TEL INSTRUMENT ELECTRONICS CORP
Form 10-Q
August 14, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

Commission File No. 33-18978

TEL-INSTRUMENT ELECTRONICS CORP.
(Exact name of the Registrant as specified in Charter)

New Jersey	22-1441806
(State of Incorporation)	(I.R.S. Employer ID Number)

728 Garden Street, Carlstadt, New Jersey	07072
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone No. including Area Code: 201-933-1600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [X]
(Do not check if a smaller reporting company)	

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Act). Yes No X

Indicate the number of shares outstanding of the issuer's common stock, as of the latest practical date:

2,478,761 shares of Common stock, $.10 par value as of August 6, 2009.

TEL-INSTRUMENT ELECTRONICS CORPORATION

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Item 1 - Financial Statements

TEL-INSTRUMENT ELECTRONICS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2009 (unaudited)	March 31, 2009
ASSETS		

Current assets:		
Cash and cash equivalents	$ 466,346	$ 601,887
Accounts receivable, net	1,326,966	1,516,698
Unbilled government receivables	1,415,203	1,265,470
Inventories, net	2,009,150	2,206,546
Prepaid expenses and other	98,489	90,509
Deferred income tax asset	733,851	461,631
Total current assets	6,050,005	6,142,741
Equipment and leasehold improvements, net	403,143	437,974
Deferred income tax asset - non-current	852,413	852,413
Other assets	73,306	72,261
Total assets	$ 7,378,867	$ 7,505,389
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit	600,000	450,000
Accounts payable	870,179	456,343
Deferred revenues	19,417	21,891
Accrued payroll, vacation pay and payroll taxes	295,874	326,202
Accrued expenses	1,338,937	1,604,190
Total current liabilities	3,124,407	2,858,626
Deferred revenues	41,966	43,243
Total liabilities	3,166,373	2,901,869
Commitments		
Stockholders' equity:		
Common stock, par value $.10 per share, 2,478,761 issued and outstanding as of June 30, 2008 and March 31, 2008, respectively	247,876	247,876
Additional paid-in capital	4,818,977	4,801,272
Accumulated deficit	(854,359)	(445,628)
Total stockholders' equity	4,212,494	4,603,520
Total liabilities and stockholders' equity	$ 7,378,867	$ 7,505,389

See accompanying notes to condensed consolidated financial Statements

TEL-INSTRUMENT ELECTRONICS CORPORATIO

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
Net sales	$ 2,325,755	$ 3,551,975
Cost of sales	1,257,666	2,063,046
Gross margin	1,068,089	1,488,929
Operating expenses:		
Selling, general and administrative	807,248	708,358
Engineering, research and development	932,872	735,151
Total operating expenses	1,740,120	1,443,509
Income (loss) from continuing operations	(672,031)	45,420
Interest income (expense):		
Interest income	370	390
Interest expense	(7,473)	(11,519)
Income (loss) from continuing operations before income taxes	(679,134)	34,291
Income tax provision (benefit)	(271,313)	13,700
Net income (loss) from continuing operations, net of income taxes	(407,821)	20,591
Income (loss) from discontinued operations, net of income taxes	(910)	22,420
Net income (loss)	$ (408,731)	$ 43,011
Income (loss) from continuing operations, net of income taxes:		
Basic income (loss) per common share	$ (0.16)	$ 0.01
Diluted income (loss) per common share	$ (0.16)	$ 0.01
Income (loss) from discontinued operations, net of income taxes:		
Basic income (loss) per common share	$ 0.00	$ 0.01
Diluted income (loss) per common share	$ 0.00	$ 0.01
Net Income (loss):		

Basic income (loss) per common share	$ (0.16)	$ 0.02
Diluted income (loss) per common share	$ (0.16)	$ 0.02
Weighted average shares outstanding:		
Basic	2,478,761	2,433,381
Diluted	2,478,761	2,512,692

See accompanying notes to condensed consolidated financial statements

TEL-INSTRUMENT ELECTRONICS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months ended	
	June 30, 2009	June 30, 2008
Cash flows from operating activities:		
Net income (loss)	$(408,731)	$ 43,011
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred income taxes	(272,220)	28,615
Depreciation	46,144	44,480
Non-cash stock-based compensation	17,705	12,220
Changes in assets and liabilities:		
Increase in accounts receivable	189,732	(99,995)
Increase in unbilled government receivables	(149,733)	(250,857)
Decrease in inventories	197,396	155,377
Decrease (increase) in prepaid expenses & other	(7,980)	21,352
Increase in other assets	(1,045)	(559)
(Decrease) increase in accounts payable	413,836	(134,447)
Decrease in accrued payroll, vacation pay and payroll taxes	(30,328)	(18,124)
Increase (decrease) in deferred revenues	(3,751)	28,166
(Decrease) increase in accrued expenses	(265,253)	389,218
Net cash provided by (used in) operating activities	(274,228)	218,457
Cash flows from investing activities:		
Purchases of equipment	(11,313)	(39,276)
Net cash used in investing activities	(11,313)	(39,276)

Cash flows from financing activities:		
Proceeds from the exercise of stock options	--	25,330
Proceeds from borrowings from line of credit	150,000	200,000
Net cash provided by financing activities	150,000	225,330
Net increase (decrease) in cash and cash equivalents	(135,541)	404,511
Cash and cash equivalents at beginning of period	601,887	469,906
Cash and cash equivalents at end of period	$ 466,346	$ 874,417
Taxes paid	$ --	$ --
Interest paid	4,391	4,357

See accompanying notes to condensed consolidated financial statements

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TEL-INSTRUMENT ELECTRONICS CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position of Tel-Instrument Electronics Corp. as of June 30, 2009, the results of operations for the three months ended June 30, 2009 and June 30, 2008, and statements of cash flows for the three months ended June 30, 2009 and June 30, 2008. These results are not necessarily indicative of the results to be expected for the full year.

The financial statements have been prepared in accordance with the requirements of Form 10-Q and consequently do not include disclosures normally made in an Annual Report on Form 10-K. The March 31, 2009 balance sheet included herein was derived from the audited financial statements included in the Company's annual report on Form 10-K as of that date. Accordingly, the financial statements included herein should be reviewed in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2009.

Note 2 Revenue Recognition - Percentage-of-Completion - ITATS

("Intermediate Level TACAN Test Set") (AN/ARM-206)

Due to the unique nature of the ITATS program, wherein a significant portion of this contract will not be delivered for over a year, revenues under this contract are recognized on a percentage-of-completion basis, which recognizes sales and profit as they are earned, rather than at the time of shipment. Revenues and profits are estimated using the cost-to-cost method of accounting where revenues are recognized and profits recorded based upon the ratio of costs incurred to estimate of total costs at completion. The ratio of costs incurred to date to the estimate of total costs at completion is applied to the contract value to determine the revenues and profits. When adjustments in estimated contract revenues or estimated costs at completion are required, any changes from prior estimates are recognized by recording adjustments in the current period for the inception-to-date effect of the changes on current and prior periods. The Company also receives progress billings on this program, which is a funding mechanism by the government to assist contractors on long-term contracts prior to delivery. (See Critical Accounting Policies - Revenue Recognition)

Note 3 Accounts Receivable, net

The following table sets forth the components of accounts receivable:

	June 30, 2009	March 31, 2009
Government	$ 1,189,526	$ 1,199,989
Commercial	177,744	357,013
Less: Allowance for doubtful accounts	(40,304)	(40,304)
	$ 1,326,966	$ 1,516,698

Note 4 Inventories, net

Inventories consist of:

	June 30, 2009	March 31, 2009

Purchased parts	$ 1,324,352	$ 1,534,184
Work-in-process	970,436	918,038
Finished goods	79,281	104,243
Less: Inventory reserve	(364,919)	(349,919)
	$ 2,009,150	$ 2,206,546

Note 5 Earnings Per Share

SFAS No. 128, "Earnings Per Share" requires presentation of basic earnings per share ("basic EPS") and diluted earnings per share ("diluted EPS").

The Company's basic income (loss) per common share is based on net income (loss) for the relevant period, divided by the weighted average number of common shares outstanding during the period. Diluted income (loss) per common share is based on net income (loss), divided by the weighted average number of common shares outstanding during the period, including common share equivalents, such as outstanding stock options. Diluted loss per share for the period ended June 30, 2009 does not include common stock equivalents, as these shares would be anti-dilutive.

	Three Months Ended June 30, 2009
Basic net income (loss) per share computation:	
Net income (loss) attributable to common stockholders	$ (408,731)
Weighted-average common shares outstanding	2,478,761
Basic net income (loss) per share attributable to common stockholders	$ (0.16)
Diluted net income (loss) per share computation	
Net income (loss) attributable to common stockholders	$ (408,731)
Weighted-average common shares outstanding	2,478,761
Incremental shares attributable to the assumed exercise of outstanding stock options	--
Total adjusted weighted-average shares	2,478,761
Diluted net income (loss) per share attributable to common stockholders	$ (0.16)

Note 6 Stock Options

Effective April 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS 123R"), utilizing the modified prospective method. SFAS 123R requires the measurement of stock-based compensation based on the fair value of the award on the date of grant. Under the modified prospective method, the provisions of SFAS 123R apply to all awards granted after the date of adoption. The Company recognizes compensation cost on awards on a straight-line basis over the vesting period, typically four years. As a result of adopting SFAS 123(R), operations was charged $17,705 and $12,220 for three months ended June 30, 2009 and 2008, respectively. The Company estimates the fair value of each option using the Black Scholes option-pricing model with the following weighted-average assumptions: expected dividend yield of 0.0%, risk-free interest rate of 2.09% to 2.74%, volatility at 42.09% to 43.06%, and an expected life of 5 years for the three months ended June 30, 2009; expected dividend yield of 0.0%, risk-free interest rate of 2.56% to 3.16%, volatility at 38.63% to 39.14%, and an expected life of 5 years for the three months ended June 30, 2008. The Company estimates forfeiture rate based on historical data. Based on an analysis of historical information, the Company has applied a forfeiture rate of 15%.

Note 7 Segment Information

As a result of the classification of its marine systems division as discontinued operations, in accordance with FAS No. 131, "Disclosures about Segments of an Enterprise and related information", the Company determined it has two reportable segments for continuing operations - avionics government and avionics commercial. There are no inter-segment revenues.

The Company is organized primarily on the basis of its avionics products. The avionics government segment consists primarily of the design, manufacture, and sale of test equipment to the U.S. and foreign governments and militaries either directly or through distributors. The avionics commercial segment consists of design, manufacture, and sale of test equipment to domestic and foreign airlines, directly or through commercial distributors, and to general aviation repair and maintenance shops. The Company develops and designs test equipment for the avionics industry and as such, the Company's products and designs cross segments.

Management evaluates the performance of its segments and allocates resources to them based on gross margin. The Company's general and administrative costs and sales and marketing expenses are not segment specific. As a result, all operating expenses are not managed on a segment basis. Net interest includes expenses on debt and income earned on cash balances. Segment assets include accounts receivable and work-in-process inventory. Asset information, other than accounts receivable and work-in-process inventory, is not reported, since the Company does not produce such information internally. All long-lived assets are located in the U.S.

Note 7 Segment Information (continued)

The table below presents information about reportable segments within the avionics business fo ending June 30, 2009 and 2008:

Three Months Ended June 30, 2009	Avionics Gov't	Avionics Comm'l.	Avionics Total
Net sales	$ 1,891,240	$ 434,515	$ 2,325,755
Cost of Sales	974,225	283,441	1,257,666
Gross Margin	917,015	151,074	1,068,089
Engineering, research, and development			932,872
Selling, general, and admin.			308,854
Interest (income) expense,net			7,103
Total expenses			1,248,829
Loss from continuing operations before income taxes			$ (180,740)
Segment assets	$ 4,317,644	$ 433,675	$ 4,751,319

Three Months Ended June 30, 2008	Avionics Gov't	Avionics Comm'l.	Avionics Total
Net sales	$ 2,960,596	$ 591,379	$ 3,551,975
Cost of Sales	1,741,197	321,849	2,063,046
Gross Margin	1,219,399	269,530	1,488,929
Engineering, research, and development			735,151
Selling, general, and admin.			385,565
Interest (income) expense ,net			11,129
Total expenses			1,131,845
Income (loss) from continuing operations before income taxes			$ 357,084

Note 8 Income Taxes

The Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes- an Interpretation of FASB Statement No. 109, on April 1, 2007. The Company has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Company does not have any unrecognized tax benefits.

The tax effect of temporary differences, primarily net operating loss carryforwards, asset reserves and accrued liabilities, gave rise to the Company's deferred tax asset in the accompanying June 30, 2009 and March 31, 2009 consolidated balance sheets. Deferred income taxes are recognized for the tax consequence of such temporary differences at the enacted tax rate expected to be in effect when the differences reverse.

Note 9 Fair Value Measurements

On September 2006, the FASB issued SFAS 157, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS 157 were effective April 1, 2008. The FASB has also issued Staff Position (FSP) SFAS 157-2 (FSP No. 157-2), which delayed the effective date of SFAS 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008.

As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company classifies fair value balances based on the observability of those inputs. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs 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 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

The three levels of the fair value hierarchy defined by SFAS 157 are as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, marketable securities and listed equities.

Level 2 - Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reported date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category generally include non-exchange-traded derivatives such as commodity swaps, interest rate swaps, options and collars.

Level 3 - Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Cash, accounts receivable, accounts payable, and accrued expenses reflected in the consolidated balance sheets are a reasonable estimate of their fair value due to the shot-term nature of these instruments. The carrying value of the Company's short-term borrowings is a reasonable estimate of its fair value as borrowings under the Company's credit facility have variable rates that reflect currently available terms and conditions for similar debt. As of June 30, 2009 and March 31, 2009, the Company did not have any financial assets and liabilities measured at fair value on a recurring basis that would be subject to the disclosure provisions of SFAS 157.

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TEL-INSTRUMENT ELECTRONICS CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 10 Discontinued Operations

In fiscal year 2008, the Board of Directors approved discontinuing the Company's marine systems division. As a result, the consolidated financial statements present the marine systems division as a discontinued operation.

The Company wrote-off fixed assets of approximately $77,000 and inventories of approximately $151,000 in 2008.

The Company's decision to discontinue its marine operations was based primarily on the historical losses sustained and management's intent to focus on its avionics business

The following tables reflects sales, costs and expenses, and loss from discontinued operations, net of taxes for the three months ended June 30, 2009 and 2008, respectively.

	Three Months Ended June 30, 2009	T Ju

Discontinued Operations:	
Sales	$ 16,444
Costs and expenses	17,960
Income (loss) from operations of discontinued operations	(1,516)
Income tax provision (benefit)	(606)
Net income (loss) from discontinued operations	$ (910)

Note 11 Reclassifications

Certain prior year and period amounts have been reclassified to conform to the current period presentation.

Note 12 Litigation

On March 24, 2009, Aeroflex Wichita, Inc. ("Aeroflex") filed a petition against the Company and two of its employees in the District Court, Sedgwick County, Kansas, Case No. 09 CV 1141 (the "Aeroflex Action"), alleging that the Company and its two employees misappropriated Aeroflex's proprietary technology in connection with the Company winning a substantial contract from the U.S. Army (the "Award"), to develop new Mode-5 radar test sets and kits to upgrade the existing TS-4530 radar test sets to Mode 5. Aeroflex's petition alleges that in connection with the award, the Company and its named employees misappropriated Aeroflex's trade secrets; tortiously interfered with its business relationship; conspired to harm Aeroflex and tortiously interfered with its contract and seeks injunctive relief and damages. The gravamen of all the claims in the Aeroflex Action is that the Company misappropriated and used Aeroflex proprietary technology in winning the Award.

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TEL-INSTRUMENT ELECTRONICS CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 12 Litigation (continued)

In February 2009, subsequent to the Award to the Company, Aeroflex filed a protest of the Award with the Government Accounting Office ("GAO"). In its protest, Aeroflex alleged, inter alia, that the Company used Aeroflex's proprietary technology in order to win the Award, the same material allegations as were later alleged in the Aeroflex Action. On or about March 17, 2009, the Army Contracts Attorney and the Army Contracting Officer each filed a statement with the GAO, expressly rejecting Aeroflex's allegations that the Company used or infringed Aeroflex proprietary technology in winning the Award, and concluding that the Company had used only its own proprietary technology. On April 6, 2009, Aeroflex withdrew its protest.

The Aeroflex civil claim is currently in the jurisdiction phase. Based, among other things, on Tel's knowledge of the technology involved and the Army's detailed and emphatic refutation of Aeroflex's allegations, Tel believes that Aeroflex's claims are without merit. However, Tel has incurred and anticipates that it will incur substantial legal fees in connection with the litigation, and these costs will have an adverse effect on its results of operations for the fiscal year ending March 31, 2010. During the quarter ended June 30, 2009, the Company incurred approximately $111,000 of legal fees associated with the GAO protest and the civil litigation.

Note 13 New Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No 141(R), "Business Combinations." This statement provides new accounting guidance and disclosure requirements for business combinations. SFAS No 141(R) is effective for business combinations which occur in the first fiscal year beginning on or after December 15, 2008. The adoption of SFAS 141(R) will not have a significant impact on the Company's consolidated financial statements or financial position, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of any acquisitions the Company consummates after the effective date.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133" ("SFAS 161"), which modifies and expands the disclosure requirements for derivative instruments and hedging activities. SFAS 161 requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation and requires quantitative disclosures about fair value amounts and gains and losses on derivative instruments. It also requires disclosures about credit-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company adopted this standard effective January 1, 2009. The implementation of this standard did not have a material impact on the disclosures related to the Company's consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion

TEL-INSTRUMENT ELECTRONICS CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 13 New Accounting Pronouncements (continued)

No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 and APB 28-1 were effective for interim and annual reporting periods ending after June 15, 2009. The Company made the disclosures required by this statement.

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FSP FAS 157-4 was effective for interim and annual reporting periods ending after June 15, 2009, and is applied prospectively. The Company's adoption of FSP FAS 157-4 did not have a material impact on the Company's condensed consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 ("SFAS 168"). SFAS 168 establishes the FASB Standards Accounting Codification ("Codification") as the source of authoritative GAAP recognized by the FASB to be applied to nongovernmental entities. The only other source of authoritative GAAP is the rules and interpretive releases of the SEC which only apply to SEC registrants. The Codification will supersede all the existing non-SEC accounting and reporting standards upon its effective date. Since the issuance of the Codification is not intended to change or alter existing GAAP, adoption of this statement will not have an impact on the Company's financial position or results of operations, but will change the way in which GAAP is referenced in the Company's financial statements. SFAS 168 is effective for interim and annual reporting periods ending after September 15, 2009.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events ("SFAS 165"), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The Company adopted SFAS 165 effective April 1, 2009 and has evaluated subsequent events after the balance sheet date of June 30, 2009 through the date the financial statements were issued, August 14, 2009.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE

RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Forward Looking Statements

A number of the statements made by the Company in this report may be regarded as "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements include, among others, statements concerning the Company's outlook, pricing trends and forces within the industry, the completion dates of capital projects, expected sales growth, cost reduction strategies and their results, long-term goals of the Company and other statements of expectations, beliefs, including statements regarding litigation, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts.

All predictions as to future results contain a measure of uncertainty and accordingly, actual results could differ materially. Among the factors that could cause a difference are: changes in the general economy; changes in demand for the Company's products or in the cost and availability of its raw materials; the actions of its competitors; the success of our customers; technological change; changes in employee relations; government regulations; litigation, including its inherent uncertainty; difficulties in plant operations and materials; transportation, environmental matters; and other unforeseen circumstances. A number of these factors are discussed in the Company's filings with the Securities and Exchange Commission.

Critical Accounting Policies

In preparing the financial statements and accounting for the underlying transactions and balances, the Company applies its accounting policies as disclosed in Note 2 of our Notes to Financial Statements included in our Form 10-K. The Company's accounting policies that require a higher degree of judgment and complexity used in the preparation of financial statements include:

Revenue recognition - revenues are recognized at the time of shipment to, or acceptance by customer provided title and risk of loss is transferred to the customer. Provisions, when appropriate, are made where the right to return exists.

Revenues on repairs and calibrations are recognized at the time the repaired or calibrated unit is shipped, as it is at the time that the work is completed.

Due to the unique nature of the ITATS program wherein a significant portion of this contract will not be delivered for over a year, revenues under this contract are recognized on a percentage-of-completion basis, which recognizes sales and profit as they are earned, rather than at the time of shipment. Revenues and profits are estimated using the cost-to-cost method of accounting where revenues are recognized and profits recorded based upon the ratio of costs incurred to date to our estimate of total costs at completion. The ratio of costs incurred to our estimate of total costs at completion is applied to the contract value to determine the revenues and profits. When adjustments in estimated contract revenues or estimated costs at completion are required, any changes from prior estimates are recognized by recording adjustments in the current period for the inception-to-date effect of the changes on current and prior periods. The Company also receives progress billings on this program, which is a funding mechanism by the government to assist contractors on long-term contracts prior to delivery.

Shipping and handling costs charged to customers are classified as revenue, and the shipping and handling costs incurred are included in cost of goods sold.

Payments received prior to the delivery of units or services performed are recorded as deferred revenues.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Critical Accounting Policies (continued)

Inventory reserves - inventory reserves or write-downs are estimated for excess, slow-moving and obsolete inventory as well as inventory whose carrying value is in excess of net realizable value. These estimates are based on current assessments about future demands, market conditions and related management initiatives. If market conditions and actual demands are less favorable than those projected by management, additional inventory write-downs may be required

Accounts receivable - the Company performs ongoing credit evaluations of its customers and adjusts credit limits based on customer payment and current credit worthiness, as determined by review of their current credit information. The Company continuously monitors credits and payments from its customers and maintains provision for estimated credit losses based on its historical experience and any specific customer issues that have been identified. For the year ended March 31, 2009 approximately 67% of the Company's sales were to the U.S. Government. While such credit losses have historically been within our expectation and the provision established, the Company cannot guarantee that it will continue to receive positive results.

Warranty reserves - warranty reserves are based upon historical rates and specific items that are identifiable and can be estimated at time of sale. While warranty costs have historically been within expectations and the provisions established, future warranty costs could be in excess of the Company's warranty reserves. A significant increase in these costs could adversely affect the Company's operating results for the period and the periods these additional costs materialize. Warranty reserves are adjusted from time to time when actual warranty claim experience differs from estimates.

Income taxes - deferred tax assets arise from a variety of sources, the most significant being: a) tax losses that can be carried forward to be utilized against profits in future years; b) expenses recognized in the books but disallowed in the tax return until the associated cash flow occurs; and c) valuation changes of assets which need to be tax effected for book purposes but are taxable only when the valuation change is realized. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when such differences are expected to reverse. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefit which is not more likely than not to be realized. In assessing the need for a valuation allowance, future taxable income is estimated, considering the realization of tax loss carryforwards. Valuation allowances related to deferred tax assets can also be affected by changes to tax laws, changes to statutory tax rates and future taxable income levels. In the event it is determined that the Company would not be able to realize all or a portion of our deferred tax assets in the future, we would reduce such amounts through a charge to income in the period in which that determination is made. Conversely, if we were to determine that we would be able to realize our deferred tax assets in the future in excess of the net carrying amounts, we would decrease the recorded valuation allowance through an increase to income in the period in which that determination is made. In its evaluation of a valuation allowance the Company takes into account existing contracts and backlog, and the probability that options under these contract awards will be exercised as well as sales of existing products. The Company prepares profit projections based on the revenue and expenses forecast to determine that such revenues will produce sufficient taxable income to realize the deferred tax assets

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

General

Management's discussion and analysis of results of operations and financial condition is intended to assist the reader in the understanding and assessment of significant changes and trends related to the results of operations and financial position of the Company together with its subsidiary. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying financial notes in the Company's Annual Report on Form 10-K for the year ended March 31, 2009.

The Company's avionics business is conducted in the Government, Commercial and General aviation markets (see Note 7 of Notes to Financial Statements for segment financial information). In January 2004, the Company completed its acquisition of ITI, a company selling products to the marine industry, and ITI's financial statements were consolidated with the Company's financial statements until the Company considered it a discontinued operation as of March 31, 2009 see Note 10 to Financial Statements).

Overview

As discussed in our Form 10-K for the year ended March 31, 2009, because of the continuing decline in commercial sales, the difficult economic environment, delays in several major anticipated government orders, the increased new product engineering costs, and the increased legal and professional fees, the Company expected that sales and profits in the first half of the current fiscal year would decline materially, until substantial production and delivery of the new products commence. However, the Company believes that the financial situation for the Company will improve in the second half of the current fiscal year and the Company expects to be profitable in the next fiscal year.

In the first quarter of fiscal year 2010, the Company's sales fell 35% as compared to the same period last year, and the Company recorded a net loss from continuing operations before taxes of $679,000 as compared to $34,291 in net income from continuing operations before taxes in the prior year.

As discussed in our Form 10-K for the year ended March 31, 2009, the current fiscal year will be a challenge as the commercial avionics market shows no signs of improvement and military sales have been impacted by delays in the receipt of several expected large orders, as well as some delay in completion of our existing programs. Moreover, the Company continues to make substantial engineering investments in the AN/USM-708 and the recently awarded TS-4530A programs. TEL has also experienced delays on two of its major programs (AN/USM-708/ and AN/ARM-206) that have collectively increased development cost and time and delayed production shipments. At this time, it appears that sales will remain at depressed levels for the first half of this fiscal year with a substantial operating loss. Starting in the third quarter of this fiscal year, revenues and profitability are expected to increase due to anticipated shipments of the AN/APM-719 as well as the receipt of anticipated government orders which have been delayed.

TEL currently has three major government contracts totaling over $80 million of potential orders, which it won competitively. Upon completion of our engineering development on these major programs, TEL has the ability to substantially increase the size and profitability of our business starting next fiscal year (which begins April 2010) as production deliveries of the AN/USM-708 and AN/APM-206 are expected to commence in volume. Production deliveries of TS-4530A are also expected to commence in volume later in calendar year 2010. This program has a maximum contract value of $44 million with $15 million of delivery orders already received.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Overview (continued)

On July 28, 2009, Tel was notified by the AIMS Program Office that its AN/USM-719 Mode 5 test set has been officially certified for Mode 5 system integration purposes. This is a major accomplishment as this represents the first Mode 5 flight-line test set certified by AIMS (the DoD Agency in charge of IFF system certification). This represents the culmination of a multi-million investment by the company in Mode 5 technology and will provide a significant competitive advantage in the years to come as the U.S. and our NATO allies migrate to this leading edge IFF technology. To our knowledge, Tel is the only company with AIMS certified Mode 5 flight-line test sets.

At June 30, 2009 the Company's backlog stood at approximately $14.7 million, as compared to approximately $11.4 million at June 30, 2008. The backlog at June 30, 2009 includes only the amount of currently exercised delivery orders on open IDIQ (indefinite delivery/indefinite quantity) contracts, and is expected to materially increase when the volume production orders for the two large Navy contracts are received. Historically, the Company obtains a substantial volume of orders which are required to be filled in less than twelve months, and, therefore, these anticipated orders are not reflected in the backlog. The Company has received approximately $8.83 million in orders related to the TS-4530A program, and this amount is included in the backlog at June 30, 2009. In July 2009, the Company received an additional delivery order of approximately

$6 million related to the TS-4530 program.

On March 24, 2009, Aeroflex Wichita, Inc. ("Aeroflex") filed a civil claim against the Company and two of its employees in the District Court, Sedgwick County, Kansas, Case No. 09 CV 1141 (the "Aeroflex Action"), alleging that the Company and its two employees misappropriated Aeroflex's proprietary technology in connection with TEL winning the Army TS-4530A contract. Many of these same claims were included in Aeroflex's previous, formal Protest of the Contract award which it filed with the U.S. Government Accounting Office ("GAO"). On or about March 17, 2009, the Army Contracts Attorney and the Army Contracting Officer each filed a statement with the GAO, expressly rejecting Aeroflex's allegations that the Company used or infringed Aeroflex proprietary technology in winning the Award, and concluding that the Company had used only its own proprietary technology. On April 6, 2009, Aeroflex withdrew its GAO Protest, but continued the civil litigation. The Aeroflex civil claim is currently in the jurisdiction phase.

While TEL is confident about the ultimate successful outcome of the litigation, the Company anticipates that it will incur legal fees in connection with the litigation, and these costs will have an adverse effect on its results of operations for the fiscal year ending March 31, 2010. During the quarter ended June 30, 2009, the Company incurred legal fees of approximately $110,000 in connection with the GAO protest and this litigation.

Given the weak first quarter results, Tel increased it borrowing on its credit facility by $150,000 in the quarter to $600,000 and had approximately $485,000 of available borrowing capacity as of June 30, 2009. This credit line is on a year-to-year basis with a September 30, 2009 renewal date. Given first quarter loss and the expected loss in the second quarter as well as the sharp expansion in projected business starting this fall, the Company is planning to raise a minimum of $500,000 of equity funding in the next few months through a combination of Director stock option exercises and new share purchases. At this time, the Company has received informal commitments from several Directors to purchase between 90,000 and 100,000 shares of newly issued company stock at a price to be determined by a Special Committee of Directors who would not purchase shares. Other shareholders will be provided the opportunity to participate on the same terms and conditions subject to a minimum share purchase. Further information about the financing program will be provided when the details are finalized.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Results of Operations (continued)

Sales

For the first quarter ended June 30, 2009, total sales decreased $1,226,220 (34.5%) to $2,325,755 as compared to $3,551,975 for the same quarter in the prior year. Avionics Government sales decreased $1,069,356 (36.1%) to $1,891,240 for the period as compared to $2,960,596 for the same period last year. The decrease in Avionics Government sales is primarily attributed to: a decrease in sales associated with the ITATS, which are recognized on a percentage of completion as the initial phase of the programs nears completion as well a decrease in shipments of the T-30D, T-47N, and the T-47G, which were primarily associated with orders that were awarded in the previous year. Government sales have been impacted by delays in the receipt of several expected large orders. These decreases were partially offset by higher sales of the AN/APM-719. Commercial sales decreased $156,864 (26.5%) to $434,515 for the three months ended June 30, 2009 as compared to $591,379 in the same period in the prior year As a result of the continued weakness in the commercial market.

Gross Margin

Gross margin decreased $420,840 (28.3%) to $1,068,089 for the three months ended June 30, 2009 as compared to $1,488,929 for the same three months in the prior fiscal year. The decrease in gross margin is attributed to the decrease in volume. The gross margin percentage for the three months ended June 30, 2009 was 45.9% as compared to 41.9% for the three months ended June 30, 2008.

Operating Expenses

Selling, general and administrative expenses increased $98,890 (14%) to $807,248 for the three months ended June 30, 2009, as compared to $708,358 for the three months ended June 30, 2008. This increase is attributed mainly to an increase in legal fees associated with the litigation (see Note 12 to the Financial Statements), and professional fees offset partially by lower outside commissions.

Engineering, research and development expenses increased $197,721 (26.9%) to $932,872 for three months ended June 30, 2009 as compared to $735,151 for the three months ended June 30, 2008. Engineering, research and development expenses are mostly attributed to efforts related to the CRAFT and TS-4530 programs.

Interest, net

Interest expense decreased as a result of lower interest rates.

Income (Loss) from Continuing Operations before Income Taxes

As a result of the above, the Company recorded a loss from continuing operations before income taxes of $679,134 for the quarter ended June 30, 2009 as compared to income from continuing operations before income taxes of $34,291 for the quarter ended June 30, 2008.

Results of Operations (continued)

Income Taxes

An income tax benefit of $271,313 was recorded for the three months ended June 30, 2009 as compared to an income tax provision in the amount of $13,700 for the quarter ended June 30, 2008. The change is due to the loss before taxes for the quarter ended June 30, 2009 as compared to income before taxes for the quarter ended June 30, 2008. These amounts represent the effective federal and state tax rate of approximately 40% on the Company's net income or loss before taxes.

Net Income (Loss) from Continuing Operations, Net of Taxes

As a result of the above, the Company recorded a loss from continuing operations, net of taxes of $407,821 for the quarter ended June 30, 2009 as compared to net income from continuing operations, net of taxes of $20,591 for the quarter ended June 30, 2008.

Income (Loss) from Discontinued Operations, Net of taxes

For the three months ended June 30, 2009, the Company recorded a loss from discontinued operations, net of taxes, of $910 as compared to income from discontinued operations, net of taxes, of $22,420 for the three months ended June 30, 2008, primarily as a result of the lower sales volume.

Net Income (Loss)

As a result of the above, the Company recorded a net loss of $408,731 for the quarter ended June 30, 2009 as compared to net income of $43,011 for the quarter ended June 30, 2008.

Liquidity and Capital Resources

At June 30, 2009, the Company had working capital of $2,925,598 as compared to $3,284,115 at March 31, 2009. For the three months ended June 30, 2009, the Company used $274,228 in cash for operations as compared to generating $218,457 in cash from operations the three months ended June 30, 2008. This decrease in cash from operations is primarily attributed to the loss for the period and the decrease in accrued expenses partially offset by an increase in accounts payable.

Net cash used in investing activities was $11,313 for the three months ended June 30, 2009 from $39,276 for the three months ended June 30, 2008 due to the decrease in purchases of equipment.

Net cash provided by financing activities decreased to $150,000 for the three months ended June 30, 2009 from $225,330 for the three months ended June 30, 2008 due to the lower borrowings from the line of credit and a decrease in proceeds from the exercise of stock options.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Continued)

Liquidity and Capital Resources (continued)

At June 30, 2009 the Company's backlog stood at approximately $14.7 million, as compared to approximately $11.4 million at June 30, 2008. The backlog at June 30, 2009 includes only the amount of currently exercised delivery orders on open IDIQ (indefinite delivery/indefinite quantity) contracts, and is expected to materially increase when the volume production orders for the two large Navy contracts are received. Historically, the Company obtains a substantial volume of orders which are required to be filled in less than twelve months, and, therefore, these anticipated orders are not reflected in the backlog. The Company has received approximately $8.83 million in orders related to the TS-4530A program, and this amount is included in the backlog at June 30, 2009. In addition, in July 2009 the Company received an additional $6 million delivery order from the Army, bringing the total amount of orders received to approximately $15 million.

Given the weak first quarter results, Tel increased it borrowing on its credit facility by $150,000 in the quarter to $600,000 and had approximately $485,000 of available borrowing capacity as of June 30, 2009. This credit line is on a year-to-year basis with a September 30, 2009 renewal date. Given first quarter loss and the expected loss in the second quarter as well as the sharp expansion in projected business starting this fall, the Company is planning to raise a minimum of $500,000 of equity funding in the next few months through a combination of Director stock option exercises and new share purchases. At this time, the Company has received informal commitments from several Directors to purchase between 90,000 and 100,000 shares of newly issued company stock at a price to be determined by a Special Committee of Directors who would not purchase shares. Other shareholders will be provided the opportunity to participate on the same terms and conditions subject to a minimum share purchase. Further information about the financing program will be provided when the details are finalized.

There was no significant impact on the Company's operations as a result of inflation for the three months ended June 30, 2009. These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K to the Securities and Exchange Commission for the fiscal year ended March 31, 2009.

Item 4 (T). Controls and Procedures

As of the end of the period covered by this report, the Company conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on this evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

There was no change in the Company's internal control over financial reporting during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

See discussion in Item 3 of the Company's Report on Form 10-K for the fiscal year ended March 31, 2009, and the above under M,D&A overview.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no unregistered sales of equity securities and there were no repurchases of equity securities during the Company's first quarter ended June 30, 2009.

Item 6. Exhibits

Exhibits

31.1 Certification by CEO pursuant to Rule 15d-14 under the Securities Exchange Act.

31.2 Certification by CFO pursuant to Rule 15d-14 under the Securities Exchange Act.

32.1 Certification by CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TEL-INSTRUMENT ELECTRONICS CORP.

Date: August 14, 2009 By: /s/ Harold K. Fletcher

Harold K. Fletcher
CEO

Date: August 14, 2009 By: /s/ Joseph P. Macaluso

Joseph P. Macaluso
Principal Accounting Officer