FREQUENCY ELECTRONICS INC
Form 10-K
July 29, 2008

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

FORM 10-K

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

For the Fiscal Year ended April 30, 2008

OR

o 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**

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller Reporting Company x

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

The aggregate market value of voting stock held by non-affiliates of the Registrant as of October 31, 2007 - $52,700,000

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of Registrant's Common Stock, par value $1.00 as of July 25, 2008 - 8,761,114

DOCUMENTS INCORPORATED BY REFERENCE: PART III incorporates information by reference from the definitive proxy statement for the Annual Meeting of Stockholders to be held on or about October 7, 2008.

(Cover page 1 of 58 pages)
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PART I

Item 1. Business

GENERAL DISCUSSION

Frequency Electronics, Inc. (sometimes referred to as "Registrant", "Frequency Electronics" or the "Company") was founded in 1961 as a research and development firm in the technology of time and frequency control. Unless the context indicates otherwise, references to the Registrant or the Company are to Frequency Electronics, Inc. and its subsidiaries. References to “FEI” are to the parent company alone and do not refer to any of the subsidiaries.

Frequency Electronics was incorporated in Delaware in 1968 and became the successor to the business of Frequency Electronics, Inc., a New York corporation, organized in 1961. The principal executive office of Frequency Electronics is located at 55 Charles Lindbergh Boulevard, Mitchel Field, New York 11553. Its telephone number is 516-794-4500 and its website is *www.frequencyelectronics.com*.

In the mid-1990’s, the Company transformed itself from primarily a defense contract manufacturer into a high-tech provider of precision time and frequency products for commercial applications found in both ground-based communication stations and on-board satellites. The Company also continues to support the United States government with products for defense and space applications.

The Company is a world leader in the design, development and manufacture of high-technology frequency, timing and synchronization products for satellite and terrestrial voice, video and data telecommunications. The Company’s technologies provide unique solutions that are essential building blocks for the next generation of broadband wireless and for the ongoing expansion of existing wireless and wireline networks. The Company’s mission is to provide the most advanced control of frequency and time - essential factors for synchronizing communication networks and for providing reference frequencies for certain military, commercial and scientific, terrestrial and space applications.

The Company has identified the following major markets for its products and technology:

SATELLITE PAYLOADS

(1) Commercial communication satellites- The globe is encircled by over 120 geostationary satellites used for communication, TV and video broadcasting, and data transmission. These satellites are going through a replacement and augmentation cycle which will last for many years.

(2) Satellites for U.S. Government Department of Defense (“DOD”) and National Aeronautics and Space Administrations (“NASA”)- Such satellites, which may be in geostationary, mid- and low-earth orbits, are used for secure communications, surveillance, guidance, global positioning (GPS) and weather tracking.

Industry estimates predict approximately 20 additional and replacement satellites will be built each year over the next decade.

TELECOMMUNICATION NETWORKS

(3) Wireless communications- Cellular telephone infrastructure requires precise signal synchronization. In the architecture of many of the cellular systems, this synchronization is obtained through oscillators provided by the Company. As more services are added and more users come online, the need for synchronization is increased.

(4) WiMAX- The nascent Internet access technology is part of the wireless communications alternatives. The consortium of Motorola, Intel and Sprint, for example, are currently building WiMax networks in select cities in the United States as well as in other countries. For mobile WiMax, precise signal synchronization is provided by Frequency's oscillators.

(5) Wireline synchronization- World-wide, a vast infrastructure supports the wired communications networks. These networks also require significant synchronization equipment which is housed in thousands of Central Offices operated by the telephone companies. These equipments require upgrade and replacement to maintain the integrity of the wireline networks and inter-connectivity.

U.S. GOVERNMENT & DOD (non-space)

(6) U.S. Government applications- In addition to DOD and NASA satellites, the U.S. Government is in need of ever more secure communication capabilities and is developing a secure radio for all branches of the military. The military is also increasing its use of unmanned aerial vehicles (UAVs) and improving the accuracy of the radar and guidance systems on all moving platforms.

OTHER INDUSTRIAL APPLICATIONS

(7) Remote management of networks, such as power grids and gas lines, can be accomplished through the Company's LYNX SCADA system.

(8) Deep earth drilling for oil and gas in harsh environments can be done more efficiently through utilization of the Company's high temperature tolerant oscillators and GPS technology.

To address these markets, the Company has formed several corporate entities which operate under three reportable segments. (See also the section entitled REPORTABLE SEGMENTS below):

1. **FEI-NY** The Company's space and terrestrial commercial communications products are designed, developed and manufactured by its wholly owned subsidiary, FEI Communications, Inc. ("FEIC"). FEIC was incorporated in Delaware in December 1991, as a separate subsidiary company to provide ownership and management of assets and other services appropriate for commercial clients, both domestic and foreign.

Frequency Electronics, Inc. Asia ("FEI-Asia") was established in fiscal year 2002 to be the Company's Asian-based low cost manufacturer of certain commercial communications products used primarily in the wireless and wireline markets. FEI-Asia is located in the Free-Trade Zone in Tianjin, China.

The Company's subsidiary, FEI Government Systems, Inc. ("FEI-GSI"), was formed in fiscal year 2002 to focus on supplying the Company's technology and legacy proprietary products to the United States military and other U.S. Government agencies.

2. **Gillam-FEI** - The Company's Belgian subsidiary, acquired in September 2000, develops and manufactures products for wireline and network synchronization systems. Products delivered by Gillam-FEI provide essential network management and wireline synchronization for a variety of industries and telecommunications providers in Europe, Africa, the Middle East and Asia.

3. **FEI-Zyfer** - Precision time and frequency generation and synchronization products that incorporate global positioning systems ("GPS") technology are manufactured by the Company's subsidiary FEI-Zyfer, Inc. ("FEI-Zyfer"), which was acquired in fiscal year 2004. 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.

In addition to the operating segments, the Company has made a strategic investment in Morion, Inc. ("Morion"), a Russian crystal oscillator manufacturer located in St. Petersburg, Russia. The Company's equity investment in Morion permits the Company to secure a cost-effective source for high precision quartz resonators and crystal oscillators, many of which are based on the Company's design and development work. As of April 30, 2008, the Company owned 8.0% of the outstanding shares of Morion's common stock. Accordingly, the Morion investment is accounted for under the cost method.

In December 2006, the Company acquired a 25% interest (20% on a fully-diluted basis) in Elcom Technologies, Inc. ("Elcom"), a privately-held RF microwave company. Elcom designs and manufactures high switching speed, low phase noise microwave synthesizers, up-down converters, receivers, ceramic resonant oscillators and dielectric resonant oscillators up to 40 GHz. These instruments and components are critical for communication, surveillance, signal intelligence, automatic testing, satellite ground stations and satellite payloads. The Company accounts for its Elcom investment on the equity basis and the Company's statement of operations includes its proportionate share of Elcom's operating results.

FISCAL 2008 SIGNIFICANT EVENT

Sale of Morion shares

In June 2007, the Company reduced its investment in Morion from 36.6% to 8% of Morion's outstanding shares. Based upon a determination by the Russian Federation that Morion was in a "strategic industry," Gazprombank, a Russian government majority-owned joint stock bank, acquired the majority interest in Morion previously held by the European Bank for Reconstruction and Development and a portion of the shares previously held by Frequency Electronics, both at the same price per share. Gazprombank, through its wholly-owned subsidiary, Finproject, Ltd., paid the Company approximately $5.6 million. In the first quarter of fiscal year 2008, the Company recognized a pre-tax gain of approximately $3.0 million. This is in addition to approximately $2.0 million in equity income realized in prior periods from the Morion investment. In connection with the sale of the Morion stock and dilution in its ownership from 36.6% to 8%, effective June 2007, the Company changed its method of accounting for its investment in Morion from the equity basis to the cost basis.

REPORTABLE SEGMENTS

The Company operates under three reportable segments, primarily aligned with its geographical locations: (1) FEI-NY, (2) Gillam-FEI; and (3) FEI-Zyfer. Within each segment the Company designs, develops, manufactures and markets precision time and frequency control products for different markets as described below. The Company's Chief Executive Officer measures segment performance based on total revenues and profits generated by each geographic center rather than on the specific types of customers or end-users. Consequently, the Company determined that limiting the number of segments to the three indicated above appropriately reflects the way the Company's management views the business.

The Company reports its segment information on an essentially geographic basis. The FEI-NY segment, which operates out of the Company's New York headquarters facility 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 products for the FEI-NY segment are principally marketed to wireless communications networks, to the commercial and U.S. Government satellite markets and to other U.S. Department of Defense programs. The Gillam-FEI segment designs, develops and manufactures products for wireline and network synchronization. Its products are currently sold to non-U.S. customers and its US5G system has recently been introduced to the domestic U.S. market. The FEI-Zyfer segment designs and manufactures products which incorporate GPS technologies. FEI-Zyfer sells its products to both commercial and U.S. Government customers and collaborates with other FEI segments on joint product development activities.

During fiscal years 2008 and 2007 approximately 72% and 71%, respectively, of the Company's consolidated revenues were from products sold by the FEI-NY segment. Sales by Gillam-FEI were approximately 18% and 20% of fiscal years 2008 and 2007 consolidated revenues, respectively. In fiscal years 2008 and 2007, sales for the FEI-Zyfer segment were 14% and 13% of consolidated revenues, respectively. Additional sales information for the FEI-NY, Gillam-FEI, and FEI-Zyfer segments during each of the last five years is set forth in Item 6 (Selected Financial Data).

Consolidated revenues include sales to end-users in countries located outside of the United States. During fiscal years 2008 and 2007, foreign sales comprised 31% and 32%, respectively, of consolidated revenues. Segment information regarding revenues, including foreign sales, operating profits, depreciation and assets is more fully disclosed in Note 15 to the accompanying financial statements.

FEI-NY segment:

The Company provides precision time, frequency and synchronization products that are found in ground-based communication stations, on-board earth-orbiting satellites and imbedded in moving platforms operated by the U.S. military. The Company has made a substantial investment in research and development to apply its core technologies to telecommunication and satellite payload markets. Revenues for this segment have varied considerably over the past eight fiscal years, based on infrastructure spending patterns by wireless telecommunication companies and demand for new satellites. Over this eight-year time frame, the Company initially experienced accelerated growth in wireless infrastructure revenues followed by a “telecom trough” in fiscal years 2002 and 2003. Accelerated growth began again in late fiscal year 2004 and continued through early fiscal year 2005, to be followed by another slow down into the first two quarters of fiscal year 2006. Beginning in the latter portion of fiscal year 2006, revenues from satellite payloads, both for commercial and U.S. Government applications, began to accelerate. The Company expects to continue to generate substantial revenues from deployment of new and replacement satellites. The Company also believes that the wireless industry provides a large opportunity for future sales growth but the timing of any growth will be based on capital spending decisions by domestic and worldwide telecommunications companies.

Terrestrial Communications

The development of new and enhanced technologies will bring expanded and more reliable telecommunications services to the public. As digital cellular systems and PCS networks grow they require more base stations to meet the demand for better connectivity, higher data rates and dependable high quality for cell phone service. Cellular infrastructure integrators and original equipment manufacturers, consisting of some of the world's largest telecommunications companies, are building out existing networks even as they develop new technologies for future systems. These new technologies include advances such as EDGE (Enhanced Data rates for Global Evolution), 3G (3rd Generation) and others, that can provide not only improved voice connectivity but also Internet, video and data transmission. A full buildout of WiMAX networks in the United States alone, contemplates hundreds of thousands of base stations. Mobile WiMAX would require high levels of synchronization such as that provided by Frequency Electronics.

Wireless communication networks consist of numerous installations located throughout a service area, each with its own base station connected by wire or microwave radio through a network switch. Network operators are in the process of converting older networks from analog to digital technology and enhanced systems such as CDMA (Code Division Multiple Access). These upgrades require more precise frequency control at the base stations to achieve a higher dependability and quality of services.

With increased demand for wireless services on limited bandwidth, the requirement for precise timing to ensure system-wide synchronization becomes paramount. The Company manufactures a Rubidium Atomic Standard, a small, low cost, temperature-stable atomic "clock" as well as temperature-stable quartz crystal oscillators, which are ideally suited for use in advanced cellular communications base stations. Whether the network uses CDMA (Code Division Multiple Access), TDMA (Time Division Multiple Access), UMTS (Universal Mobile Telecommunications System) or GSM (Global System for Mobile Communications) or a hybrid of these systems, timing to ensure signal synchronization is essential.

Over the past five years, in conjunction with its European subsidiary, Gillam-FEI, the Company has developed a new, state-of-the-art signal synchronization unit identified as the US5G. This unit is intended to provide synchronization for wireline networks within the United States where approximately 35,000 "shelves" are located in 25,000 Central Offices around the country. The current equipment in these Central Offices is old and in need of upgrade or replacement. During fiscal year 2008, the Company's US5G unit completed the validation phase at two of the Regional Bell Operating Companies ("RBOC") and the Company recorded its first sales of this product in the United States. The Company expects to realize increasing sales of this product line during fiscal year 2009.

Satellite Payloads

The use of satellites launched for communications, navigation, weather forecasting, video and data transmissions has expanded the need to transmit increasing amounts of voice, video, and data to earth-based receivers. This requires more precise timing and frequency control at the satellite. The Company manufactures the master clocks (quartz, rubidium and cesium) and other significant timing products for many satellite communication systems, and many of the Company's other space assemblies are used onboard spacecraft for command, control and power distribution. Efficient and reliable DC-DC power converters are also manufactured for the Company's own instruments and as stand-alone products for space applications. The Company's oven-controlled quartz crystal oscillators are cost-effective precision clocks suited for high-end performance required in satellite transmissions, airborne telephony and geophysical survey positioning systems. Newly developed frequency generators, synthesizers, distribution amplifiers and up/down converters and receivers have augmented the Company's product offerings and positioned the Company to provide a greater share of a typical satellite's payload. Commercial satellite programs such as ICO, TerreStar, Intelsat, ANIK, Eutelsat, Inmarsat and Worldstar have utilized the Company's space-qualified products.

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In the years ahead, the U.S. Government's DOD will require more secure communication capabilities, more assets in space and greater bandwidth. The Global Positioning Satellite System, the MILSTAR Satellite System and the AEHF Satellite System, are examples of the programs in which the Company participates. The Company has manufactured the master clock for the Trident missile, the basic timing system for the Voyager I and Voyager II deep space exploratory missions and the quartz timing system for the Space Shuttle. The Company's product offerings for U.S. Government satellite programs are similar in design and function to those used on commercial satellites, as described above.

U.S. Government- non-space:

In addition to space-based programs, the Company's proprietary products have been used in airborne and ground-based guidance, navigation, communications, radar, sonar surveillance and electronic countermeasure and timing systems. The Company has recently developed a low-g (gravity) sensitivity oscillator which offers a 100-fold improvement in accuracy for certain guidance and targeting systems. The Company has demonstrated the functionality of its oscillators on over a dozen U.S. Government platforms and anticipates that many of these programs will be a source of substantial future revenue. Products are built in accordance with DOD standards and are in use on many of the United States' most sophisticated military aircraft, satellites and missiles.

The Company's sales on U.S. Government programs for both space and non-space applications, are generally made under fixed price contracts either directly with U.S. Government agencies or indirectly through subcontracts intended for government end-use. The price paid to the Company is not subject to adjustment by reason of the costs incurred by the Company in the performance of the contract, except for costs incurred due to contract changes ordered by the customer. These contracts are negotiated on terms under which the Company bears the risk of cost overruns and derives the benefit from cost savings.

Recently the Company has also received several cost plus fee contracts. Under these contracts, the Company may be able to recover all of its direct and indirect costs related to the programs plus a pre-determined fee. In the event of substantial cost overruns, the fee may be reduced.

Negotiations on U.S. Government contracts are sometimes based in part on Certificates of Current Costs. An inaccuracy in such certificates may entitle the government to an appropriate recovery. From time to time, the Defense Contracts Audit Agency ("DCAA") audits the Company's accounts with respect to these contracts. The Company is not aware of any basis for recovery with respect to past certificates.

All U.S. Government end-use contracts are subject to termination by the purchaser for the convenience of the U.S. Government and are subject to various other provisions for the protection of the U.S. Government. In the event of such termination, the Company is entitled to receive compensation as provided under such contracts and in the applicable U.S. Government regulations.

Gillam-FEI segment:

Gillam-FEI extends the Company's competencies into wireline synchronization, network management, and specialized test equipment. With the advent of new digital broadband transmission technologies, reliable synchronization has become the warranty to quality of service for telecommunications operators. Gillam-FEI is among the world leaders in the field of wireline synchronization technology, and its products are targeted for telecommunication operators and network equipment manufacturers that utilize modular and flexible platforms to build reliable digital-network-systems worldwide. Telecommunications operators such as Belgacom, France Telecom, Telefonica and other service providers are among Gillam-FEI's major customers. With the development of the US5G unit for the FEI-NY segment and the U.S. market, Gillam-FEI also developed a state-of-the-art US5Ge unit and ancillary products intended for deployment in the European, Middle Eastern, Asian and African markets.

Network management systems marketed under the brand name LYNX, are a flexible suite of complementary software modules that are arranged to satisfy the specific needs of telecom operators, electrical utilities, and other operators of distribution networks. The multi-task capability of the LYNX system allows operators to supervise and manage the distribution of electricity, gas, video cables, public lighting, and other networks. Deregulation of utilities, especially in Europe, has created a greater demand for the LYNX product. Major customers presently using LYNX include SIG Electrical Services of Geneva, Switzerland; Electricity Distribution Management for the city of Lausanne, Switzerland; UEM Electricity Distribution Management for the city of Metz, France; Brussels International Airport and Belgian Railways.

Gillam-FEI's specialized test equipment is mainly targeted for the telecommunications industry.

FEI-Zyfer segment:

FEI-Zyfer designs, develops and manufactures products for precision time and frequency generation and synchronization, primarily incorporating GPS technology. FEI-Zyfer's products make use of both "in-the-clear" civil and "crypto-secured" military signals from GPS. In most cases, FEI-Zyfer's products are integrated into communications systems, computer networks, test equipment, and military command and control terminals for ground and satellite link applications. More than 60% of revenues are derived from sales where the end user is the U.S. Government. FEI-Zyfer's products are an important extension of FEI's core product line, specifically in the area of GPS capabilities.

PRODUCTS

The Company's products are manufactured from raw material which, when combined with conventional electronic parts available from multiple sources, become finished products used for commercial wireless and wireline communications, satellite applications, space exploration, position location, radar, sonar and electronic counter-measures. These products are employed in ground-based earth stations, fixed, transportable, portable and mobile communications installations, domestic and international satellites, as well as aircraft, ships, submarines and missiles. The Company's products are marketed as components, instruments, or complete systems. Prices are determined based upon the complexity, design requirement, purchased quantity and delivery schedule.

Components - The Company's key technologies utilize quartz, rubidium and cesium to manufacture precision time and frequency standards and higher level assemblies which allow the users to generate, transmit, and receive synchronous signals in order to communicate effectively, locate position accurately, secure a communications system, or guide a missile. The components class of the Company's products includes crystal filters and discriminators, surface acoustic wave resonators, and high-reliability thick and thin film hybrid assemblies for space and other applications.

Precision quartz oscillators use quartz resonators in conjunction with electronic circuitry to produce signals with accurate and stable frequency. The Company's products include several types of quartz oscillators, suited to a wide range of applications, including ultrastable and low-g sensitivity units for moving platforms and satellite systems. These products also feature fast warm-up and low power consumption for mobile applications, including voice and data communications.

The ovenized quartz oscillator is the most accurate of the Company's crystal oscillators. The crystal is enclosed in a temperature controlled environment called a proportional oven. The Company manufactures several varieties of temperature controlling devices and ovens.

The voltage-controlled quartz oscillator features electronic controls for frequency stabilization or modulation, depending upon the application.

The temperature compensated quartz oscillator is controlled using a temperature sensitive device to directly compensate for the effect of temperature on the oscillator's frequency.

The rubidium lamp, filter and resonance cell provide the optical subassembly for the manufacture of the Company's optically pumped atomic rubidium frequency standards. The cesium tube resonator is used in the manufacture of the Company's cesium primary standard atomic clocks.

High reliability hybrid assemblies are manufactured in thick and thin film technologies for applications from DC to 44 GHz. These hybrids are used in manufacturing the Company's products and also supplied directly to customers, for use in space and other high reliability systems.

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Efficient and reliable DC-DC power converters are manufactured for the Company's own instruments and as stand alone products, for space applications.

The Company manufactures filters and discriminators using its crystal resonators for its own radio-frequency and microwave receiver, signal conditioner and signal processor products.

Instruments - The Company's instrument line consists of three basic time and frequency generating instruments and a number of instruments which test and distribute the time and frequency. The Company's time and frequency generating instruments are the quartz frequency standard, rubidium atomic standard and cesium beam atomic standard.

The quartz frequency standard is an electronically controlled solid-state device which utilizes a quartz crystal oscillator to produce a highly stable output signal at a standardized frequency. These frequency standards are used in communications, guidance and navigation and time synchronization systems. The Company's products also include a precision frequency standard with battery back-up and memory capability enabling it to remain in operation if a loss of power has occurred.

The optically pumped atomic rubidium frequency standard is a solid-state instrument which provides both timing and low phase noise frequency references used in commercial communications systems. Rubidium oscillators combine sophisticated glassware, light detection devices and electronics packages to generate a highly stable frequency output. Rubidium, when energized by a specific radio frequency, will absorb less light. The oscillator’s electronics package generates this specific frequency and the light detection device ensures, through monitoring the decreased absorption of light by the rubidium and the use of feedback control loops, that this specific frequency is maintained. This highly stable frequency is then captured by the electronics package and generated as an output signal. Rubidium oscillators provide atomic oscillator stability, at lower costs and in smaller packages.

The cesium beam atomic standard utilizes the atomic resonance characteristics of cesium atoms to generate precise frequency several orders of magnitude more accurate and stable than other types of quartz frequency generators. The Company’s atomic standard is a compact, militarized solid-state device which generates these precision frequencies for use with advanced communications and navigation equipment. A digital time-of-day clock is incorporated which provides visual universal time display and digital timing for systems use. The atomic standard manufactured by the Company is a primary standard, capable of producing time accuracies of better than one second in several hundred thousand years.

As the demands on communications systems increase, the requirement for precise frequency signals to drive a multitude of electronic equipment is greatly expanded. To meet this growing requirement, the Company manufactures a distribution amplifier which is an electronically controlled solid-state device that receives a base frequency from a frequency standard and provides multiple signal outputs of the input frequency. A distribution amplifier enables many items of electronic equipment in a single facility, aircraft or ship to receive a standardized frequency and/or time signal from a quartz, rubidium or cesium atomic standard.

Systems - The systems portion of the Company's business includes manufacturing and integrating selections of its specialized components into higher level subsystems and systems that meet customer-defined needs. The Company has a unique knowledge and demonstrated capability to interface these technologies and experience in applying them to a wide range of systems. The systems generate electronic frequencies of predetermined value and then divide, multiply, mix, convert, modulate, demodulate, filter, distribute, combine, separate, switch, measure, analyze, and/or compare these signals depending on the system application.

This portion of the Company’s business includes a complete line of time and frequency control systems, capable of generating many frequencies and time scales that may be distributed to widely dispersed users, or within the confines

of a facility or platform, or for a single dedicated purpose. Time and frequency control systems combine the Company's cesium, rubidium and/or crystal instruments with its other components, to provide systems for wireless, wireline, space and defense applications.

For the wireless industry, the Company integrates its core components such as quartz oscillators and rubidium atomic standards with software applications, microprocessors, and other digital circuitry into complete subsystems. These subsystems supply frequency and time reference signals that facilitate wireless communications and are necessary for the various wireless technologies to operate properly. The customers for these subsystems are global wireless infrastructure manufacturers.

For the wireline industry, the Company integrates its core components with other electronic modules into high-level platforms that provide a total synchronization solution. These signal synchronization units ("SSUs") are designed and manufactured by Gillam-FEI. SSUs are inserted into digital telecommunication networks and provide reliable synchronization for proper operation of the network. The systems are primarily sold to telecommunication operators and vary from a few SSUs for a simple network to hundreds of units for complex networks. For operators of distribution networks such as electrical utilities and telecommunications operators, the Company offers the LYNX system—a flexible suite of complementary software modules that are distinctively combined to satisfy the requirements of the users. With the advent of digital broadband transmission technologies, reliable synchronization has become the Quality of Service for telecommunications operators world-wide.

For the space and defense sectors the Company combines its core products in a wide range of diverse applications that provide systems for space and ground based communications, space exploration, satellite tracking stations, satellite-based navigation and position location, secure communication, submarine and ship navigation, calibration, and electronic counter-measures applications. These time and frequency control systems can provide up to quadruple redundancy to assure operational longevity and dependability. The past experience of major contactors in these sectors has led satellite integrators to outsource increasing amounts of these systems to highly qualified producers who have validated their capabilities through extensive successful participation in past defense and space programs. Historically, the Company ranks among the top producers in this category.

The Company's subsidiary, FEI-Zyfer, manufactures products incorporating GPS technology by utilizing GPS signals to provide required performance in conjunction with precision time and frequency information. These systems and subsystems are used in secure government programs such as SAASM (Selective Acquisition Anti-spoofing Module) and commercial communications and other applications.

The GPS expertise of FEI-Zyfer has been joined with the technological capabilities and experience of the FEI-NY segment in building crystal oscillators for harsh environments, to jointly develop a new system to be utilized to enhance seismic data in deep earth and other exploratory drilling for natural resources.

BACKLOG

As of April 30, 2008, the Company's consolidated backlog amounted to approximately $39 million (see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations). Approximately 80% of this backlog is expected to be filled during the Company's fiscal year ending April 30, 2009. Included in the backlog at April 30, 2008 is approximately $7 million under cost plus fee contracts which the Company believes represent firm commitments from its customers for which the Company has not received full funding to date. The backlog is subject to change by reason of several factors 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.

CUSTOMERS AND SUPPLIERS

The Company markets its products both directly and through approximately 50 independent sales representative organizations located in the United States, Europe and Asia. Sales to non-U.S. customers, including the revenues of its overseas subsidiaries, totaled approximately 31% and 32%, of net sales in fiscal years 2008 and 2007, respectively.

The Company's products are sold to both commercial and governmental customers. For the years ended April 30, 2008 and 2007, approximately 27% and 24%, respectively, of the Company's sales were made under contracts to the U.S. Government or subcontracts for U.S. Government end-use.

The Company's consolidated sales for the year ended April 30, 2008 included sales to Boeing Corporation ("Boeing"), Motorola Corp. ("Motorola"), and Space Systems/Loral ("SS/L"), each of which accounted for greater than 10% of consolidated sales. In the aggregate, for fiscal year 2008 these three customers accounted for 37% of consolidated sales and 52% of the revenues of the Company's FEI-NY segment. In fiscal year 2007, revenues from Motorola, SS/L and Alcatel-Lucent ("Lucent") each accounted for greater than 10% of consolidated sales, aggregating approximately 43% of consolidated sales and 61% of the revenues of the FEI-NY segment.

During fiscal years 2008 and 2007, France Telecom and Belgacom were major customers of the Gillam-FEI segment. These European telecommunication companies accounted for an aggregate of 39% and 35%, respectively, of the segment's revenues in those fiscal years.

In the FEI-Zyfer segment, in fiscal year 2008, the Orange County Sheriff's Department accounted for 12% of the segment's revenue and during fiscal year 2007, Computer Sciences Corporation and SI International accounted for an aggregate of 21% of the segment's revenues.

None of the customers in the Gillam-FEI or FEI-Zyfer segments accounted for more than 10% of consolidated revenues.

The loss by the Company of any one of these customers would have a material adverse effect on the Company's business. The Company believes its relationship with these companies to be mutually satisfactory and is not aware of any prospect for the cancellation or significant reduction of any of its commercial or existing U.S. Government contracts.

The Company purchases a variety of components such as transistors, resistors, capacitors, connectors and diodes for use in the manufacture of its products. The Company is not dependent upon any one supplier or source of supply for any of its component part purchases and maintains alternative sources of supply for all of its purchased components. The Company has found its suppliers generally to be reliable and price-competitive.

RESEARCH AND DEVELOPMENT

The Company's technological expertise continues to be an important factor to support future growth in revenues and earnings. The Company has focused its internal research and development efforts on improving the core physics and electronic packages in its time and frequency products, conducting research to develop new time and frequency technologies, improving product manufacturability by seeking to reduce its production costs through product redesign and process improvements and other measures to take advantage of lower cost components.

The Company continues to focus a significant portion of its own resources and efforts on developing hardware for satellite (commercial and U.S. Government) and terrestrial commercial communications systems, including wireless, wireline and GPS-related systems. During fiscal years 2008 and 2007, the Company expended $7.1 million and $9.4 million of its own funds, respectively, on such research and development activity. (See also Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.) For fiscal year 2009, the Company is targeting to spend between $5.0 million and $7.0 million on research and development in similar areas. The actual amount spent in fiscal year 2009 will depend on market conditions and identification of new opportunities.

PATENTS AND LICENSES

The Company believes that its business is generally not dependent on patent or license protection. Rather, it is primarily dependent upon the Company's technical competence, the quality of its products and its prompt and responsible contract performance. However, employees working for the Company assign all rights to inventions to the Company and the Company presently holds such patents and licenses. In certain limited circumstances, the U.S. Government may use or permit the use by the Company's competitors of certain patents or licenses the government has funded. During fiscal year 2003, the Company received a broad and significant patent for new, proprietary quartz oscillator technology which the Company intends to exploit in both legacy and new applications. In 2006, the Company obtained a basic patent for its low-g technology.

COMPETITION

The Company experiences competition in all areas of its business. The Company competes primarily on the basis of the accuracy, performance and reliability of its products, the ability of its products to function under severe conditions, such as in space or other extreme hostile environments, prompt and responsive contract performance, technical competence and price. The Company has a unique and broad product line which includes all three frequency standards - quartz, rubidium, and cesium. Because of the very high precision of certain of its products, the Company has few competitors. For lower precision components there is significant competition from a number of suppliers.

In recent years, the Company has successfully outsourced certain component manufacturing processes to third parties and more recently to its wholly-owned subsidiary, FEI-Asia in Tianjin, China and to Russian-based Morion, Inc., in which the Company is a minority shareholder. The Company expects this outsourcing to enhance its competitive position on cost while maintaining its high quality standards. The Company believes its ability to obtain raw materials, manufacture finished products, integrate them into systems and sub-systems and interface these systems with end-user applications provides a strong competitive advantage.

Certain of the Company's competitors are larger, have greater financial resources and have larger research and development and marketing staffs. The Company has a strong history of competing successfully in this environment due to the quality, reliability and outstanding record of performance its products have achieved.

With respect to its instruments and systems for timing and synchronization, the Company competes with Agilent Technologies, Symmetricom, Inc, E. G. and G., Inc., Vectron, Inc. and others. Systems for the wireline industry produced by the Gillam-FEI segment compete with Symmetricom, Inc. and Oscilloquartz, a division of Swatch. The Company’s principal competition for space products is the in-house capability of its major customers.

EMPLOYEES

The Company employs approximately 500 full-time persons worldwide. None of the U.S. employees are represented by labor unions, while in Europe approximately five employees in one facility are represented by a French labor union.

OTHER ASPECTS

The Company's business is not seasonal although it expects to experience some fluctuation in revenues during the second fiscal quarter as a result of extended holiday periods in August. No unusual working capital requirements exist.

EXECUTIVE OFFICERS OF THE COMPANY

The executive officers hold office until the annual meeting of the Board of Directors following the annual meeting of stockholders, subject to earlier removal by the Board of Directors.

The names of all executive officers of the Company and all positions and offices with the Company which they presently hold are as follows:

Joseph P. Franklin	-	Chairman of the Board of Directors
Martin B. Bloch	-	President, Chief Executive Officer and Director
Markus Hechler	-	Executive Vice President, President of FEI Government Systems, Inc. and Assistant Secretary
Steven Strang	-	President, FEI-Zyfer
Charles S. Stone	-	Vice President, Low Noise Development
Leonard Martire	-	Vice President, Program Management
Oleandro Mancini	-	Vice President, Business Development
Thomas McClelland	-	Vice President, Commercial Products
Adrian Lalicata	-	Vice President, RF & Microwave Systems
Alan Miller	-	Treasurer and Chief Financial Officer
Harry Newman	-	Secretary

None of the officers and directors is related.

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Joseph P. Franklin, age 74, has served as a Director of the Company since March 1990. In December 1993 he was elected Chairman of the Board of Directors. He also served as Chief Executive Officer from December 1993 through October 1998 and as Chief Financial Officer from September 1996 through October 1998. From August 1987 to November 1993, he was the Chief Executive Officer of Franklin S.A., a Spanish business consulting company located in Madrid, Spain, specializing in joint ventures, and was a director of several prominent Spanish companies. General Franklin was a Major General in the United States Army until he retired in July 1987.

Martin B. Bloch, age 72, has been a Director of the Company and of its predecessor since 1961. Mr. Bloch is the Company's President and Chief Executive Officer and has held such positions since inception of the Company, except for the period from December 1993 through October 1998 when General Franklin held the CEO position. Previous to forming the Company, Mr. Bloch served as chief electronics engineer of the Electronics Division of Bulova Watch Company.

Markus Hechler, age 62, joined the Company in 1967. He was elected to the position of Executive Vice President in February 1999, prior to which he served as Vice President, Manufacturing since 1982. In October 2001, he was named President of the Company's subsidiary, FEI Government Systems, Inc. He has served as Assistant Secretary since 1978.

Steven Strang, age 44, was named President of FEI-Zyfer, Inc., effective May 1, 2005. Previously, Mr. Strang was Executive Vice President of this subsidiary and its predecessor companies where he has served for 17 years in various technical and management positions.

Charles S. Stone, age 77, joined the Company in 1984, and has served as its Vice President since that time. Prior to joining the Company, Mr. Stone served as Senior Vice President of Austron Inc., from 1966 to 1979, and Senior Scientist of Tracor Inc., from 1962 to 1966.

Leonard Martire, age 71, joined the Company in August 1987 and served as Executive Vice President of FEI Microwave, Inc., the Company's wholly-owned subsidiary, until May 1993 when he was elected Vice President, Marketing and Sales. In fiscal year 2007, Mr. Martire assumed a new role as Vice President Program Management.

Oleandro Mancini, age 59, joined the Company in August 2000 as Vice President, Business Development. Prior to joining the Company, Mr. Mancini served from 1998 as Vice President, Sales and Marketing at Satellite Transmission Systems, Inc. and from 1995 to 1998 as Vice President, Business Development at Cardion, Inc., a Siemens A.G. company. From 1987 to 1995, he held the position of Vice President, Engineering at Cardion, Inc.

Thomas McClelland, age 53, joined the Company as an engineer in 1984 and was elected Vice President, Commercial Products in March 1999.

Adrian Lalicata, age 61, joined the Company in 2006 as Vice President, RF & Microwave Systems. Prior to joining the Company, Mr. Lalicata served as Vice President of Engineering at Herley-CTI and Communication Techniques, a Dover Company. Mr Lalicata has served as Director of Engineering at Microphase Corp. and Adcomm, Inc. He also held leading engineering positions at Loral Electronic Systems, Cardion Electronics, and Airborne Instruments Laboratories.

Alan Miller, age 59, joined the Company in November 1995 as its corporate controller and was elected to the position of Treasurer and Chief Financial Officer in October 1998. Prior to joining the Company, Mr. Miller served as an operations manager and a consultant to small businesses from 1992 through 1995 and as a Senior Audit Manager with Ernst & Young, L.L.P. from 1980 to 1991.

Harry Newman, age 61, Secretary, has been employed by the Company since 1979, prior to which he served as Divisional Controller of Jonathan Logan, Inc., apparel manufacturers, from 1976 to 1979, and as supervising Senior Accountant with Clarence Rainess and Co., Certified Public Accountants, from 1971 to 1975.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The Company operates out of several facilities located around the world. Each facility is used for manufacturing its products and for administrative activities. The following table presents the location, size and terms of ownership/occupation:

Location	Size (sq. ft.)	Own or Lease
Long Island, NY	93,000	Lease
Garden Grove, CA	27,850	Lease
Liege, Belgium	34,000	Own
Chalon Sur Saone, France	5,000	Lease
Tianjin, China	27,000	Lease

The Company's facility located in Mitchel Field, Long Island, New York, is part of the building that the Company constructed in 1981 and expanded in 1988 on land leased from Nassau County. In January 1998, the Company sold this building and the related land lease to Reckson Associates Realty Corp. ("Reckson"), leasing back the space that it presently occupies.

The Company leases its manufacturing and office space from Reckson under an initial 11-year lease at an annual rental of $400,000 per year with the Company paying its pro rata share of real estate taxes along with the costs of utilities and insurance. During fiscal year 2008, the Company notified Reckson that it would renew the lease for the first 5-year renewal period beginning January 2009 at an annual rental of $600,000. The lease will end in January 2014 unless the Company exercises its option to continue the lease for a second 5-year renewal period with annual rental of $800,000. The leased space is adequate to meet the Company's domestic operational needs which encompass the principal operations of the FEI-NY segment and also serves as the Company's world-wide corporate headquarters.

The sale of its building to Reckson, a real estate investment trust ("REIT") whose shares were then traded on the New York Stock Exchange, was effected through a tax-deferred exchange of the building for approximately 513,000 participation units of Reckson Operating Partnership, L.P. ("REIT units") which were valued at closing at $12 million. In March 2005, the Company exercised its option to convert all of the REIT units into 513,000 shares of the REIT. Upon conversion of the REIT units, the Company recognized a gain of $4.6 million and deferred an additional $1.3 million gain. The deferred gain will be recognized into income over the remaining term of the initial leaseback period which ends in January 2009. (See Note 6 to the accompanying financial statements.)

When the Company completed the acquisition of Gillam-FEI it also acquired the property located in Liege, Belgium as well as a manufacturing facility in France. The French facility was subsequently sold and the France sales office is now housed in a leased facility in Chalon Sur Saone, France. These facilities are adequate to meet the present and future operational requirements of Gillam-FEI.

The Tianjin, China facility is the location of the Company's wholly-owned subsidiary, FEI-Asia. In late fiscal year 2005, the subsidiary acquired additional leased space within a manufacturing facility located in the Tianjin Free-Trade Zone. The lease is renewable annually with rent of $15,000 payable quarterly. The new facility is adequate for the near-term manufacturing expectations for the Company.

The Garden Grove, California facility is leased by the Company's subsidiary, FEI-Zyfer, Inc. The facility consists of a combination office and manufacturing space. The lease, which expires in August 2017, currently requires monthly payments of $24,500 and will increase each year over the remaining 113 months of the lease term.

Item 3. Legal Proceedings

From time to time, the Company is a defendant in litigation arising out of the ordinary course of business. The Company is not a party to any material, pending legal proceeding other than routine litigation incidental to its business.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were required to be submitted by Registrant to a vote of security holders during the fourth quarter of fiscal year 2008.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Effective August 1, 2006, the Common Stock of the Company was listed on The Nasdaq Global Market ("NASDAQ") under the ticker symbol "FEIM." Prior to that date, the Company's shares were traded on the American Stock Exchange under the symbol "FEI".

The following table shows the high and low sale price for the Company's Common Stock for the quarters indicated, as reported by the American Stock Exchange through July 31, 2006 and on the NASDAQ from August 1, 2006 through April 30, 2008.

FISCAL QUARTER	HIGH SALE	LOW SALE
2008–		
FIRST QUARTER	$ 11.66	$ 9.75
SECOND QUARTER	11.49	9.61
THIRD QUARTER	10.35	8.46
FOURTH QUARTER	9.23	6.50
2007 –		
FIRST QUARTER	$ 15.00	$ 11.20
SECOND QUARTER	14.00	10.04
THIRD QUARTER	13.60	11.01
FOURTH QUARTER	12.47	9.86

As of July 25, 2008, the approximate number of holders of record of common stock was 600. The closing share price of the Company's stock on April 30, 2008 was $6.63. The closing share price of the Company's stock on July 25, 2008 was $6.01.

DIVIDEND POLICY

In 1997, the Company initiated a policy of paying a cash dividend to stockholders of record as of April 30 and October 31 of each year subject to prevailing financial conditions. The Board of Directors determines dividend amounts prior to each declaration. In fiscal year 2007, the Company declared semi-annual cash dividends of $0.10 per share of common stock to shareholders. For fiscal year 2008, the Company declared a dividend of $0.10 per share of common stock to shareholders of record as of October 31, 2007 and payable on December 1, 2007. In March 2008, in the context of extraordinary uncertainties in credit and capital markets and the importance of preserving capital, the Board determined that no cash dividend would be paid in June 2008. The Board of Directors indicated it would review dividend policy at subsequent meetings.

STOCK BUYBACK PROGRAM

In March 2005, the Company's Board of Directors authorized a stock repurchase program for up to $5 million of the Company's outstanding common stock. Shares may be purchased in open market purchases, private transactions or

otherwise at such times and from time to time, and at such prices and in such amounts as the Company believes appropriate and in the best interests of its shareholders. The timing and volume of repurchases will vary depending on market conditions and other factors. Purchases may be commenced or suspended at any time without notice. During fiscal year 2008, the Company repurchased 32,312 shares under the buyback program, paying an average of $9.63 per share or an aggregate amount of approximately $311,000. No shares were repurchased during fiscal year 2007. The Company anticipates that it will repurchase more shares under the buyback program in fiscal year 2009 than it repurchased in fiscal year 2008.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of Securities to be Issued upon exercise of Outstanding Options Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options Warrants and Rights (b)	Number of Securities Remaining available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity Compensation Plans Approved by Security Holders	856,775	$ 10.17	1,625
Equity Compensation Plans Not Approved by Security Holders	632,800	$ 12.82	-
TOTAL	1,489,575	$ 11.30	1,625

Item 6. Selected Financial Data

The following table sets forth selected financial data including net sales and operating profit (loss) for the five-year period ended April 30, 2008. The information has been derived from the audited financial statements of the Company for the respective periods.

CONSOLIDATED STATEMENTS OF OPERATIONS DATA

	Years Ended April 30,				
	2008	2007	2006	2005	2004
	(in thousands, except share and dividend data)				
Net Sales					
FEI-NY	$ 46,258	$ 40,184	$ 35,801	$ 37,067	$ 35,288
Gillam-FEI (1)	11,459	11,382	9,170	12,599	12,197
FEI-Zyfer	9,089	7,542	10,055	8,803	6,560
less intersegment sales (1)	(2,409)	(2,902)	(2,216)	(3,296)	(3,939)
Total Net Sales	$ 64,397	$ 56,206	$ 52,810	$ 55,173	$ 50,106
Operating (Loss) Profit	$ (2,578)	$ (3,721)	$ 1,710	$ (1,269)	$ (1,646)
Net Income (Loss)	$ 887(2)	$ (257)	$ 4,798(3)	$ 5,037(4)	$ 320(5,6)
Average Common Shares Outstanding					
Basic	8,710,260	8,620,776	8,537,427	8,484,682	8,374,399
Diluted	8,778,059	8,620,776	8,690,617	8,684,758	8,542,575
Earnings (Loss) per Common Share					
Basic	$ 0.10	$ (0.03)	$ 0.56	$ 0.59	$ 0.04(6)
Diluted	$ 0.10	$ (0.03)	$ 0.55	$ 0.58	$ 0.04(6)
CONSOLIDATED BALANCE SHEET DATA					
Total Assets	$ 96,920	$ 93,826	$ 86,741	$ 88,374	$ 92,867(7)
Long-Term Obligations and Deferred Items	$ 11,233	$ 9,311	$ 9,120	$ 9,337	$ 17,609
Cash dividend declared per common share	$ 0.10	$ 0.20	$ 0.20	$ 0.20	$ 0.20

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Notes to Selected Financial Data

(1) Includes intercompany sales to FEI-NY segment of $0.2 million, $0.5 million, $0.9 million, $2.4 million and $3.5 million in fiscal years 2008, 2007, 2006, 2005 and 2004, respectively, for development of US5G product.
(2) Includes $3.0 million from gain on the sale of 28.6% interest in Morion Inc.
(3) Includes $2.1 million from gain on the sale of REIT common shares and $680,000 from gain on the sale of a European subsidiary's former manufacturing facility.
(4) Includes $6.9 million from gain on conversion of REIT units into REIT common shares and subsequent sale of a portion of the REIT common shares.
(5) Includes $400,000 reversal of tax liabilities established in prior years.
(6) Includes $158,000 for restatement of equity income from Morion, Inc. in fiscal years 2004 which also increased fiscal year 2004 Earnings per Common Share by $0.02 from the amount reported before restatement.
(7) Total assets are restated by $207,000 for fiscal year 2004 from amounts reported in prior fiscal years to reflect the Company's equity interest in Morion, Inc.

Item 7. 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 Annual Report on Form 10-K 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, 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 the outcome of any litigation and arbitration proceedings. 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. 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 reasonable 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.

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 estimating additional costs to complete 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. (See Significant Events below)

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 customer orders 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 other business segments, 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 reserves are established for slow-moving and obsolete items and are based upon management's experience and expectations for future business. Any changes in reserves arising from revised expectations are reflected in cost of sales in the period the revision is made.

RESULTS OF OPERATIONS

The table below sets forth for the fiscal years ended April 30 the percentage of consolidated net sales represented by certain items in the Company's consolidated statements of operations:

	2008	2007
Net Sales		
FEI-NY	71.8%	71.5%
Gillam-FEI	17.8	20.3
FEI-Zyfer	14.1	13.4
Less intersegment sales	(3.7)	(5.2)
	100.0	100.0
Cost of Sales	72.6	69.6
Gross Margin	27.4	30.4
Selling and Administrative expenses	20.4	20.2
Research and Development expenses	11.0	16.8
Operating Loss	(4.0)	(6.6)
Other Income, net	6.3	3.4
Provision (Benefit) for Income Taxes	0.9	(2.8)
Net Income (Loss)	1.4%	(0.4)%

Significant Events

Operating results for fiscal year 2008 were impacted by activities on several major satellite payload programs. Revenues from space-related programs increased by over 40% from fiscal year 2007 but higher than anticipated engineering and manufacturing costs as a result of testing failures encountered in the fourth quarter resulted in lower

gross margin on certain contracts. As a resresult, during the course of the Company's year end closing process, management determined that the original estimate of expected costs to complete certain contracts as of April 30, 2008 were inadequate and had to be increased. Such estimate revisions resulted in a reduction of revenues reported in the statement of operations for the year ended April 30, 2008 and the recording of additional losses on certain contracts in the fourth quarter. As a result, the Company recorded an operating loss and negative operating cash flow for the year ended April 30, 2008.

The Company's management constantly monitors its estimates and intends to continually enhance its estimation process to enable the Company to react more quickly to changing estimates and to reflect such changes in the applicable contracts and in the Company's financial statements.

During the first quarter of fiscal year 2008, the Company completed the sale of 28.6% of the outstanding shares of Morion, reducing its investment in Morion from 36.6% to 8% of Morion's outstanding shares. The Company received approximately $5.6 million from the sale and recognized a pre-tax gain of approximately $3.0 million.

Net Sales

	Years ended April 30, (in millions)			
	2008	2007	Change	
FEI-NY	$ 46.3	$ 40.2	$ 6.1	15%
Gillam-FEI	11.4	11.4	0.0	0%
FEI-Zyfer	9.1	7.5	1.6	21%
Intersegment sales	(2.4)	(2.9)	0.5	
	$ 64.4	$ 56.2	$ 8.2	15%

For the year ended April 30, 2008, the 15% revenue increase in the FEI-NY segment and the 21% increase in the FEI-Zyfer segment were derived from two primary market areas: satellite payloads (both commercial and U.S. Government programs) and other U.S. Government, non-space programs. Revenues from these sources each increased by over 40% from year ago levels. Satellite payload programs are managed by the FEI-NY segment and both FEI-NY and FEI-Zyfer provide products to non-space U.S. Government programs. Telecommunication network revenues, generated by all three segments, was lower by less than 10% from the fiscal year 2007 levels as customer demand softened. Gillam-FEI revenues also benefited from the increased value of the Euro compared to the U.S. dollar. In Euro-denominated terms and excluding intersegment sales, Gillam-FEI fiscal year 2008 revenues declined by 4% from the prior year.

For the year ended April 30, 2007, revenue in the FEI-NY segment increased by 12% over the prior year. Wireless telecommunications-related revenues, revenues from satellite payloads for commercial and U.S. Government programs, other U.S. Government, non-space programs and other commercial revenues all increased as compared to the prior fiscal year. Gillam-FEI revenues in fiscal 2007 (exclusive of intercompany sales of $1.8 million related to increased inventory for and development efforts expended on the new wireline synchronization product line) increased by 17%. Approximately one-fourth of the sales increase is attributable to the increased value of the Euro compared to the U.S. dollar. Revenues for the FEI-Zyfer segment during fiscal year 2007 declined by $2.5 million as many orders were delayed compared to expectations.

During fiscal year 2009, based on current backlog and significant bookings subsequent to the end of fiscal year 2008, the Company expects to realize significant revenues from commercial and U.S. Government satellite programs. In addition, the Company's recent work on U.S. Government-sponsored development contracts and current proposal activity should generate increased revenues from U.S. Government programs such as secure radios, unmanned aerial vehicles, weapons guidance systems and secure communications. The timing and magnitude of revenues from these sources is dependent on the U.S. Government's procurement and budgeting process. Increased U.S. Government spending during fiscal year 2009 is expected to benefit the Company's FEI-NY and FEI-Zyfer segment. In addition, in late fiscal year 2008, the Company began booking orders for its new, state-of-the-art wireline synchronization systems. The Company expects to see increased bookings and revenues in fiscal year 2009 which would benefit both the FEI-NY and Gillam-FEI segments.

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Gross Margin Rates

	Years ended April 30, (in thousands)			
	2008	2007	Change	
	$ 17,662	$ 17,076	$ 586	3%
GM Rate	27.4%	30.4%		

For the year ended April 30, 2008, total gross margin increased as a result of the 15% increase in revenues but declined as a percentage of revenues. The rate decrease is primarily the result of higher than anticipated engineering and manufacturing costs on certain satellite payload programs. Throughout fiscal year 2008, the Company's satellite-payload business continued to reconfigure its manufacturing processes to provide increased production capacity for the higher demand for space-related assemblies. Late in the year, the Company also experienced higher than expected costs on two late-stage programs in final assembly and test of flight hardware. These expenses not only increased cost of sales but also delayed the recognition of revenue on the contracts, which are accounted for on the percentage of completion method, further reducing gross margins. The two late-stage programs are expected to be completed in the first few months of fiscal 2009. The gross margin rates in the telecommunications and non-space U.S. Government business areas met the Company's targets for these areas which range from 35% to 45%.

For the year ended April 30, 2007, gross margin declined both in total and as a percentage of revenues as compared to the prior year. This is primarily the result of higher than anticipated engineering costs on certain satellite payload programs. The Company encountered a significant learning curve in its efforts to increase its production capacity of certain space-related assemblies by a factor of 10. During fiscal year 2007, substantial resources were expended in late-stage assembly and testing of the Company's products to meet the specific requirements of two long-term contracts. This process also delayed the completion of these contracts which occurred in early fiscal year 2008.

The Company's target is to achieve an overall gross margin rate of 40% or better through greater sales volume, continued process improvements, better performance on long-term contracts and utilization of lower cost manufacturing in China. During fiscal year 2009, as the more challenging satellite programs are completed and are replaced by substantial cost-plus programs, the Company expects to realize increasing gross margin rates approaching its targeted rate.

Selling and Administrative expenses

Years ended April 30, (in thousands)			
2008	2007	Change	
$ 13,139	$ 11,359	$ 1,780	16%

Fiscal year 2008 selling and administrative costs increased over fiscal year 2007 principally from higher medical expenses, normal salary increases, higher deferred compensation expense, increased marketing expenses for new products and the cost of moving the Company's California facility to larger leased space and the related increased rent expense. Also, in euro-denominated terms, selling and administrative expenses at Gillam-FEI were comparable to the prior year but when denominated in U.S. dollars, increased by 10% in fiscal year 2008 due to the declining value of the dollar. For the years ended April 30, 2008 and 2007, selling and administrative expenses include stock compensation expense of $236,400 and $274,000, respectively.

Fiscal year 2007 selling and administrative costs increased over fiscal year 2006 principally from higher compensation expense related to an increase in personnel, normal salary increases, higher deferred compensation expense and partially offset by lower incentive compensation charges due to operating losses recorded during the year.

As a percentage of sales, selling and administrative expenses were 20.4% and 20.2% in fiscal years 2008 and 2007, respectively. The Company targets selling and administrative expenses not to exceed 20% of consolidated sales. For fiscal year 2009, the Company expects to achieve its targeted level of selling and administrative expenses.

Research and Development expenses

Years ended April 30, (in thousands)			
2008	2007	Change	
$ 7,101	$ 9,438	$ (2,337)	(25)%

Research and development expenditures represent investments intended to keep the Company's products at the leading edge of time and frequency technology and enhance competitiveness for future sales. For the prior fiscal year ended April 30, 2007, R&D spending was at a greater than normal level as a direct result of internally-funded projects to enhance the Company's product offerings for satellite payloads and to design such products for more efficient production. Some of that effort continued into fiscal year 2008 but at a lower rate. In addition, during early fiscal year 2008, the Company completed development of its new US5G wireline synchronization product and the upgrade of its GPS-based synchronization product line. R&D spending was 11% and 16.8% of consolidated revenues in fiscal years 2008 and 2007, respectively, exceeding the Company's target of 10% of revenues for such efforts.

The Company will continue to focus its research and development activities on those products which it expects will provide the best return on investment and greatest prospects for the future growth of the Company. For fiscal year 2009, the Company will continue to make investments in improved satellite payload products, develop and improve miniaturized rubidium atomic clocks, develop new GPS-based synchronization products and further enhance the capabilities of its line of "low-g" oscillators. The Company will also be engaged in development efforts that are funded by its customers, the results of which will enhance its own product offerings. Thus, the Company's target for fiscal year 2009 is to spend less than 10% of revenues on research and development activities, although the actual level of spending is dependent on new opportunites and the rate at which it succeeds in bringing new products to market. Internally generated cash and cash reserves will be adequate to fund these development efforts.

Operating Loss

Years ended April 30, (in thousands)			
2008	2007	Change	
$ (2,578)	$ (3,721)	$ 1,143	31%

As discussed above, the operating losses incurred in fiscal years 2008 and 2007 are the result of lower gross margin and higher research and development spending, both of which are due to higher than anticipated engineering and manufacturing costs incurred in connection with the Company's satellite payload products and programs.

The Company expects to realize substantially improved operating profits in fiscal year 2009 as earlier large volume satellite programs are completed and are augmented by new, large cost-plus programs. With recent satellite and wireline telecommunication bookings, the Company expects to report improved gross margins while maintaining other operating expenses within their targeted amounts.

Other Income (Expense)

	Years ended April 30, (in thousands)			
	2008	2007	Change	
Investment income	$ 4,106	$ 1,024	$ 3,082	301%
	(104)	708	(812)	(115)%

Equity (loss) income				
Interest expense	(522)	(136)	(386)	(284)%
Other income, net	545	313	232	74%
	$ 4,025	$ 1,909	$ 2,116	111%

Investment income in fiscal year 2008 includes net gains on sales of investments of $3.3 million which includes the $3.0 million gain on the partial sale of the Company's investment in Morion, as indicated above. By comparison, in fiscal year 2007, the Company recorded net losses on the sale of marketable securities of approximately $44,000. Investment income also includes interest and dividend income on marketable securities. Income from this source was approximately $800,000 in fiscal year 2008 compared to approximately $1.0 million in fiscal year 2007 as a result of lower interest rates after the redemption of certain marketable securities in fiscal year 2008. During fiscal year 2009, the Company will realize investment income primarily from interest on its bond portfolio and anticipates that the amount earned will be approximately the same as that earned in fiscal year 2008.

In fiscal year 2008, the Company recorded equity loss from its 25% interest in Elcom. In fiscal year 2007, equity income also included the Company's share of income earned by Morion. Subsequent to the reduction in the Company's interest in Morion from 36% to 8% in early fiscal year 2008, the Company records its Morion investment on the cost basis and does not include any share of Morion's earnings in the Company's financial statements. In fiscal year 2007, the Company's share of Morion's earnings exceeded its share of Elcom's losses.

In fiscal years 2008 and 2007, interest expense was incurred on borrowings under short-term credit obligations and on certain deferred compensation obligations. In fiscal year 2008, the Company also entered into a capital lease for equipment. For the year ended April 30, 2008, interest expense increased over the prior year due to greater utilization of its bank line of credit to cover working capital requirements. The Company anticipates that interest expense in fiscal year 2009 will decrease as it repays the bank line of credit through improved cash flow from operating activities.

During both fiscal years 2008 and 2007, the Company recognized $353,000 of income from amortization of the deferred gain from the 1998 sale of its corporate headquarters building in New York, which income is included in the caption "Other income, net." The deferred gain is being amortized over the remaining life of the original eleven-year lease. Also, in fiscal year 2008, other income included a realized gain of approximately $290,000 from the excess of proceeds over the cash values of life insurance policies on the lives of two former employees. Other income is partially offset by certain nonrecurring expenses. In fiscal year 2009, "Other income, net" will include amortization into income of the final $235,000 of deferred gain on the 1998 sale of its building. The Company anticipates that in future years other items in this category will not be significant to pretax earnings.

Income Taxes

The Company is subject to taxation in several countries. The statutory federal rates are 34% in the United States and 33% in Europe. The fiscal year 2008 tax gain on the partial sale of the Morion investment is greater than the gain recorded for financial reporting purposes, resulting in a higher than expected effective tax rate of 39%. In fiscal year 2007, the tax benefit derived from carrying forward that year's tax loss and unapplied tax credits as well as the reversal of a portion of a reserve on foreign taxes, resulted in effective tax benefit rate greater than 85%. The effective rate is also impacted by the income or loss of certain of the Company's European and Asian subsidiaries which are currently not taxed. The Company may commence tax payments in China during calendar 2009 based on the operating profits of its subsidiary, FEI-Asia. The Company utilizes the availability of research and development tax credits in the United States to lower its tax rate. (See Note 13 to the Consolidated Financial Statements.)

The Company's European subsidiaries have available net operating loss carryforwards of approximately $1.2 million to offset future taxable income. These loss carryforwards have no expiration date. The fiscal year 2007 operating loss carryforwards for the U.S. subsidiaries of the Company will be used to offset taxable income in fiscal year 2008.

LIQUIDITY AND CAPITAL RESOURCES

The Company's balance sheet continues to reflect a highly liquid position with working capital of $58.9 million at April 30, 2008. Included in working capital at April 30, 2008 is $15.4 million consisting of cash, cash equivalents and short-term investments but offset by $4.9 million in borrowings under its bank line of credit. The Company's current ratio at April 30, 2008 is 5.9 to 1.

Net cash used in operating activities for the year ended April 30, 2008, was $1.9 million compared to $6.6 million used in operations in fiscal year 2007. The primary causes for the decrease in cash was the operating loss generated by higher operating expenses and a 27% increase in accounts receivable, including an increase of over $3 million in unbilled receivables. Unbilled receivables arise when the Company recognizes revenues at different intervals than the related milestone billings under long-term contracts, primarily related to satellite payload programs. The timing for

such billings is determined by the contract terms which the Company must meet in order to invoice its customers. Under long-term contract accounting the Company recognizes revenues on the percentage of completion basis as measured by the ratio of actual costs to estimated program costs. Such revenue recognition often results in recording receivables for costs and estimated earnings in excess of billings or “unbilled receivables.” (See Note 3 to the accompanying financial statements.) In fiscal year 2009, the Company anticipates that it will generate positive cash flow from operations by realizing operating profits and as certain long-term contracts are completed and are replaced by large, cost-plus programs.

Net cash provided by investing activities for the fiscal year ended April 30, 2008, was approximately $13.3 million compared to $2.0 million in the prior year. The fiscal year 2008 increase was primarily due to the receipt of approximately $5.6 million upon the partial sale of the Company's investment in Morion and the sale or redemption of certain marketable securities, net of purchases of other marketable securities, which generated approximately $9.8 million. In fiscal year 2008, the Company acquired capital equipment of $3.3 million by paying cash of $2.1 million and entering into a long-term capital lease for $1.2 million (non-cash transaction). In the prior year, the Company had net proceeds from the sale or redemption of marketable securities of $8.1 million, acquired capital equipment for $2.7 million and made an investment in Elcom, including a convertible note in the amount of $1.5 million. The Company may continue to invest cash equivalents in longer-term securities or to convert short-term investments to cash equivalents as dictated by its investment and acquisition strategies. The Company will continue to acquire more efficient equipment to automate its production process. It intends to spend approximately $2 million to $3 million on capital equipment during fiscal year 2009. Internally generated cash will be adequate to acquire this capital equipment.

The Company has an $11.5 million line of credit with the financial institution which also manages a substantial portion of its investment in marketable securities. The line is secured by the investments which earn, on average, approximately a 5% annual return. Rather than liquidate some of these investments to meet short-term working capital requirements, during fiscal years 2008 and 2007, the Company borrowed between $4.5 million and $9 million against the line of credit at fixed and variable interest rates between 3.97% and 6.99%. In addition, the Company's European subsidiaries have available approximately $2.6 million in bank credit lines to meet short-term cash flow requirements. The rate of interest on these borrowings is based on the one month EURO Interbank Offered Rate (EURIBOR). As of April 30, 2008, the Company had an outstanding balance of $4.9 million under the line of credit secured by investments.

During the year ended April 30, 2008, cash used in financing activities was $2.0 million compared to cash provided by financing activities of $3.6 million in fiscal year 2007. The principal use of cash in both fiscal year 2008 and 2007 was the payment of the Company's semi-annual dividend which aggregated $1.7 million in both years. Additionally, the Company acquired approximately 32,000 shares of its common stock for the treasury, paying approximately $311,000 or an average of about $9.63 per share. The primary source of cash in fiscal year 2007 was $5.0 million borrowed under the line of credit referred to in the preceding paragraph. In the years ended April 30, 2008 and 2007, an additional $158,000 and $293,000, respectively, was received upon the exercise of stock options. The Company will continue to use treasury shares to satisfy the future exercise of stock options granted to officers and employees. The Company has been authorized by its Board of Directors to repurchase up to $5 million worth of shares of its common stock for treasury whenever appropriate opportunities arise but it has neither a formal repurchase plan nor commitments to purchase additional shares in the future. The Company anticipates that in fiscal year 2009, the number of shares to be repurchased under the stock buyback authorization will increase compared to fiscal year 2008.

The Company will continue to expend resources to develop and improve products for space applications, guidance and targeting systems, wireless networks and wireline communication systems which management believes will result in future growth and continued profitability. During fiscal year 2009, the Company intends to make a substantial investment of capital and technical resources to develop new products to meet the needs of the U.S. Government, commercial space and telecommunications infrastructure marketplaces and to invest in more efficient product designs and manufacturing procedures. Where possible, the Company will secure partial customer funding for such development efforts but is targeting to spend its own funds at a rate less than 10% of revenues to achieve its development goals. Internally generated cash will be adequate to fund these development efforts.

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.

Contractual obligations

As of April 30, 2008

	Payments due by period				
Contractual Obligations	**Total (in thousands)**	**Less than 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**More than 5 Years**
Capital Lease Obligations	$ 1,287	$ 281	$ 562	$ 444	$ -
Operating Lease Obligations	6,570	789	1,874	1,914	1,993
Deferred Compensation **	9,467*	336	344	128	8,659
Total	$ 17,324	$ 1,406	$ 2,780	$ 2,486	$ 10,652

** Deferred Compensation liability (See Note 12 in the accompanying financial statements) reflects payments due to current retirees receiving benefits. The amount of $8,659 in the more than 5 years column includes benefits due to participants in the plan who are not yet receiving benefits although some participants may opt to retire and begin receiving benefits within the next 5 years.

As of April 30, 2008, the Company's consolidated backlog amounted to approximately $39 million (see Item 1). Approximately 80% of this backlog is expected to be filled during the Company's fiscal year ending April 30, 2009. Included in the backlog at April 30, 2008 is approximately $7 million under cost plus contracts which the Company believes represent firm commitments from its customers for which the Company has not received full funding to date.

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The Company's liquidity is adequate to meet its foreseeable operating and investment needs. In addition, with its available cash and marketable securities, the Company is able to continue paying semi-annual dividends, subject to the review and approval of its Board of Directors.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements." ("FAS 157") This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP") and expands disclosures about fair value measurements. FAS 157 does not require any new fair value measurements but simplifies and codifies related guidance. The Company will comply with the provisions of FAS 157 when it becomes effective in fiscal year 2009. The impact of such adoption is not expected to have a material impact on the Company's financial statements since the Company utilizes fair value measures wherever required by current GAAP.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of SFAS No. 115" ("FAS 159"). The new statement allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. FAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the potential impact of FAS 159 on its financial position and results of operations.

In December 2007, the FASB issued Statements No. 141(R), “Business Combinations”, and No. 160, “Noncontrolling Interests in Consolidated Financial Statements.” Effective for fiscal years beginning after December 15, 2008, these statements revise and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. The adoption of these statements has no impact on the Company’s current financial statements but will change the Company’s accounting treatment for business combinations on a prospective basis.

In March 2008, the FASB issued Statement No.161, Disclosures about Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133 (“FAS 161”). FAS 161 requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of FAS 161 on its consolidated financial statements although it does not anticipate that the statement will have a material impact since the Company has not historically engaged in hedging activities or acquired derivative instruments.

On May 1, 2007, the Company adopted the provisions of FASB Financial Interpretation No. 48, “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109.” (“FIN 48”) This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements and prescribes recognition thresholds and measurement attributes for tax positions taken in a tax return. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. As a result of the implementation of FIN 48, the Company has evaluated its tax positions and has concluded that the tax positions meet the more-likely-than-not recognition threshold. As such, there is no impact on the Company’s financial position or results of operations.

OTHER MATTERS

The financial information reported herein is not necessarily indicative of future operating results or of the future financial condition of the Company. Except as noted, management is unaware of any impending transactions or events that are likely to have a material adverse effect on results from operations.

INFLATION

During fiscal 2008, as in fiscal year 2007, the impact of inflation on the Company's business has not been materially significant.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Frequency Electronics, Inc. and Subsidiaries
Mitchel Field, New York

We have audited the accompanying consolidated balance sheets of Frequency Electronics, Inc. and Subsidiaries (the "Company") as of April 30, 2008 and 2007 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Frequency Electronics, Inc. and Subsidiaries at April 30, 2008 and 2007 and the consolidated results of its operations and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Holtz Rubenstein Reminick LLP

Holtz Rubenstein
Reminick LLP
Melville, New York
July 25, 2008

FREQUENCY ELECTRONICS, INC. and SUBSIDIARIES

Consolidated Balance Sheets

April 30, 2008 and 2007

	2008	2007
	(In thousands)	
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 11,029	$ 1,336
Marketable securities	4,414	14,268
Accounts receivable, net of allowance for doubtful accounts of $185 in 2008 and $276 in 2007	19,827	15,626
Inventories, net	30,218	31,201
Deferred income taxes	3,974	3,075
Income taxes receivable	151	596
Prepaid expenses and other	1,371	1,501
Total current assets	70,984	67,603
Property, plant and equipment, at cost, less accumulated depreciation and amortization	9,531	7,839
Deferred income taxes	2,990	2,945
Goodwill and other intangible assets	405	453
Cash surrender value of life insurance and cash held in trust	7,671	6,815
Investment in and loans receivable from affiliates	4,522	7,354
Other assets	817	817
Total assets	$ 96,920	$ 93,826
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Short-term credit obligations	$ 5,168	$ 5,035
Accounts payable - trade	2,215	3,771
Accrued liabilities	4,694	3,956
Dividend payable	-	