

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

The components of deferred taxes are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Deferred tax assets:		
Employee benefits	\$ 5,092	\$ 5,078
Inventory	1,649	1,129
Accounts receivable	204	213
Tax credits	1,300	1,213
Other assets	148	139
Capital Loss carry-forward	2,455	1,385
Net operating loss carry-forwards	5,556	6,451
Total deferred tax asset	<u>16,404</u>	<u>15,608</u>
Deferred tax liabilities:		
Property, plant and equipment	(1,344)	(1,639)
Other liabilities	(343)	(821)
Deferred state income tax	(767)	(727)
Net deferred tax asset	<u>13,950</u>	<u>12,421</u>
Valuation allowance	(13,950)	(12,688)
Net deferred tax liability	<u>\$ -</u>	<u>\$ (267)</u>

The components of the deferred tax asset were as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Gross deferred assets	\$ 13,950	\$ 12,421
Valuation allowance	(13,950)	(12,688)
Net deferred tax (liability) asset	<u>\$ -</u>	<u>\$ (267)</u>

In assessing the realizability of deferred tax assets, the Company considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will be realized. A valuation allowance, if needed, reduces the deferred tax assets to the amounts expected to be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in those periods in which temporary differences become deductible and/or net operating loss carry-forwards can be utilized. We assess all positive and negative evidence when determining the amount of the net deferred tax assets that are more likely than not to be realized. This evidence includes, but is not limited to, prior earnings history, scheduled reversal of taxable temporary differences, tax planning strategies and projected future taxable income. Significant weight is given to positive and negative evidence that is objectively verifiable.

As required by the authoritative accounting guidance on accounting for income taxes, the Company evaluates the realizability of its deferred tax assets at each reporting date. Accounting for income taxes requires that a valuation allowance be established when it is more-likely-than-not that all or a portion of the deferred tax assets will not be realized. In circumstances where there is sufficient negative evidence indicating that the deferred tax assets are not more-likely-than-not realizable, the Company establishes a valuation allowance. As of April 30, 2019 and 2018, the Company had a full valuation allowance against its U.S. net deferred tax assets. If these estimates and assumptions change in the future, the Company may be required to reduce its existing valuation allowance resulting in less income tax expense. For the years ended April 30, 2019 and 2018, the valuation allowance increased by approximately \$1.3 million and \$9.4 million, respectively.

As of April 30, 2019, the Company has U.S. federal net operating losses of \$23 million of which \$4 million begins to expire in Fiscal 2023 through 2031 and which are subject to annual limitation under Internal Revenue Code Section 382. The remaining U.S. federal net operating losses of \$18.9 million have an indefinite carry-forward period. The U.S. federal capital loss carry-forward of \$9.9 million expires in 2023. The Company also has state net operating loss carry-forwards, R&D tax credits, and state tax credits that expire in various years and amounts.