



July 27, 2017

## Frequency Electronics, Inc. Announces Fiscal Year 2017 Results

MITCHEL FIELD, N.Y., July 27, 2017 (GLOBE NEWSWIRE) -- Frequency Electronics, Inc. (NASDAQ:FEIM) reported revenues of \$50.3 million for fiscal 2017, which ended April 30, 2017, compared to revenues of \$55.4 million for fiscal 2016.

Operating loss for fiscal 2017 was \$7.5 million compared to operating profit of \$2.5 million for fiscal 2016. Net loss for fiscal 2017 was \$4.8 million or (\$0.55) per diluted share compared to net income of \$1.0 million or \$0.11 per diluted share for fiscal 2016. Fiscal 2017 results include the effects of \$4.9 million of one-time non-cash charges related to the Company's previously reported phase out from its wire-line network infrastructure business.

It is no secret that the satellite industry has been facing stiff headwinds. As a result, various levels of the supply chain have suffered and remain challenged today. Over the past two years our major customers have seen certain parts of their satellite business decline by half. Some of this decline is cyclical in nature, while a portion is driven by technological innovation that, while ultimately of benefit to FEI, in the near term is merely a contributor to further delays in revenue. FEI's satellite payload business has encountered negatively impacted revenue and bookings in the most recent quarters, however, we have taken aggressive action internally to mitigate the financial impact of the end market weakness while positioning the Company to maximize value in the future. Moreover, our most recent results in FEI-NY are not indicative of the going forward potential of that business area and do not tell the whole story of Frequency Electronics.

Our largest customers in FEI's satellite business still indicate an improving outlook for the balance of calendar 2017 and into 2018, suggesting a potential for an upturn in contract awards that would manifest in accelerating bookings and revenue for FEI.

Additionally, this past year, FEI-Zyfer achieved strong revenue growth of over 20% driven by traction in our secure communications business, a key driver of the future value of Frequency as a whole. As we have articulated in the past, the addressable opportunity in secure communications is vast and dovetails well with our engineering capabilities and proven expertise in GPS applications. FEI's expertise in precision time technology is key to success in this market.

We believe the long-term prospects of Frequency Electronics are bright. We are optimistic that the cyclical downturn in the satellite payload business has run its course and that FEI will begin to reap more than its fair share of the overdue recovery. Secure communications will prove to be a forceful driver of future revenue and profitability for the Company.

With that said we are not standing idly by and waiting for business to walk in the door. Management has taken and will continue to take aggressive action to best position the company to maximize value for our shareholders. As detailed below, we have initiated certain actions internally to optimize the operations and the balance sheet assets.

### **Internal Restructuring Initiatives**

#### *Inventory*

In the most recent quarter we took the following actions to better position FEI for future value creation—

1. \$4.9 million of inventory reserves at FEI-Zyfer related to the Company's phase out of the wire-line, predominately copper, network infrastructure business area and the intended sale of its Gillam-FEI ("Gillam") subsidiary.
2. \$2 million of inventory reserves at FEI-NY

The above reserves have been recorded in cost of goods sold.

#### *Gillam*

As previously announced, we are actively working to effect a sale of FEI's Gillam subsidiary to an external buyer. Gillam is being reported as a "held for sale/ discontinued operation". The Company anticipates concluding the disposition of its interest in Gillam by the end of this fiscal 2018.

The results of Gillam for fiscal years ended April 30, 2017 and 2016, are presented as discontinued operations herewith and in our Consolidated Balance Sheets and Consolidated Statements of Operations and Comprehensive (Loss) Income included in the Company's 10-K to be filed for fiscal 2017.

### *FEI-Elcom*

We are working to consolidate certain of FEI-Elcom's capabilities with other FEI-NY operations in an effort to reduce costs and improve working capital management. This should have the collateral benefit of providing engineering efficiencies and better customer coverage.

### *FEI-NY Cost Reduction & Inventory Management Initiatives*

We continue to right-size the FEI-NY subsidiary in response to the end market weakness while at the same time best positioning FEI to capture the eventual recovery in business. Although these actions include headcount reductions, we have taken steps to ensure that these reductions will have no effect on the Company's ability to provide on time delivery for present contractual obligations and to fully achieve its internal research and development objectives. We are also in the process of implementing a variety of improved operating disciplines designed to optimize the organization and better position the Company to generate larger margins and enhanced inventory turns when our satellite end markets recover.

The above initiatives are beginning to take effect at this time and will continue to roll out during the balance of the current and next fiscal year. Cost reductions already put in place during this past year permitted the Company to generate positive cash flow from operations for fiscal 2017 despite the large cyclical decline in satellite business. While it is difficult to provide a precise estimate due to the variability of the revenue line, we are targeting over \$5 million of additional cost reductions during fiscal 2018.

### **Fiscal 2017 Selected Financial Metrics and Other Items:**

- | Net positive cash flow from operations increased to \$3.5 million in fiscal 2017 compared to \$2.8 million in the prior year.
- | For the year ended April 30, 2017, revenues from satellite payloads were approximately 45% of consolidated revenues compared to 60% for the prior year. Fiscal 2017 revenues from satellite programs, the Company's largest business area, decreased by \$10.5 million, or 32%, compared to the prior fiscal year. This decrease is in line with the protracted industry wide slowdown in commercial communications satellite procurement, and reflects reductions in orders received from satellite service providers by the Company's major customers.
- | Sales revenues from non-space U.S. Government/DOD customers increased by approximately \$3.8 million or 24% compared to prior fiscal year. These revenues accounted for approximately 38% and 28% of consolidated revenues for fiscal years 2017, and 2016, respectively.
- | For the year ended April 30, 2017, other commercial and industrial sales, accounted for approximately 17% of consolidated revenues compared to approximately 12% for fiscal year 2016. Sales in this business area were \$8.6 million for the year ended April 30, 2017 compared to \$6.9 million for the preceding year.
- | Total sales for U.S. Government/DOD end-use, including revenues on U.S. Government satellite programs, were approximately 59% of consolidated revenues in fiscal 2017 compared to 65% in fiscal year 2016.

### **Investor Conference Call**

As previously announced, the Company will hold a conference call to discuss these results on Thursday, July 27, 2017, at 4:30 PM Eastern Time. Investors and analysts may access the call by dialing 1-877-407-9205. International callers may dial 1-201-689-8054. Ask for the Frequency Electronics conference call.

The call will be archived on the Company's website through October 27, 2017. The archived call may also be retrieved at 1-877-481-4010 (domestic), or 1-919-882-2331 (international), using Conference ID #13667787

### **About Frequency Electronics**

Frequency Electronics, Inc. is a world leader in the design, development and manufacture of high precision timing, frequency control and synchronization products for space and terrestrial applications. Frequency's products are used in satellite payloads and in other commercial, government and military systems including C4ISR and EW markets, missiles, UAVs, aircraft, GPS, secure radios, energy exploration and wireline and wireless communication networks. Frequency has received over 100 awards of excellence for achievements in providing high performance electronic assemblies for over 150 space and DOD programs. The Company invests significant resources in research and development and strategic acquisitions world-wide to expand its capabilities and markets.

**Frequency's Mission Statement:** "Our mission is to provide precision time and low phase noise frequency generation systems from 1 Hz to 46 GHz, for space and other challenging environments."

**Subsidiaries and Affiliates:** FEI-Zyfer provides GPS and secure timing ("SAASM") capabilities for critical military and commercial applications; FEI-Elcom Tech provides sub-systems for the Electronic Warfare ("EW") and added resources for state-of-the-art RF microwave products, FEI-Asia provides cost effective manufacturing capabilities. Frequency's Morion

affiliate supplies high-quality, cost effective oscillators and components. Additional information is available on the Company's website: [www.frequencyelectronics.com](http://www.frequencyelectronics.com)

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

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

**Frequency Electronics, Inc. and Subsidiaries  
Condensed Consolidated Statements of Operations**

	Year Ended April 30,	
	<u>2017</u>	<u>2016</u>
	(unaudited)	(unaudited)
	(in thousands except per share data)	
Revenues	\$ 50,351	\$ 55,416
Cost of Revenues	<u>39,102</u>	<u>36,141</u>
Gross Margin	11,249	19,275
Selling and Administrative	11,898	11,379
Research and Development	<u>6,876</u>	<u>5,428</u>
Operating (Loss) Profit	(7,525)	2,468
Interest and Other, Net	<u>486</u>	<u>806</u>
(Loss) Income before Income Taxes	(7,039)	3,274
Income Tax (Benefit) Provision	<u>(2,115)</u>	<u>1,070</u>
Net (Loss) Income from continuing operations	(4,924)	2,204
Income (Loss) from discontinued operations, net of tax	<u>103</u>	<u>(1,199)</u>
Net (Loss) Income	<u>\$ (4,821)</u>	<u>\$ 1,005</u>
Net (loss) Income per Share:		
Basic (loss) earnings from continued operations	<u>\$ (0.56)</u>	<u>\$ 0.25</u>
Basic earnings (loss) from discontinued operations	<u>\$ 0.01</u>	<u>\$ (0.13)</u>
Basic (loss) earnings per share	<u>\$ (0.55)</u>	<u>\$ 0.12</u>
Diluted (loss) earnings from continued operations	<u>\$ (0.56)</u>	<u>\$ 0.24</u>
Diluted earnings (loss) from discontinued operations	<u>\$ 0.01</u>	<u>\$ (0.13)</u>
Diluted (loss) earnings per share	<u>\$ (0.55)</u>	<u>\$ 0.11</u>
Average Shares Outstanding		
Basic	<u>8,787</u>	<u>8,728</u>
Diluted	<u>8,787</u>	<u>8,937</u>

**Frequency Electronics, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets**

April 30,      April 30,

	<u>2017</u>	<u>2016</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>
	(in thousands)	
<b><u>ASSETS</u></b>		
Cash & Marketable Securities	\$ 9,978	\$ 16,929
Accounts Receivable	10,986	7,166
Costs and Estimated Earnings in Excess of Billings, net	7,964	12,377
Inventories	29,051	36,280
Other Current Assets	3,711	4,272
Current Assets Held for Sale	8,165	8,838
Property, Plant & Equipment	14,813	12,314
Other Assets	28,082	23,229
Non-Current Assets Held for Sale	569	772
	<u>\$ 113,319</u>	<u>\$ 122,177</u>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Current Liabilities	\$ 5,862	\$ 7,644
Current Liabilities Held for Sale	2,249	2,664
Long-term Debt	-	6,000
Other Long-term Obligations	14,661	11,876
Non-Current Liabilities Held for Sale	1,215	641
Stockholders' Equity	89,332	93,352
	<u>\$ 113,319</u>	<u>\$ 122,177</u>

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