

FREQUENCY ELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
April 30, 2019 and 2018

A reconciliation of the beginning and ending amounts of unrecognized tax benefits, is as follows (in thousands):

	2019	2018
Balance at the beginning of the fiscal year	\$ 1,264	\$ 1,626
Additions based on positions taken in the current year	-	-
Additions based on positions taken in prior years	142	-
Decreases based on positions taken in prior years	(119)	(304)
Lapse in statute of limitations	(29)	(58)
Balance at the end of the fiscal year	<u>\$ 1,258</u>	<u>\$ 1,264</u>

The entire amount reflected in the table above at April 30, 2019, if recognized, would reduce our effective tax rate. As of April 30, 2019, and 2018, the Company had \$64,000 and \$10,000, respectively, accrued for the payment of interest and penalties. For the fiscal years ended April 30, 2019 and 2018, the Company recognized interest and penalties of \$54,000 and \$3,000, respectively. Although it is difficult to predict or estimate the change in the Company's unrecognized tax benefits over the next twelve months, the Company believes that it is reasonably possible that decreases in unrecognized tax benefits of up to \$40,000 may be recognized during the next twelve months.

The Company is subject to taxation in the U.S. federal, various state and local jurisdictions, and foreign jurisdictions. The Company is no longer subject to examination of its federal income tax returns by the Internal Revenue Service for fiscal years 2016 and prior. During Fiscal 2018, the Company closed an Internal Revenue Service examination of its Fiscal 2016 tax return with no change to the tax liability reported. The Company is no longer subject to examination by the taxing authorities in its foreign jurisdictions for Fiscal 2015 and prior. Net operating losses and tax attributes generated by domestic and foreign entities in closed years and utilized in open years are subject to adjustment by the tax authorities.

14. Segment Information

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

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

The FEI-NY segment also includes the operations of the Company's wholly-owned subsidiaries, FEI-Elcom and FEI-Asia. FEI-Asia functions as a manufacturing facility for the FEI-NY segment with historically minimal sales to outside customers. FEI-Elcom, in addition to its own product line, provides design and technical support for the FEI-NY segment's satellite business.

- (2) FEI-Zyfer – operates out of California and its products incorporate Global Positioning System (GPS) technologies into systems and subsystems for secure communications, both government and commercial, and other locator applications. This segment also provides sales and support for the Company's wireline telecommunications family of products, including US5G, which are sold in the U. S. market.

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

The accounting policies of the two segments are the same as those described in the "Summary of Significant Accounting Policies." The Company evaluates the performance of its segments and allocates resources to them based on operating profit which is defined as income before investment income, interest expense and taxes. All acquired assets, including intangible assets, are included in the assets of both reporting segments.