FREQUENCY ELECTRONICS INC
Form 10-Q
September 14, 2010

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

FORM 10-Q

(Mark one)

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

For the Quarterly Period ended July 31, 2010

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	11-1986657
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

55 CHARLES LINDBERGH BLVD., MITCHEL FIELD, N.Y.	11553
(Address of principal executive offices)	(Zip Code)

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

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller Reporting Company x
(do not check if a smaller reporting company)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of Registrant's Common Stock, par value $1.00 as of September 10, 2010 – 8,241,472

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

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FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Condensed Consolidated Balance Sheets

	July 31, 2010 (UNAUDITED)	April 30, 2010 (AUDITED) (NOTE A)
	(In thousands except share data)	
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 9,445	$ 9,954
Marketable securities	11,470	10,418
Accounts receivable, net of allowance for doubtful accounts of $266	8,669	10,504
Costs and estimated earnings in excess of billings	2,867	1,667
Inventories, net	27,053	26,975
Prepaid expenses and other	962	1,122
Total current assets	60,466	60,640
Property, plant and equipment, at cost, less accumulated depreciation and amortization	6,672	7,015
Goodwill and other intangible assets	218	218
Cash surrender value of life insurance and cash held in trust	9,049	8,917
Investment in and loans receivable from affiliates	3,837	3,813
Other assets	817	817
Total assets	$ 81,059	$ 81,420
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Short-term credit and lease obligations	$ 250	$ 246
Accounts payable - trade	2,350	1,720
Income taxes payable	195	295
Accrued liabilities	4,260	5,047
Total current liabilities	7,055	7,308
Lease obligation- noncurrent	377	441
Deferred compensation	9,652	9,624
Deferred rent and other liabilities	667	664
Total liabilities	17,751	18,037
Commitments and contingencies		
Stockholders' equity:		
Preferred stock - $1.00 par value	-	-
Common stock - $1.00 par value	9,164	9,164
Additional paid-in capital	49,628	49,580
Retained earnings	5,778	5,271
	64,570	64,015
Common stock reacquired and held in treasury -at cost (922,467 shares at July 31, 2010 and 946,172 shares at April 30, 2010)	(4,437)	(4,651)
Accumulated other comprehensive income	3,175	4,019
Total stockholders' equity	63,308	63,383

Total liabilities and stockholders' equity	$	81,059	$	81,420

See accompanying notes to condensed consolidated financial statements.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Condensed Consolidated Statements of Operations

Three Months Ended July 31,
(Unaudited)

	2010	2009
	(In thousands except per share data)	
Net revenues	$ 12,124	$ 12,442
Cost of revenues	7,378	8,141
Gross margin	4,746	4,301
Selling and administrative expenses	2,795	2,567
Research and development expense	1,162	1,075
Operating profit	789	659
Other income (expense):		
Investment income	80	128
Equity income (loss)	28	(49)
Interest expense	(35)	(44)
Other expense, net	(5)	(40)
Income before provision for income taxes	857	654
Provision for income taxes	350	-
Net income	$ 507	$ 654
Net income per common share:		
Basic	$ 0.06	$ 0.08
Diluted	$ 0.06	$ 0.08
Average shares outstanding:		
Basic	8,233,570	8,164,627
Diluted	8,280,332	8,172,080

See accompanying notes to condensed consolidated financial statements.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Three Months Ended July 31,
(Unaudited)

	2010	2009
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 507	$ 654
Non-cash charges to earnings	1,043	1,024
Net changes in other assets and liabilities	(1,058)	(495)
Net cash provided by operating activities	492	1,183
Cash flows from investing activities:		
Purchase of marketable securities	(2,500)	-
Proceeds on redemption of marketable securities	1,500	-
Capital expenditures	(243)	(175)
Net cash used in investing activities	(1,243)	(175)
Cash flows from financing activities:		
Payment of short-term credit and lease obligations	(70)	(70)
Net cash used in financing activities	(70)	(70)
Net (decrease) increase in cash and cash equivalents before effect of exchange rate changes	(821)	938
Effect of exchange rate changes on cash and cash equivalents	312	(187)
Net (decrease) increase in cash and cash equivalents	(509)	751
Cash and cash equivalents at beginning of period	9,954	4,911
Cash and cash equivalents at end of period	$ 9,445	$ 5,662
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 31	$ 55
Income Taxes	$ 450	-

See accompanying notes to condensed consolidated financial statements.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE A - 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 July 31, 2010 and the results of its operations and cash flows for the three months ended July 31, 2010 and 2009. The April 30, 2010 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 have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's April 30, 2010 Annual Report to Stockholders on Form 10-K. The results of operations for such interim periods are not necessarily indicative of the operating results for the full fiscal year.

NOTE B - EARNINGS PER SHARE

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

	Three months ended July 31,	
	2010	2009
Basic EPS Shares outstanding (weighted average)	8,233,570	8,164,627
Effect of Dilutive Securities	46,762	7,453
Diluted EPS Shares outstanding	8,280,332	8,172,080

The computation of diluted earnings per share excludes those options and stock appreciation rights ("SARS") with an exercise price in excess of the average market price of the Company's common shares during the periods presented. The inclusion of such options and SARS in the computation of earnings per share would have been antidilutive. The number of excluded options and SARS for the three months ended July 31, 2010 and 2009 were 1,020,775 and 1,325,525, respectively.

NOTE C – COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS

At July 31, 2010 and April 30, 2010, costs and estimated earnings in excess of billings on uncompleted contracts accounted for on the percentage of completion basis were approximately $2,867,000 and $1,667,000, respectively. Such amounts represent revenue recognized on long-term contracts that had not been billed at the balance sheet dates, net of amounts billed in excess of the revenue recognized. Such amounts are billed pursuant to contract terms. During the three months ended July 31, 2010 and 2009, revenue recognized under percentage of completion contracts was approximately $5.1 million and $4.4 million, respectively.

NOTE D - INVENTORIES

Inventories, which are reported at the lower of cost or market, consist of the following:

	July 31, 2010	April 30, 2010
	(In thousands)	
Raw Materials and Component Parts	$ 11,779	$ 13,192

Work in Progress		12,318		11,039
Finished Goods		2,956		2,744
	$	27,053	$	26,975

As of July 31, 2010 and April 30, 2010, approximately $18.7 million and $18.2 million, respectively, of total inventory is located in the United States, approximately $7.6 million and $7.9 million, respectively, is located in Belgium and approximately $800,000 and $900,000, respectively, is located in China.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE E – COMPREHENSIVE INCOME

For the three months ended July 31, 2010 and 2009, comprehensive (loss) income is composed of (in thousands):

	Three months ended July 31,			
		2010		2009
Net income	$	507	$	654
Foreign currency translation adjustment		(930)		372
Change in market value of marketable securities		86		323
Comprehensive (loss) income	$	(337)	$	1,349

NOTE F – SEGMENT INFORMATION

The Company operates under three 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- communication 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.
(2) Gillam-FEI - operates out of Belgium and France and primarily sells wireline synchronization and network management systems in non-U.S. markets. All sales from Gillam-FEI to the United States are to other segments of the Company.
(3) 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. This segment also provides sales and support for the Company's wireline telecommunications family of products, including US5G, which are sold in the United States market.

The FEI-NY segment also includes the operations of the Company's wholly-owned subsidiary, FEI-Asia. FEI-Asia functions primarily as a manufacturing facility for the FEI-NY segment.

The Company's Chief Executive Officer 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 table below presents information about reported segments with reconciliation of segment amounts to consolidated amounts as reported in the statement of operations or the balance sheet for each of the periods (in thousands):

	Three months ended July 31,			
		2010		2009
Net revenues:				
FEI-NY	$	7,642	$	7,065
Gillam-FEI		2,973		2,474
FEI-Zyfer		2,497		4,249
Less intercompany revenues		(988)		(1,346)
Consolidated revenues	$	12,124	$	12,442
Operating profit:				

FEI-NY	$ 1,012	$ 87
Gillam-FEI	117	(20)
FEI-Zyfer	(161)	656
Corporate	(179)	(64)
Consolidated operating profit	$ 789	$ 659

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(Unaudited)

	July 31, 2010	April 30, 2010
Identifiable assets:		
FEI-NY (approximately $3.5 million in China)	$ 35,568	$ 35,462
Gillam-FEI (all in Belgium or France)	18,683	19,594
FEI-Zyfer	7,098	7,413
less intersegment balances	(14,139)	(14,655)
Corporate	33,849	33,606
Consolidated identifiable assets	$ 81,059	$ 81,420

NOTE G – RELATED PARTY TRANSACTIONS

The Company has an equity interest in two strategically important companies: Elcom Technologies, Inc. ("Elcom") and Morion Inc. ("Morion"). During the three month periods ended July 31, 2010 and 2009, the Company acquired technical services from Elcom, purchased crystal oscillator products from Morion and sold certain of its products to both companies. The Company also receives interest from Elcom under two notes receivable. The table below summarizes these transactions:

	Three months ended July 31, 2010	2009
	(in thousands)	
Purchases from:		
Elcom	$ 35	$ 6
Morion	17	166
Sales to:		
Elcom	$ 58	$ 25
Morion	128	8
Interest on Elcom notes receivable	$ 25	$ 12

The Company measures the current market value of Elcom based on comparisons to comparable companies as well as Elcom's forecasts of future financial results. In fiscal year 2010, the Company determined that its investment was impaired and for the year ended April 30, 2010, recorded impairment charges in the amount $550,000 in addition to its equity share in the income or loss of Elcom during the year. No impairment charges were recorded during the three months ended July 31, 2010 and 2009.

NOTE H – FAIR VALUE OF FINANCIAL INSTRUMENTS

The cost, gross unrealized gains, gross unrealized losses and fair market value of available-for-sale securities at July 31, 2010 and April 30, 2010 are as follows (in thousands):

	July 31, 2010			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Fixed income securities	$ 10,572	$ 348	$ (30)	$ 10,890

Equity securities		450		130		-		580
	$	11,022	$	478	$	(30)	$	11,470

	April 30, 2010							
		Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Market Value
Fixed income securities	$	9,606	$	261	$	(90)	$	9,777
Equity securities		450		191		-		641
	$	10,056	$	452	$	(90)	$	10,418

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(Unaudited)

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:

	Less than 12 months		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
July 31, 2010						
Fixed Income Securities	$ -	$ -	$ 970	$ (30)	$ 970	$ (30)
Equity Securities	-	-	-	-	-	-
	$ -	$ -	$ 970	$ (30)	$ 970	$ (30)
April 30, 2010						
Fixed Income Securities	$ -	$ -	$ 3,438	$ (90)	$ 3,438	$ (90)
Equity Securities	-	-	-	-	-	-
	$ -	$ -	$ 3,438	$ (90)	$ 3,438	$ (90)

The Company regularly reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. The Company does not believe that its investments in marketable securities with unrealized losses at July 31, 2010 are other-than-temporary due to market volatility of the security's fair value, analysts' expectations and the Company's ability to hold the securities for a period of time sufficient to allow for any anticipated recoveries in market value.

During the three months ended July 31, 2010, the Company redeemed an available-for-sale security in the amount of $1,500,000 and realized a loss of $27,800 on the transaction which is included in the determination of net income for the period. During the three months ended July 31, 2009, the Company did not sell or redeem any available-for-sale securities. Accordingly, there were no realized gains or losses included in the determination of net income for that period.

Maturities of fixed income securities classified as available-for-sale at July 31, 2010 are as follows, at cost (in thousands):

Current	$ 1,000
Due after one year through five years	9,572
Due after five years through ten years	-
	$ 10,572

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 three 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;
- 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. All of the Company's investments in marketable securities are valued on a Level 1 basis.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE I - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued standards which modified how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. These standards clarify that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. These standards require an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. These standards also require additional disclosures about a company's involvement in variable interest entities and any significant changes in risk exposure due to that involvement. These standards are effective for fiscal years beginning after November 15, 2009 and were effective for the Company on May 1, 2010. The adoption of these standards did not have a material impact on the financial condition, results of operations, cash flows and disclosures of the Company.

NOTE J – INCOME TAXES

The Company has established a valuation allowance against all the deferred tax assets of its domestic and foreign subsidiaries. Because of the full valuation allowance, the provision for income taxes consists solely of taxes currently due to taxing authorities in the United States. Any tax provision or benefit realized from temporary tax differences is offset by increases or decreases in the valuation allowance thus creating a higher than normally expected effective tax rate. As of both July 31, 2010 and April 30, 2010, the deferred tax asset valuation allowance is approximately $8.1 million.

NOTE K – TREASURY STOCK TRANSACTIONS

During the three month period ended July 31, 2010, the Company made a contribution of 23,705 shares of its common stock held in treasury to the Company's profit sharing plan and trust under section 401(k) of the Internal Revenue Code. Such contribution is in accordance with the Company's discretionary match of employee voluntary contributions to this plan.

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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, 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, changes in contractual terms, 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 report.

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 April 30, 2010 Annual Report to Stockholders. The Company believes its most critical accounting policies to be the recognition of revenue and costs on production contracts and the valuation of inventory. Each of these areas requires the Company to make use of reasoned estimates including estimating the cost to complete a contract, the realizable value of its inventory or the market value of its products. Changes in estimates can have a material impact on the Company's financial position and results of operations.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
(Continued)

Revenue Recognition

Revenues under larger, long-term contracts which generally require billings based on achievement of milestones rather than delivery of product, are reported in operating results using the percentage of completion method. On fixed-price contracts, which are typical for commercial and U.S. Government satellite programs and other long-term U.S. Government projects, and which require initial design and development of the product, revenue is recognized on the cost-to-cost method. Under this method, revenue is recorded based upon the ratio that incurred costs bear to total estimated contract costs with related cost of sales recorded as the costs are incurred. Each month management reviews estimated contract costs through a process of aggregating actual costs incurred and updating estimated costs to completion based upon the current available information and status of the contract. The effect of any change in the estimated gross margin percentage for a contract is reflected in revenues in the period in which the change is known. Provisions for anticipated losses on contracts are made in the period in which they become determinable.

On production-type orders, revenue is recorded as units are delivered with the related cost of sales recognized on each shipment based upon a percentage of estimated final program costs. Changes in job performance may result in revisions to costs and income and are recognized in the period in which revisions are determined to be required. Provisions for anticipated losses on contracts are made in the period in which they become determinable.

For customer orders in the Company’s Gillam-FEI and FEI-Zyfer segments or smaller contracts or orders in the FEI-NY segment, 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.

Costs and Expenses

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 and obsolete items and are based upon management’s experience and expectations for future business. Any changes arising from revised expectations are reflected in cost of sales in the period the revision is made.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
(Continued)

RESULTS OF OPERATIONS

The table below sets forth for the respective periods of fiscal years 2011 and 2010 the percentage of consolidated revenues represented by certain items in the Company's consolidated statements of operations:

	Three months ended July 31, 2010	2009
Net Revenues		
FEI-NY	63.0%	56.8%
Gillam-FEI	24.5	19.9
FEI-Zyfer	20.6	34.1
Less intersegment revenues	(8.1)	(10.8)
	100.0	100.0
Cost of revenues	60.9	65.4
Gross margin	39.1	34.6
Selling and administrative expenses	23.0	20.6
Research and development expenses	9.6	8.7
Operating Income	6.5	5.3
Other income, net	0.6	-
Pretax income	7.1	5.3
Provision for income taxes	2.9	-
Net income	4.2%	5.3%

(Note: All dollar amounts in following tables are in thousands, except Revenues which are in millions)

Revenues

	(in millions) Three months ended July 31, 2010	2009	Change $	%
FEI-NY	$ 7.6	$ 7.1	$ 0.6	8%
Gillam-FEI	3.0	2.5	0.5	20%
FEI-Zyfer	2.5	4.2	(1.8)	(41)%
Intersegment sales	(1.0)	(1.4)	0.4	
	$ 12.1	$ 12.4	$ (0.3)	(3)%

The 3% decrease in revenues for the three months ended July 31, 2010 compared to the same period of fiscal year 2010, is due to the lower level of telecommunication infrastructure revenues generated by the FEI-Zyfer segment. In the prior year, revenues for that segment and market area benefited from additional sales that had been delayed from the preceding fiscal quarter due to inventory shortages. The lower fiscal year 2011 telecommunications revenues were partially offset by increased revenues from the FEI-NY and Gillam-FEI segments and the Company's other two major market areas: satellite payloads and non-satellite U.S. Government/DOD. For the fiscal year 2011 quarter, revenues from satellite payload programs increased modestly compared to the same period of fiscal year 2010 and accounted for 31% of consolidated revenues. Revenues from U.S. Government/DOD non-space programs, which are recorded in the FEI-NY and FEI-Zyfer segments, increased by more than 20% year-over-year and accounted for more than 25%

of consolidated revenue in the quarter ended July 31, 2010 compared to approximately 20% of consolidated revenues in the fiscal year 2010 quarter. Revenues from Gillam-FEI's non-telecommunication product line accounted for the increased fiscal year 2011 revenues in that segment. During the remainder of fiscal year 2011, the Company expects to book additional new satellite payload business for both U.S. Government and commercial applications and to realize increased revenues from that market area. Similarly, the Company expects to realize continued sales growth in U.S. Government/DOD non-space programs and from wireline telecommunication infrastructure products.

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES
(Continued)

Gross margin

	Three months ended July 31,			
			Change	
	2010	2009	$	%
	$ 4,746	$ 4,301	$ 445	10%
GM Rate	39.1%	34.6%		

The improvement in gross margin and gross margin rate for the three months ended July 31, 2010 compared to the same period a year ago reflect the benefits of the efficiency improvements which were implemented in the prior year and the different mix of programs on which the Company is working in the fiscal year 2011 period. Of the Company's three segments, the FEI-NY segment experienced the largest gross margin rate improvement. The gross margin rate recorded in the fiscal year 2011 period approaches the Company's targeted rate. The Company anticipates that its gross margin rates for the remainder of fiscal year 2011 will be comparable to the current periods and will show an improvement over the prior fiscal year.

Selling and administrative expenses

	Three months ended July 31,			
			Change	
	2010	2009	$	%
	$ 2,795	$ 2,567	$ 228	