zyfer	14,089	13,344
less intersegment balances	-	(8,586)
Corporate	33,058	41,919
Consolidated identifiable assets	<u>\$ 89,619</u>	<u>\$ 91,276</u>

Total revenue recognized over time as POC and Passage of Title ("POT") were approximately \$24.6 million and \$2.3 million, respectively, for the six months ended October 31, 2020. The amounts recognized over time as POC and POT were approximately \$19.1 million and \$2.5 million, respectively, for the six months ended October 31, 2019. The amounts by segment and product line were as follows:

	Six Months Ended October 31,					
	2020			2019		
	POC Revenue	(In thousands) POT Revenue	Total Revenue	POC Revenue	(In thousands) POT Revenue	Total Revenue
FEI-NY	\$ 18,857	\$ 2,139	\$ 20,996	\$ 14,297	\$ 2,497	\$ 16,794
FEI-Zyfer	5,744	1,609	7,353	4,925	776	5,701
Intersegment	(10)	(1,399)	(1,409)	(76)	(778)	(854)
Revenue	<u>\$ 24,591</u>	<u>\$ 2,349</u>	<u>\$ 26,940</u>	<u>\$ 19,146</u>	<u>\$ 2,495</u>	<u>\$ 21,641</u>

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Three Months Ended October 31,

	2020			2019		
	(In thousands)					
	POC Revenue	POT Revenue	Total Revenue	POC Revenue	POT Revenue	Total Revenue
FEI-NY	\$ 10,235	\$ 921	\$ 11,156	\$ 6,139	\$ 1,645	\$ 7,784
FEI-Zyfer	2,706	724	3,430	1,602	398	2,000
Intersegment	(1)	(595)	(596)	(50)	(647)	(697)
Revenue	\$ 12,940	\$ 1,050	\$ 13,990	\$ 7,691	\$ 1,396	\$ 9,087

Periods ended October 31,

(in thousands)

	Six months		Three months	
	2020	2019	2020	2019
	Revenues by Product Line:			
Satellite Revenue	\$ 14,228	\$ 9,431	\$ 7,576	\$ 5,537
Government Non-Space Revenue	10,855	9,005	5,520	2,261
Other Commercial & Industrial Revenue	1,857	3,205	894	1,289
Consolidated revenues	\$ 26,940	\$ 21,641	\$ 13,990	\$ 9,087

NOTE H – INVESTMENT IN MORION, INC.

The Company has an investment in Morion, Inc. (“Morion”), a privately-held Russian company, which manufactures high precision quartz resonators and crystal oscillators. The Company has also licensed certain technology to Morion.

The Company’s investment consists of 4.6% of Morion’s outstanding shares, accordingly, the Company accounts for its investment in Morion on the cost basis. This investment of approximately \$800,000 is included in other assets in the accompanying condensed consolidated balance sheets. During the six months ended October 31, 2020 and 2019, the Company acquired product from Morion in the aggregate amount of approximately \$268,000 and \$380,000, respectively, and during the six months ended October 31, 2019 the Company sold product and training services to Morion in the aggregate amount of approximately \$49,000, included in revenues in the condensed consolidated statements of operations as part of the FEI-NY segment. During the three months ended October 31, 2020 and 2019, the Company acquired product from Morion in the aggregate amount of approximately \$118,000 and \$135,000, respectively, and during three months ended October 31, 2019 the Company sold product and training services to Morion in the aggregate amount of approximately \$2,000, included in revenues in the condensed consolidated statements of operations as part of the FEI-NY segment. During the six months ended October 31, 2020 and 2019, the Company received dividends from Morion in the amount of approximately \$105,000 and \$125,000, respectively, which is included in other income, net in the condensed consolidated statements of operations as part of the FEI-NY segment.

Morion is a less than wholly-owned subsidiary of Gazprombank, a state-owned Russian bank. The U.S. Ukraine-related sanctions regime has since 2014 included a list of sectoral sanctions identifications (“SSI”) pursuant to Executive Order 13662, which prohibits certain transactions, including certain extensions of credit, with an entity designated as an SSI or certain affiliates of an entity designated as an SSI. On July 16, 2014, after the Company’s investment in Morion, Gazprombank was designated as an SSI.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

In light of Morion’s relationship with Gazprombank, the Company recently evaluated, with the assistance of external legal counsel, certain sales to Morion and the timing of payments by Morion to the Company in connection with those sales to determine whether payments by Morion may have inadvertently constituted extensions of credit in violation of Directive 1 under Executive Order 13662. The Company determined that certain payments by Morion – the majority of which occurred more than five years ago – were not timely. Following the evaluation, on May 7, 2020, the Company voluntarily disclosed its findings to the Office of Foreign Assets Control (“OFAC”). The Company’s voluntary disclosure to OFAC relates solely to delays in collection of accounts receivable that exceeded then-applicable payment windows set forth in sanctions regulations and do not relate to any other type of payment or transaction. On July 22, 2020, OFAC informed the Company that it is conducting a civil investigation of the matter.

The ongoing OFAC civil investigation subjects the Company to a number of financial and business risks. OFAC has broad enforcement discretion, and the imposition of sanctions, fines or remedial measures could have a material adverse effect on the Company’s business, prospects, reputation, financial condition, liquidity, results of operations or cash flows. Given the matter is in an early stage, however, the Company does not have sufficient information to (i) determine whether any liability (including penalties, sanctions, or remedial actions) as a result of the voluntary disclosure is probable or (ii) estimate the magnitude of any liability. While we are currently unable to predict what if any actions OFAC might take, or what the likely outcome of any such actions might be, or estimate the range of reasonably possible fines or penalties, such outcome may be material. Also, the Company is unable to predict the duration, scope, result or related costs of the investigation, including legal fees.

NOTE I – FAIR VALUE OF FINANCIAL INSTRUMENTS

The cost, gross unrealized gains, gross unrealized losses, and fair market value of available-for-sale securities at October 31, 2020 and April 30, 2020, respectively, were as follows (in thousands):

	October 31, 2020			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
	Fixed income securities	\$ 9,463	\$ 530	\$ (45)

	April 30, 2020			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
	Fixed income securities	\$ 10,081	\$ 495	\$ (6)

The following table presents the fair value and unrealized losses, aggregated by investment type and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	Less than 12 months		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
October 31, 2020						
Fixed Income Securities	\$ 380	\$ (5)	\$ 983	\$ (40)	\$ 1,363	\$ (45)
April 30, 2020						
Fixed Income Securities	\$ 380	\$ (6)	\$ -	\$ -	\$ 380	\$ (6)

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

During the six and three months ended October 31, 2020, the Company sold or redeemed available-for-sale securities of approximately \$1.5 million and \$796,000, respectively, realizing gains of approximately \$12,000 and \$9,000, respectively.

Maturities of fixed income securities classified as available-for-sale at October 31, 2020 were as follows, at cost (in thousands):

Current	\$	3,267
Due after one year through five years		3,257
Due after five years		2,939
	\$	<u>9,463</u>

The fair value accounting framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The levels of the fair value hierarchy are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability; and
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The Company's money market, business account, and U.S. securities are valued on a Level 1 basis. The Company's fixed income corporate debt securities and certificates of deposit are valued on a Level 2 basis.

NOTE J – RECENT ACCOUNTING PRONOUNCEMENTS

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”), which simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Under ASU 2017-04 goodwill impairment will be tested by comparing the fair value of a reporting unit with its carrying amount, and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The new guidance must be applied on a prospective basis and is effective for periods beginning after December 15, 2022, with early adoption permitted. The Company will not be adopting ASU 2017-04 early, and is in the process of determining the effect that ASU 2017-04 may have. However, the Company expects the new standard to have an immaterial effect on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”) which replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The new guidance is effective for fiscal years beginning after December 15, 2022. The Company is evaluating the effect, if any, the update will have on its consolidated financial statements when adopted in fiscal year 2023.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE K – CREDIT FACILITY

As of October 31, 2020, the Company had available credit with UBS Bank USA at variable terms based on its securities holdings under an advisory arrangement, under which the Company has borrowed \$3 million. On April 12, 2020, the Company received proceeds from a PPP Loan in the amount of \$4,964,810 from JPMorgan Chase Bank, N.A. as the Lender, pursuant to the SBA Paycheck Protection Program under the CARES Act. The PPP Loan was repaid in full on May 6, 2020.

NOTE L – VALUATION ALLOWANCE ON DEFERRED TAX ASSETS

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future.

As required by the authoritative guidance on accounting for income taxes, we evaluate the realization of deferred tax assets on a jurisdictional basis at each reporting date. We consider all positive and negative evidence, including the reversal of deferred tax liabilities, projected future taxable income, tax planning strategies, and results of recent operations. Accounting for income taxes requires that a valuation allowance be established when it is more likely than not that all or a portion of the deferred tax assets will not be realized. In circumstances where there is sufficient negative evidence indicating that the deferred tax assets will not be realizable, we establish a valuation allowance. As of October 31, 2020, and April 30, 2020, the Company maintained a full valuation allowance against its deferred tax assets. If these estimates and assumptions change in the future, the Company may be required to adjust its existing valuation allowance resulting in changes to deferred income tax expense.

NOTE M – COMMITMENTS AND CONTINGENCIES

On January 28, 2020, Martin B. Bloch, the former Chief Scientist of the Company and a former member of the Company's Board of Directors (the "Board"), filed a complaint against the Company and Jonathan Brolin, Lance W. Lord, Russell M. Sarachek, Richard Schwartz and Stanton D. Sloane, each in their capacity as members of the Board (collectively, the "Director Defendants"), in the Supreme Court of the State of New York, County of Nassau (*Bloch v. Frequency Electronics, Inc., et al.*, Index No. 601369/2020 (N.Y. Sup. Ct. filed Jan. 28, 2020)). Mr. Bloch seeks compensatory damages and costs and attorney's fees, among other things, based on allegations that he was wrongfully terminated "for cause" pursuant to his employment agreement, dated March 17, 2008, and that the Company and the Director Defendants discriminated against him based on his age. Mr. Bloch had originally also sought a declaratory judgment and claims for damage to his reputation and a derivative claim on behalf of the Company alleging that the Director Defendants breached their fiduciary duty in rendering their decision to terminate Mr. Bloch's employment with the Company. However, Mr. Bloch removed those claims from a subsequently filed amended complaint after the Company and the Director Defendants moved to dismiss them. On June 11, 2020, the Company and the Director Defendants filed their answer to the amended complaint. Mr. Bloch filed a motion for summary judgment on June 23, 2020, which the Company and the Director Defendants opposed on July 10, 2020. Mr. Bloch's motion seeks an order that the Company is liable for breach of his employment agreement because he purportedly resigned from the Company before he was terminated. On July 10, 2020, the Company and the Director Defendants opposed Mr. Bloch's motion and also filed a motion for summary judgment seeking the dismissal of all claims in Mr. Bloch's amended complaint. On September 23, 2020, the Court denied Mr. Bloch's motion for summary judgment. It also granted the Company and the Director Defendants' motion for summary judgment as to all claims, except for one claim for breach of contract against the Company. On October 23, 2020, the Company filed a brief with the Appellate Division, Second Department, seeking a reversal of the lower court's order to the extent that it denied the Company's summary judgment motion on the breach of contract claim. Mr. Bloch filed its responsive brief on November 20, 2020. The appeal is currently pending. The Company believes that the Board was justified in its decision to terminate Mr. Bloch "for cause" and that Mr. Bloch's single surviving claim is entirely without merit. The Company intends to vigorously defend against all of Mr. Bloch's allegations. At this time, the Company does not have sufficient information to determine whether liability, if any, arising out of these matters is probable or the possible loss, if any, which could result from an unfavorable outcome arising out of these matters.

In addition, Mr. Bloch sought to initiate two arbitration proceedings under the AAA Rules (*Bloch v. Frequency Electronics, Inc., the Compensation Committee of the Board of Directors of Frequency Electronics, Inc., and the Deferred Compensation Plan Agreement Dated March 7, 2008*). One arbitration is brought under a deferred compensation agreement dated March 27, 1980 and the other under a second amended and restated deferred compensation agreement, dated March 7, 2008. Bloch submitted his Statements of Claim in both arbitrations on May 4, 2020. In both proceedings, Mr. Bloch claims that defendants violated ERISA rules by denying him deferred compensation benefits. He seeks an award for allegedly past due deferred compensation benefits plus interest, clarification as to his future rights to deferred compensation benefits, and attorneys' fees and costs.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

On June 2, 2020, the Company filed a petition for a stay of arbitration and related declaratory relief against Mr. Bloch, in the Supreme Court of the State of New York, New York County (*Frequency Electronics, Inc. v. Martin B. Bloch*, Index No. 652191/2020 (N.Y. Sup. Ct. filed June 2, 2020)). The Company claims that Mr. Bloch may not arbitrate his claims for deferred compensation because he did not timely appeal the Company's denial of those claims, and because he failed to comply with the arbitration procedures in the applicable deferred compensation agreement. Mr. Bloch filed a motion on June 16, 2020 seeking a change of venue to the County of Nassau, which the Company opposed on July 7, 2020. The Court granted Mr. Bloch's motion on September 8, 2020. The case was therefore transferred to the County of Nassau, and assigned to the same Judge hearing the other cases between the parties. At this time, the Company does not have sufficient information to determine the likelihood of success of this petition.

On June 5, 2020, Mr. Bloch filed a petition against the Company, the Compensation Committee of the Company's Board of Directors, and the Deferred Compensation Plan Agreement Dated March 7, 2008, as amended ("Respondents"), for the appointment of an arbitrator in one of the arbitration proceedings that Mr. Bloch sought to initiate. The petition was filed in the Supreme Court of the State of New York, County of Nassau (*Bloch v. Frequency Electronics, Inc. et al.*, Index No. 605380/2020 (N.Y. Sup. Ct. filed June 5, 2020)). On June 22, 2020, Respondents moved to dismiss Mr. Bloch's petition, and he opposed the motion on July 2, 2020. The motion is currently pending. On September 11, 2020, the Court granted Respondents' application for an interim stay of the arbitration pending the Court's determination of the Company's petition for a stay of arbitration (described above), Mr. Bloch's petition for the appointment of an arbitrator, and other outstanding motions. Respondents dispute all of Bloch's claims and intend to continue to vigorously defend the Company in this special proceeding. The likelihood of any outcome of this proceeding cannot be determined at this time.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

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

The statements in this quarterly report on Form 10-Q regarding future earnings and operations and other statements relating to 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, the risks associated with health epidemics and pandemics, including the COVID-19 pandemic and similar outbreaks, such as their impact on our financial condition and results of operations and on our ability to continue manufacturing and distributing our products, and the impact of health epidemics and pandemics on general economic conditions, including any resulting recession, our inability to integrate operations and personnel, actions by significant customers or competitors, general domestic and international economic conditions, 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 the outcome of any litigation and arbitration proceedings. The factors listed above are not exhaustive. Other sections of this Form 10-Q and in the Company’s Annual Report on Form 10-K for the fiscal year ended April 30, 2020, filed on July 29, 2020 with the Securities and Exchange Commission include additional factors that could materially and adversely impact the Company’s business, financial condition and results of operations. Moreover, the Company operates in a very competitive and rapidly changing environment. New factors emerge from time to time and it is not possible for management to predict the impact of all these factors on the Company’s business, financial condition or results of operations or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not rely on forward-looking statements as a prediction of actual results. Any or all of the forward-looking statements contained in this Form 10-Q and any other public statement made by the Company or its management may turn out to be incorrect. The Company expressly disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Critical Accounting Policies and Estimates

The Company’s significant accounting policies are described in Note 1 to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended April 30, 2020, filed on July 29, 2020 with the Securities and Exchange Commission. The Company believes its most critical accounting policies to be the recognition of revenue and costs on production contracts, income taxes, and the valuation of inventory. Each of these areas requires the Company to make use of reasonable estimates including estimating the cost to complete a contract, the realizable value of its inventory and the market value of its products. Changes in estimates can have a material impact on the Company’s financial position and results of operations. The Company’s significant accounting policies did not change during the six and three months ended October 31, 2020.

Revenue Recognition

Revenue is recognized when a performance obligation is satisfied, which is when the expected goods or services are transferred to the customer, in an amount that reflects the consideration to which the Company expects to receive. A performance obligation is a distinct product or service that is transferred to the customer based on the contract. The transaction price is allocated to each performance obligation and is recognized as revenue upon satisfaction of that performance obligation. The Company derives revenue from contracts with customers by units sold with specific specifications and frequencies that are used by a specific customer and contracts where the end user is the government. The Company’s contracts typically include one performance obligation which is satisfied by shipped projects and completed services/reports required in the contract. Control over these performance obligations passes to the customer over time and therefore these revenues are reported in operating results over time using 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 revenues recorded as the costs are incurred. Each month management reviews estimated contract costs through a process of aggregating actual costs incurred and estimating additional costs to completion based upon the current available information and status of the contract. The effect of any change in the estimated gross margin rate (“GM Rate”) for a contract is reflected in revenues in the period in which the change is known. Provisions for the full amount of anticipated losses on contracts are made in the period in which they become determinable.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

(Continued)

For smaller contracts or orders, sales of products and services to customers are reported in operating results based upon (i) shipment of the product or (ii) performance of the services pursuant to terms of the customer order. When payment is contingent upon customer acceptance of the installed system, revenue is deferred until such acceptance is received and installation completed. The Company's products generally carry a one-year warranty, but may vary based on the contract terms.

Significant judgment is used in evaluating the financial information for certain contracts to determine an appropriate budget and estimated cost. The Company evaluates this information continuously and bases its judgments on historical experience, design specifications, and expected costs for material and labor.

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.

Inventory

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. Inventory write downs are established for slow-moving materials based on percentage of usage over a ten-year period, obsolete items on a gradual basis over five years with no usage and costs incurred on programs for which production-level orders cannot be determined as probable. Such write-downs are based upon management's experience and expectations for future business. Any changes arising from revised expectations are reflected in cost of revenues in the period the revision is made.

Marketable Securities

Marketable securities consist of corporate debt securities, certificates-of-deposit, and debt securities of U.S. Government agencies. All marketable securities were held in the custody of one financial institution at October 31, 2020 and April 30, 2020. Investments in debt 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.

COVID-19 Outbreak Update

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The Company's priority during the COVID-19 outbreak has been to protect the health and safety of its employees while remaining operational. Within the limitations imposed by governmental health and safety procedures, the Company has continued to manufacture its full range of products at its facilities. The Company has educated employees about COVID-19 symptoms and hygiene best practices. The Company's policies also include taking an employee's temperature before entering facilities; mandating handwashing; requiring social distancing and, where social distancing is difficult, requiring face coverings; encouraging, and in some cases, requiring remote work for those employees who can work from home; and disinfecting facilities.

As of December 11, 2020, the Company was aware of five employees that have had confirmed cases of COVID-19 since the COVID-19 outbreak began, with no fatalities. Additional employees have been absent or self-quarantined due to COVID-19; however, such absences have not had a significant impact on production. Additionally, since the COVID-19 outbreak began, facilities have remained open (other than temporary closures for disinfecting) and such measures to disinfect facilities have not had a significant impact on production. Certain of the Company's vendors have been unable to deliver materials on time due to the COVID-19 outbreak. Such delays have negatively impacted the Company's production, and the Company plans to continue to monitor these and its other vendors and, if necessary, seek alternative suppliers.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

(Continued)

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic may have on the Company's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. The CARES Act also appropriated funds for the Small Business Administration (SBA) Paycheck Protection Program loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by the COVID-19 outbreak. The Company received a loan under the Paycheck Protection Program in April 2020, which it repaid in full in May 2020. For more detail regarding the Company's PPP Loan, see Note K in Part I, Item I of this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS

The table below sets forth for the six and three months ended October 31, 2020 and 2019, respectively, the percentage of consolidated revenues represented by certain items in the Company's condensed consolidated statements of operations or notes to the condensed consolidated financial statements:

	Six months		Three months	
	Periods ended October 31,			
	2020	2019	2020	2019
Revenues				
FEI-NY	77.9%	77.6%	79.7%	85.7%
FEI-Zyfer	27.3	26.3	24.5	22.0
Less intersegment revenues	(5.2)	(3.9)	(4.2)	(7.7)
	100.0	100.0	100.0	100.0
Cost of revenues	65.1	87.2	62.0	113.0
Gross margin	34.9	12.8	38.0	(13.0)
Selling and administrative expenses	27.3	21.9	29.5	25.2
Research and development expenses	8.1	17.3	7.0	16.0
Operating (loss) income	(0.5)	(26.4)	1.5	(54.2)
Other income (loss), net	0.8	1.1	0.9	0.3
Provision (benefit) for income taxes	0.1	0.1	0.1	0.1
Net income (loss)	0.4%	(25.2)%	2.5%	(54.0)%

Revenues

Segment	Six months				Three months			
	Periods ended October 31,							
	2020	2019	Change		2020	2019	Change	
FEI-NY	\$ 20,996	\$ 16,794	\$ 4,202	25.0%	\$ 11,156	\$ 7,784	\$ 3,372	43.3%
FEI-Zyfer	7,353	5,701	1,652	29.0	3,430	2,000	1,430	71.5
Intersegment revenues	(1,409)	(854)	(555)	65.0	(596)	(697)	101	(14.5)
	\$ 26,940	\$ 21,641	\$ 5,299	24.5%	\$ 13,990	\$ 9,087	\$ 4,903	54.0%

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

(Continued)

For the six months, ended October 31, 2020 revenues from commercial and U.S. Government satellite programs increased approximately \$4.8 million, as compared to the same period of fiscal year 2020, and accounted for approximately 53% of consolidated revenues compared to approximately 44% of consolidated revenues during this same period in fiscal year 2020. The change in revenue is related to timing of contract awards. Revenues on these contracts are recognized primarily under the POC method. Revenues from the satellite market are recorded in the FEI-NY segment. Revenues from non-space U.S. Government/Department of Defense (“DOD”) customers, which are recorded in both the FEI-NY and FEI-Zyfer segments, increased \$1.9 million as compared to the same period of fiscal year 2020, and accounted for approximately 40% of consolidated revenues compared to approximately 42% of consolidated revenues during this same period in fiscal year 2020. Other commercial and industrial revenues for the six months ended October 31, 2020 were \$1.9 million and represented approximately 7% of consolidated revenues compared to \$3.2 million, or 14% of consolidated revenues, in the same period of the prior fiscal year.

For the three months ended October 31, 2020 revenues from commercial and U.S. Government satellite programs increased approximately \$2.0 million, as compared to the same period of fiscal year 2020, and accounted for approximately 54% of consolidated revenues compared to approximately 61% of consolidated revenues during this same period in fiscal year 2020. The change in revenue is related to timing of contract awards. Revenues on these contracts are recognized primarily under the POC method. Revenues from the satellite market are recorded in the FEI-NY segment. Revenues from non-space U.S. Government/DOD customers, which are recorded in both the FEI-NY and FEI-Zyfer segments, increased \$3.3 million as compared to the same period of fiscal year 2020, and accounted for approximately 39% of consolidated revenues compared to approximately 25% of consolidated revenues during this same period in fiscal year 2020. Other commercial and industrial revenues for the three months ended October 31, 2020 were \$0.9 million and represented approximately 6% of consolidated revenues compared to \$1.3 million, or 14% of consolidated revenues, in the same period of the prior fiscal year.

Gross Margin (loss)

	Six months			Three months				
	Periods ended October 31,							
	2020	2019	Change	2020	2019	Change		
GM Rate	\$ 9,410	\$ 2,771	\$ 6,639	NM	\$ 5,322	\$ (1,182)	\$ 6,504	NM
	34.9%	12.8%		38.0%	(13.0)%			

For the six and three-month periods ended October 31, 2020, gross margin and GM Rate increased significantly as compared to the same periods in fiscal year 2020. The increase in gross margin and GM Rate was due to several programs identified in prior periods that had higher engineering costs incurred that were in the development phase that have since been completed or are near completion.

Selling and Administrative Expenses

	Six months			Three months				
	Periods ended October 31,							
	2020	2019	Change	2020	2019	Change		
	\$ 7,352	\$ 4,743	\$ 2,609	55.0%	\$ 4,124	\$ 2,290	\$ 1,834	80.1%

For the six months ended October 31, 2020 and 2019, selling and administrative (“SG&A”) expenses were approximately 27% and 22%, respectively, of consolidated revenues. For the three months ended October 31, 2020 and 2019, SG&A expenses were approximately 30% and 25%, respectively, of consolidated revenues. The increase in SG&A expenses is mainly due to increase in professional fees (relating to litigation for which we expect insurance reimbursement for a portion of the legal fees) of \$1.3M and \$1.6M for the three and six month periods, respectively, and additional insurance costs.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

(Continued)

The estimated annual effective tax rate for the fiscal year ending April 30, 2021 is 0%. This calculation reflects estimated income tax expense based on our current year annual pretax income forecast which is offset by the estimated change in the current year valuation allowance. The Company maintains a full valuation allowance against its deferred tax assets.

For the six months ended October 31, 2020, the Company recorded a discrete income tax provision of \$25,000, which primarily consisted of an accrual of interest for unrecognized tax benefits. For the six months ended October 31, 2019, the Company recorded a discrete income tax provision of \$28,900, which primarily consisted of an accrual of interest for unrecognized tax benefits.

For the three months ended October 31, 2020, the Company recorded an income tax provision of \$17,000, which included a discrete income tax provision of \$9,000 primarily related to an accrual of interest for unrecognized tax benefits. For the three months ended October 31, 2019, the Company recorded a discrete income tax provision of \$9,000, which primarily consisted of an accrual of interest for unrecognized tax benefits.

The effective tax rate for the six months ended October 31, 2020 is an income tax provision of 27.2% on pretax income of \$92,000 compared to an income tax provision of (0.5)% on a pretax loss of \$5,471,000 in the comparable prior fiscal year period. The effective tax rate for the six months ended October 31, 2020 differs from the U.S. statutory rate of 21% primarily due to state taxes, a discrete income tax provision related to the accrual of interest for unrecognized tax benefits, and domestic losses for which the Company is not recognizing an income tax benefit.

The effective tax rate for the three months ended October 31, 2020 is an income tax provision of 4.9% on pretax income of \$346,000 compared to an income tax provision of (0.2)% on a pretax loss of \$4,900,000 in the comparable prior fiscal year period. The effective tax rate for the three months ended October 31, 2020 differs from the U.S. statutory rate of 21% primarily due to state taxes, a discrete income tax provision related to the accrual of interest for unrecognized tax benefits, and domestic losses for which the Company is not recognizing an income tax benefit.

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated balance sheet continues to reflect a strong working capital position of \$39.7 million at October 31, 2020 and \$38.3 million at April 30, 2020. Included in working capital at October 31, 2020 and April 30, 2020 is \$13.6 million and \$14.4 million, respectively, consisting of cash, cash equivalents, and marketable securities. The Company's current ratio at October 31, 2020 was 4.5 to 1 compared to 3.9 to 1 as of April 30, 2020.

Net cash provided by operating activities for the six months ended October 31, 2020 was \$1.9 million compared to \$180,000 in the comparable prior fiscal 2020 period. The increase cash flow in the fiscal 2021 period resulted mainly due to the net income in the current fiscal year period as compared to a net loss in the prior fiscal year, as well as an increase in accounts receivable balances offset by a decrease in inventory amounts. For the six-month periods ended October 31, 2020 and 2019, the Company incurred approximately \$2.6 million and \$3.9 million, respectively, of non-cash operating expenses including ROU assets and liabilities for leases, loss provision accrual, depreciation and amortization, inventory reserve adjustments, and accruals for employee benefit programs.

Net cash used in investing activities for the six months ended October 31, 2020 was \$200,000 compared to \$1.3 million for the six months ended October 31, 2019. During the six months ended October 31, 2020 approximately \$900,000 of marketable securities were purchased compared to \$2.5 million for the same period of fiscal 2020. The Company acquired property, plant and equipment in the amount of approximately \$800,000 for the six-month period ended October 31, 2020 compared to \$1.3 million for the six-month period ended October 31, 2019. The Company may continue to invest in cash equivalents as dictated by its investment strategy.

Net cash used in financing activities for the six months ended October 31, 2020 was approximately \$2.0 million related to the repayment of the PPP Loan and the amounts borrowed against the Company's line of credit with UBS Bank USA. There was no cash used in financing activities for the six months ended October 31, 2019.

The Company has been authorized by its Board to repurchase up to \$5 million worth of shares of its common stock when appropriate opportunities arise. As of October 31, 2020, the Company has repurchased approximately \$4 million of its common stock out of the \$5 million authorization. For the six months ended October 31, 2020 and 2019 there were no repurchases of shares.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

(Continued)

The Company will continue to expend resources to develop, improve and acquire products for space applications, guidance and targeting systems, and communication systems which management believes will result in future growth and profitability. The Company anticipates securing additional customer funding for a portion of its R&D activities and will allocate internal funds depending on market conditions and identification of new opportunities. The Company expects internally generated cash will be adequate to fund these R&D efforts. The Company may also pursue acquisitions to expand its range of products and may use internally generated cash and external funding in connection with such acquisitions.

As of October 31, 2020, the Company's consolidated funded backlog was approximately \$42 million compared to \$36 million at April 30, 2020, the end of fiscal 2020. Approximately 79% of this backlog is expected to be realized in the next twelve months. As of October 31, 2020, there are no amounts included in backlog under cost-plus fixed-fee ("CPFF") contracts that have not been funded. The Company excludes from backlog any contracts or awards for which it has not received authorization to proceed. On fixed price contracts, the Company excludes any unfunded portion. Over time, as partially funded contracts become fully funded, the Company will add the additional funding to its backlog. The backlog is subject to change for various reasons, 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.

The Company believes that its liquidity is adequate to meet its operating and investment needs through at least December 11, 2021 and the foreseeable future.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements, that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
(Continued)

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable to smaller reporting companies.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's chief executive officer and chief financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on their evaluation, the Company's chief executive officer and chief financial officer have concluded that, as of October 31, 2020, the Company's disclosure controls and procedures were effective.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended October 31, 2020 to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On January 28, 2020, Martin B. Bloch, the former Chief Scientist of the Company and a former member of the Company's Board, filed a complaint against the Company and Jonathan Brolin, Lance W. Lord, Russell M. Sarachek, Richard Schwartz and Stanton D. Sloane, each in their capacity as members of the Board (collectively, the "Director Defendants"), in the Supreme Court of the State of New York, County of Nassau (*Bloch v. Frequency Electronics, Inc., et al.*, Index No. 601369/2020 (N.Y. Sup. Ct. filed Jan. 28, 2020)). Mr. Bloch seeks compensatory damages and costs and attorney's fees, among other things, based on allegations that he was wrongfully terminated "for cause" pursuant to his employment agreement, dated March 17, 2008, and that the Company and the Director Defendants discriminated against him based on his age. Mr. Bloch had originally also sought a declaratory judgment and claims for damage to his reputation and a derivative claim on behalf of the Company alleging that the Director Defendants breached their fiduciary duty in rendering their decision to terminate Mr. Bloch's employment with the Company. However, Mr. Bloch removed those claims from a subsequently filed amended complaint after the Company and the Director Defendants moved to dismiss them. On June 11, 2020, the Company and the Director Defendants filed their answer to the amended complaint. Mr. Bloch filed a motion for summary judgment on June 23, 2020, which the Company and the Director Defendants opposed on July 10, 2020. Mr. Bloch's motion seeks an order that the Company is liable for breach of his employment agreement because he purportedly resigned from the Company before he was terminated. On July 10, 2020, the Company and the Director Defendants opposed Mr. Bloch's motion and also filed a motion for summary judgment seeking the dismissal of all claims in Mr. Bloch's amended complaint. On September 23, 2020, the Court denied Mr. Bloch's motion for summary judgment. It also granted the Company and the Director Defendants' motion for summary judgment as to all claims, except for one claim for breach of contract against the Company. On October 23, 2020, the Company filed a brief with the Appellate Division, Second Department, seeking a reversal of the lower court's order to the extent that it denied the Company's summary judgment motion on the breach of contract claim. Mr. Bloch filed its responsive brief on November 20, 2020. The appeal is currently pending. The Company believes that the Board was justified in its decision to terminate Mr. Bloch "for cause" and that Mr. Bloch's single surviving claim is entirely without merit. The Company intends to vigorously defend against all of Mr. Bloch's allegations. At this time, the Company does not have sufficient information to determine whether liability, if any, arising out of these matters is probable or the possible loss, if any, which could result from an unfavorable outcome arising out of these matters.

In addition, Mr. Bloch sought to initiate two arbitration proceedings under the AAA Rules (*Bloch v. Frequency Electronics, Inc., the Compensation Committee of the Board of Directors of Frequency Electronics, Inc., and the Deferred Compensation Plan Agreement Dated March 7, 2008*). One arbitration is brought under a deferred compensation agreement dated March 27, 1980 and the other under a second amended and restated deferred compensation agreement, dated March 7, 2008. Bloch submitted his Statements of Claim in both arbitrations on May 4, 2020. In both proceedings, Mr. Bloch claims that defendants violated ERISA rules by denying him deferred compensation benefits. He seeks an award for allegedly past due deferred compensation benefits plus interest, clarification as to his future rights to deferred compensation benefits, and attorneys' fees and costs.

On June 2, 2020, the Company filed a petition for a stay of arbitration and related declaratory relief against Mr. Bloch, in the Supreme Court of the State of New York, New York County (*Frequency Electronics, Inc. v. Martin B. Bloch*, Index No. 652191/2020 (N.Y. Sup. Ct. filed June 2, 2020)). The Company claims that Mr. Bloch may not arbitrate his claims for deferred compensation because he did not timely appeal the Company's denial of those claims, and because he failed to comply with the arbitration procedures in the applicable deferred compensation agreement. Mr. Bloch filed a motion on June 16, 2020 seeking a change of venue to the County of Nassau, which the Company opposed on July 7, 2020. The Court granted Mr. Bloch's motion on September 8, 2020. The case was therefore transferred to the County of Nassau, and assigned to the same Judge hearing the other cases between the parties. At this time, the Company does not have sufficient information to determine the likelihood of success of this petition.

On June 5, 2020, Mr. Bloch filed a petition against the Company, the Compensation Committee of the Company's Board of Directors, and the Deferred Compensation Plan Agreement Dated March 7, 2008, as amended ("Respondents"), for the appointment of an arbitrator in one of the arbitration proceedings that Mr. Bloch sought to initiate. The petition was filed in the Supreme Court of the State of New York, County of Nassau (*Bloch v. Frequency Electronics, Inc. et al.*, Index No. 605380/2020 (N.Y. Sup. Ct. filed June 5, 2020)). On June 22, 2020, Respondents moved to dismiss Mr. Bloch's petition, and he opposed the Company's motion on July 2, 2020. The motion is currently pending. On September 11, 2020, the Court granted Respondents' application for an interim stay of the arbitration pending the Court's determination of the Company's petition for a stay of arbitration (described above), Mr. Bloch's petition for the appointment of an arbitrator, and other outstanding motions. Respondents dispute all of Bloch's claims and intend to continue to vigorously defend the Company in this special proceeding. The likelihood of any outcome of this proceeding cannot be determined at this time.

Item 6. Exhibits

- 31.1 - [Certification by the Chief Executive Officer pursuant to Rule 13a-14\(a\) or 15d-14\(a\) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 - [Certification by the Chief Financial Officer pursuant to Rule 13a-14\(a\) or 15d-14\(a\) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32 - [Certifications by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101- The following materials from the Frequency Electronics, Inc. Quarterly Report on Form 10-Q for the quarter ended October 31, 2020 formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations and Comprehensive Loss, (iii) Condensed Consolidated Statements of Cash Flows, (iv) Condensed Consolidated Statements of Changes in Stockholders' Equity and (v) Notes to Condensed Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements 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)

Date: December 11, 2020

By: /s/ Steven L. Bernstein
Steven L. Bernstein
Chief Financial Officer, Secretary and Treasurer
Signing on behalf of the registrant and as principal financial officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Stanton Sloane, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Frequency Electronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Stanton Sloane
Stanton Sloane
President and Chief Executive Officer

December 11, 2020

**CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Steven L. Bernstein, certify that

1. I have reviewed this quarterly report on Form 10-Q of Frequency Electronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Steven L. Bernstein
Steven L. Bernstein
Chief Financial Officer, Secretary and Treasurer

December 11, 2020

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Certification of CEO

In connection with the Quarterly Report of Frequency Electronics, Inc. (the "Company") on Form 10-Q for the period ended October 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stanton Sloane, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stanton Sloane
Stanton Sloane
President and Chief Executive Officer

December 11, 2020

Certification of CFO

In connection with the Quarterly Report of Frequency Electronics, Inc. (the "Company") on Form 10-Q for the period ended October 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven L. Bernstein, Chief Financial Officer, Secretary and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Steven L. Bernstein
Steven L. Bernstein
Chief Financial Officer, Secretary and Treasurer

December 11, 2020

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.