

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

The fair value accounting framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. All of the Company's investments in marketable securities are Level 1 assets.

9. Debt Obligations

As of April 30, 2019, the Company had available credit with UBS Bank USA at variable terms based on its securities holdings under an advisory arrangement, under which no borrowings have been made.

10. Accrued Liabilities

Accrued liabilities at April 30, 2019 and 2018, respectively, consisted of the following (in thousands):

	2019	2018
Vacation and other compensation	\$ 1,659	\$ 1,433
Incentive compensation	346	411
Payroll taxes	155	113
Deferred revenue	-	68
Warranty reserve	529	520
Commissions	378	307
Other	504	564
	<u>\$ 3,571</u>	<u>\$ 3,416</u>

11. Investment in Morion, Inc.

The Company has an investment in Morion a privately-held Russian company, which manufactures high precision quartz resonators and crystal oscillators. The Company's investment consists of 4.6% of Morion's outstanding shares, accordingly, the Company accounts for its investment in Morion on the cost basis. This investment, of approximately \$800,000, is included in other assets in the accompanying balance sheets. During the fiscal years ended April 30, 2019 and 2018, the Company acquired product from Morion in the aggregate amount of approximately \$437,000 and \$446,000, respectively, and the Company sold product to Morion in the aggregate amount of approximately \$2,000 and \$203,000, respectively. At April 30, 2019 and 2018, there was no accounts receivable balance due from Morion and approximately \$38,000 and \$85,000 was payable to Morion, respectively. During the fiscal years 2019 and 2018, the Company received dividends from Morion of approximately \$105,000 and \$85,000, respectively.