

TEL INSTRUMENT ELECTRONICS CORP

Form 10-Q

November 15, 2010

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 September 30, 2010

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)

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

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

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 ☒ 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 ☒
(Do not check if a smaller reporting company)

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes _____ No _____

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:
2,625,323 shares of Common stock, \$.10 par value as of
November 5, 2010.

TEL-INSTRUMENT ELECTRONICS CORPORATION
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Item 1 - Financial Statements

TEL-INSTRUMENT ELECTRONICS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

| | September 30, 2010 (unaudited) | March 31, 2010 |
|--|---|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$488,306 | \$173,048 |
| Accounts receivable, net | 2,031,624 | 939,143 |
| Unbilled government receivables | 1,491,111 | 1,491,111 |
| Inventories, net | 3,411,764 | 2,242,227 |
| Prepaid expenses and other | 82,759 | 87,535 |
| Deferred debt expense | 108,320 | - |
| Deferred income tax asset | 1,479,076 | 1,234,788 |
| Total current assets | 9,092,960 | 6,167,852 |
| Equipment and leasehold improvements, net | 341,106 | 336,131 |
| Deferred income tax asset – non-current | 1,176,223 | 1,176,223 |
| Deferred debt expense – long-term | 427,266 | - |
| Other assets | 45,829 | 54,131 |
| Total assets | \$11,083,384 | \$7,734,337 |
| LIABILITIES & STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Line of credit | - | 600,000 |
| Current portion of long-term debt | 39,405 | |
| Subordinated notes payable-related parties, net of debt discount | 238,461 | 226,923 |
| Accounts payable | 1,934,063 | 1,145,572 |
| Progress Billings | 515,502 | 69,412 |
| Deferred revenues | 29,755 | 50,279 |
| Accrued payroll, vacation pay and payroll taxes | 566,312 | 420,572 |
| Accrued expenses | 1,656,775 | 1,335,506 |
| Total current liabilities | 4,980,273 | 3,848,264 |
| Long-term debt, net of debt discount | 2,195,723 | - |
| Warranty liability | 281,656 | - |
| Deferred revenues | 22,069 | 27,957 |
| Total liabilities | 7,479,721 | 3,876,221 |
| Commitments | | |
| Stockholders' equity: | | |

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| | | |
|---|--------------|--------------|
| Common stock, par value \$.10 per share, 2,625,323 and 2,615,361 issued and outstanding as of September 30, 2010 and March 31, 2010, respectively | 262,532 | 261,536 |
| Additional paid-in capital | 5,589,048 | 5,481,091 |
| Accumulated deficit | (2,247,917) | (1,884,511) |
| Total stockholders' equity | 3,603,663 | 3,858,116 |
| Total liabilities and stockholders' equity | \$11,083,384 | \$7,734,337 |
| See accompanying notes to condensed consolidated financial Statements | | |

TEL-INSTRUMENT
ELECTRONICS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF
OPERATIONS
(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|------------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 20100 | September 30, 2009 | September 30, 2010 | September 30, 2009 |
| Net sales | \$ 3,055,933 | \$ 2,411,111 | \$ 5,511,213 | \$ 4,753,310 |
| Cost of sales | 1,586,698 | 1,163,459 | 2,959,598 | 2,427,196 |
| Gross margin | 1,469,235 | 1,247,652 | 2,551,615 | 2,326,114 |
| Operating expenses: | | | | |
| Selling, general and administrative | 692,631 | 710,809 | 1,450,675 | 1,518,206 |
| Engineering, research and development | 861,090 | 827,552 | 1,618,436 | 1,772,164 |
| Total operating expenses | 1,553,721 | 1,538,361 | 3,069,111 | 3,290,370 |
| Loss from operations | (84,486) | (290,709) | (517,496) | (964,256) |
| Other income (expense): | | | | |
| Amortization of debt discount | (8,745) | - | (14,514) | - |
| Amortization of debt expense | (6,018) | - | (6,018) | - |
| Gain on sale of capital asset | - | - | 3,600 | - |
| Interest income | 101 | 123 | 148 | 493 |
| Interest expense | (47,194) | (11,525) | (70,699) | (18,996) |
| Loss before income taxes | (146,342) | (302,111) | (604,979) | (982,759) |
| Income tax benefit | (58,348) | (120,693) | (241,573) | (392,610) |
| Net loss | (87,994) | (181,418) | (363,406) | (590,149) |
| Basic and diluted loss per common share | \$ (0.03) | \$ (0.07) | \$ (0.14) | \$ (0.24) |
| Weighted average shares outstanding: | | | | |
| Basic and diluted | 2,622,415 | 2,504,794 | 2,619,038 | 2,491,848 |

See accompanying notes to condensed consolidated financial statements

TEL-INSTRUMENT ELECTRONICS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Six Months ended September 30, 2010 | September 30, 2009 |
|---|---|-----------------------|
| Cash flows from operating activities: | | |
| Net loss | \$ (363,406) | \$ (590,149) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Deferred income taxes | (244,288) | (396,383) |
| Depreciation and amortization | 109,447 | 90,580 |
| Gain on sale of asset | (3,600) | |
| Non-cash stock-based compensation | 49,028 | 36,149 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable, net | (1,092,481) | 2,674 |
| Increase in unbilled government receivables | - | (175,730) |
| (Increase) decrease in inventories | (1,169,537) | 543,854 |
| Decrease in prepaid expenses & other | 4,776 | 18,870 |
| Decrease in other assets | 8,302 | 1,497 |
| Increase (decrease) increase in accounts payable | 788,491 | (8,334) |
| Increase (decrease) in accrued payroll, vacation pay and payroll taxes | 145,740 | (8,695) |
| Decrease in deferred revenues | (26,412) | (4,836) |
| Increase in progress billings | 446,090 | - |
| Decrease in accrued expenses | 321,269 | (317,498) |
| Net cash used in operating activities | (1,026,581) | (808,001) |
| Cash flows from investing activities: | | |
| Proceeds from the sale of capital asset | 3,600 | - |
| Purchases of equipment | (93,890) | (16,108) |
| Net cash used in investing activities | (90,290) | (16,108) |
| Cash flows from financing activities: | | |
| Proceeds from the issuance of common stock | 50,000 | 359,470 |
| Proceeds from the exercise of stock options | 9,925 | 170,415 |
| Proceeds from long-term debt | 2,500,000 | - |
| Expenses associated with long-term debt | (527,796) | - |
| Proceeds from borrowings from line of credit | 400,000 | |
| Repayment of line of credit | (1,000,000) | 150,000 |
| Net cash provided by financing activities | 1,432,129 | 679,885 |
| Net increase (decrease) in cash and cash equivalents | 315,258 | (144,224) |
| Cash and cash equivalents at beginning of period | 173,048 | 601,887 |

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| | | |
|--|------------|------------|
| Cash and cash equivalents at end of period | \$ 488,306 | \$ 457,663 |
| Taxes paid | \$ - | \$ 3,470 |
| Interest paid | \$ 49,221 | \$ 9,656 |

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 September 30, 2010, the results of operations for the three and six months ended September 30, 2010 and September 30, 2009, and statements of cash flows for the six months ended September 30, 2010 and September 30, 2009. 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, 2010 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, 2010.

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. This contract is nearing completion and a major portion of the revenues associated with this program have been recognized. 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). These progress payments are applied to Unbilled Government Receivables resulting from revenues recognized under percentage-of-completion accounting.

Note 3 Accounts Receivable, net

The following table sets forth the components of accounts receivable:

| | September 30, 2010 | March 31, 2010 |
|---------------------------------------|-----------------------|----------------|
| Government | \$ 1,737,983 | \$ 735,184 |
| Commercial | 330,311 | 243,878 |
| Less: Allowance for doubtful accounts | (36,670) | (39,919) |

\$ 2,031,624 \$ 939,143

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TEL-INSTRUMENT ELECTRONICS CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 4 Inventories, net

Inventories consist of:

| | September 30, 2010 | March 31, 2010 |
|-------------------------|-----------------------|----------------|
| Purchased parts | \$ 2,136,743 | \$ 1,432,782 |
| Work-in-process | 1,626,487 | 1,142,851 |
| Finished goods | 78,534 | 76,594 |
| Less: Inventory reserve | (430,000) | (410,000) |
| | \$ 3,411,764 | \$ 2,242,227 |

Note 5 Earnings (Loss) Per Share

Financial Accounting Standards Board ("FASB") ASC 260 (Prior authoritative Financial Accounting 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 periods ended September 30, 2010 and 2009 do not include common stock equivalents, as these stock equivalents would be anti-dilutive.

| | Three Months Ended September 30, 2010 | Three Months Ended September 30, 2009 |
|--|--|--|
| Basic and diluted net loss per share computation: | | |
| Net loss attributable to common stockholders | \$ (87,994) | \$ (181,418) |
| Weighted-average common shares outstanding | 2,622,415 | 2,504,794 |
| Basic and diluted net loss per share attributable to common stockholders | \$ (0.03) | \$ (0.07) |

| | Six Months Ended September 30, 2010 | Six Months Ended September 30, 2009 |
|---|--|--|
| Basic and diluted net loss per share computation: | | |

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| | | | | |
|--|----|------------|----|------------|
| Net loss attributable to common stockholders | \$ | (363,406) | \$ | (590,149) |
| Weighted-average common shares outstanding | | 2,619,38 | | 2,491,848 |
| Basic and diluted net loss per share attributable to common stockholders | \$ | (0.14) | \$ | (0.24) |

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TEL-INSTRUMENT ELECTRONICS CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 6 Stock Options

The Company adopted the FASB ASC 718, utilizing the modified prospective method. FASB ASC 718 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 ASC 718 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 FASB ASC 718-10, operations were charged \$25,363 and \$18,444 and \$49,028 and \$36,149 for three and six months ended September 30, 2010 and 2009, 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 1.36% to 2.31%, volatility at 39.84% to 41.11%, and an expected life of 5 years for the six months ended September 30, 2009; expected dividend yield of 0.0%, risk-free interest rate of 2.09% to 2.74%, volatility at 38.71% to 43.06%, and an expected life of 5 years for the six months ended September 30, 2010. The Company estimates the forfeiture rate based on historical data. Based on an analysis of historical information, the Company has applied a forfeiture rate of 8%.

Note 7 Segment Information

In accordance with FASB ASC 280, "Disclosures about Segments of an Enterprise and related information", the Company determined it has three reportable segments - avionics government, avionics commercial, and until March 31, 2010, marine systems. 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. The marine systems segment consists of sales to hydrographic, oceanographic, researchers, engineers, geophysicists, and surveyors, which terminated operations in fiscal year 2010.

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, and engineering costs 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, both maintained at the corporate level. 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.

TEL-INSTRUMENT ELECTRONICS CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 7 Segment Information (continued)

The table below presents information about reportable segments for the periods ending September 30, 2010 and 2009:

| Three Months Ended September 30, 2010 | Avionics Gov't | Avionics Comm'l. | Avionics Total | Marine Systems | Corporate Items | Total |
|---|-------------------|---------------------|-------------------|-------------------|--------------------|--------------|
| Net sales | \$2,397,847 | \$658,086 | \$3,055,933 | - | - | \$3,055,933 |
| Cost of Sales | <u>1,179,606</u> | <u>407,092</u> | 1,586,698 | - | - | 1,586,698 |
| Gross Margin | 1,218,241 | 250,994 | 1,469,235 | - | - | 1,469,235 |
| Engineering, research, and Development | | | 861,090 | - | - | 861,090 |
| Selling, general, and admin. | | | 347,704 | - | \$344,927 | 692,631 |
| Gain on sale of asset | | | - | - | - | - |
| Amortization | | | | | 14,763 | 14,763 |
| Interest (income) expense, net | | | - | | 47,093 | 47,093 |
| Total expenses | | | 1,208,794 | - | 406,783 | 1,615,577 |
| Loss before income taxes | | | \$260,441 | - | \$(406,783) | \$(146,342) |
| Three Months Ended September 30, 2009 | Avionics Gov't | Avionics Comm'l. | Avionics Total | Marine Systems | Corporate Items | Total |
| Net sales | \$1,798,305 | \$586,049 | \$2,384,354 | \$26,757 | - | \$2,411,111 |
| Cost of Sales | <u>788,216</u> | <u>371,889</u> | 1,160,105 | 3,354 | - | 1,163,459 |
| Gross Margin | 1,010,089 | 214,160 | 1,224,249 | 23,403 | - | 1,247,652 |
| Engineering, research, and development | | | 815,203 | 12,349 | - | 827,552 |
| Selling, general, and admin. | | | 362,500 | 91 | \$348,218 | 710,809 |
| Interest (income) expense, net | | | - | - | 11,402 | 11,402 |
| Total expenses | | | 1,177,703 | 12,440 | 359,620 | 1,549,763 |
| 7 Loss before income taxes | | | \$46,546 | \$10,963 | (359,620) | \$(302,111) |
| Six Months Ended September 30, 2010 | Avionics Gov't | Avionics Comm'l. | Avionics Total | Marine Systems | Corporate Items | Total |
| Net sales | \$4,246,320 | \$1,264,893 | \$5,511,213 | - | - | \$5,551,213 |
| Cost of Sales | <u>2,120,278</u> | <u>839,320</u> | 2,959,598 | - | - | 2,959,598 |
| Gross Margin | 2,126,042 | 425,573 | 2,551,615 | - | - | 2,551,615 |

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| | | | | |
|--|-----------|---|-----------|-----------|
| Engineering, research, and Development | 1,618,436 | - | - | 1,618,436 |
| Selling, general, and admin. | 695,799 | - | \$754,876 | 1,450,675 |
| Gain on sale of asset | - | - | (3,600) | (3,600) |
| Amortization | | | 20,532 | 20,237 |
| Interest expense,net | - | - | 70,551 | 70,551 |
| Total expenses | 2,314,235 | - | 842,349 | 3,156,594 |

Loss before income taxes \$237,380 - \$(842,349) \$(604,979)

| Six Months Ended September 30, 2009 | Avionics Gov't | Avionics Comm'l. | Avionics Total | Marine Systems | Corporate Items | Total |
|--|-------------------|---------------------|-------------------|-------------------|--------------------|-------------|
| Net sales | \$3,689,545 | \$1,020,564 | \$4,710,109 | \$43,201 | - | \$4,753,310 |
| Cost of Sales | _1,762,441 | _655,330 | 2,417,771 | 9,425 | - | 2,427,196 |
| Gross Margin | 1,927,104 | 365,234 | 2,292,338 | 33,776 | - | 2,326,114 |

| | | | | |
|--|--------------|---------|--------------|--------------|
| Engineering, research, and development | 1,748,075 | 24,089 | - | 1,772,164 |
| Selling, general, and admin. | 860,893 | 240 | \$657,073 | 1,518,206 |
| Interest (income) expense,net | - | - | 18,503 | 18,503 |
| Total expenses | 2,608,968 | 24,329 | 675,576 | 3,308,873 |
| Loss before income taxes | \$(316,630) | \$9,447 | \$(675,576) | \$(982,759) |

TEL-INSTRUMENT ELECTRONICS CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 8 Income Taxes

The Company adopted FASB ASC 740-10, Accounting for Uncertainty in Income Taxes, effective April 1, 2007. ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. 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 September 30, 2010 and March 31, 2010 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 FASB ASC 820-10, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of ASC 820-10 are effective for fiscal periods after 2008. The FASB has also issued a Staff Position (FSP), which delayed the effective date of ASC 820-10 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 ASC 820-10, 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. ASC 820-10 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 ASC 820-10 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.

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TEL-INSTRUMENT ELECTRONICS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 9 Fair Value Measurements (continued)

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 short-term nature of these instruments.

The following table sets forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value as of September 30, 2010 and March 31, 2010. As required by FASB ASC 820-10, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

| September 30, 2010 | Level I | Level II | Level III | Total |
|--------------------|---------|----------|------------|------------|
| | | \$ | | |
| Total Assets | \$ | -- | \$ | \$ - |
| Warrant liability | - | - | 281,656 | 281,656 |
| Total Liabilities | \$ - | \$ - | \$ 281,656 | \$ 281,656 |
| March 31, 2010 | Level I | Level II | Level III | Total |
| | | \$ | \$ | |
| Total Assets | \$ | - | - | \$ - |
| Total Liabilities | \$ - | \$ - | \$ - | \$ - |

TEL-INSTRUMENT ELECTRONICS CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 9 Fair Value Measurements (continued)

We adopted the guidance of ASC 815, which requires that our warrant be accounted for as a derivative instrument and that we mark the value of our warrant liability to market and recognize the change in valuation in our statement of operations each reporting period. Determining the warrant liability to be recorded requires us to develop estimates to be used in calculating the fair value of the warrant. The fair value of the warrant is calculated using the Black-Scholes valuation model. The Black-Scholes model requires estimates to be made of the expected volatility of the Company's stock and a risk-free interest rate, the yield on zero-coupon U.S. Treasury securities is used.

The common stock warrants were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign corporation. The warrants do not qualify for hedge accounting, and, as such, all changes in the fair value of these warrants are recognized currently in the statement of operations until such time as the warrants are exercised or expired. These common stock warrants do not trade in an active securities market, and, as such, we estimate the fair value of these warrants using the Black-Scholes options model using the following assumptions:

September 30, 2010

| | |
|-------------------------|--------|
| Risk free interest rate | 2.81% |
| Expected life in years | 9 |
| Expected volatility | 28.51% |

Note 10 Reclassifications

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

Note 11 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; tortuously interfered with its business relationship; conspired to harm Aeroflex and tortiously interfered with its contract and seeks injunctive relief and damages. The central basis of all the claims in the Aeroflex Action is that the Company misappropriated and used Aeroflex proprietary technology in winning the Award.

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 Contacting Officer each field 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.

TEL-INSTRUMENT ELECTRONICS CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 11 Litigation (continued)

In December 2009, the Kansas court dismissed the Aeroflex civil suit against the Company. While this decision was based on jurisdictional issues, the ruling did note that Aeroflex, after discovery proceedings, did not provide any evidence that Tel or its employees misappropriated Aeroflex trade secrets. The Kansas ruling also referenced the Army's findings, in its response to the General Accountability Office ("GAO"), which rejected Aeroflex's claims and determined that Tel used its own proprietary technology on this program. Aeroflex has elected to appeal this Kansas decision and has agreed to stay any action against the two former employees until a decision is reached. Tel remains confident as to the outcome of this appeal and any potential follow-on litigation.

Note 12 New Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update 2009-13, "Revenue Recognition (Topic 605)". This Update provides amendments to the criteria in Subtopic 605-24 for separating consideration in multiple-deliverable revenue arrangements. It establishes a hierarchy of selling prices to determine the selling price of each specific deliverable which includes vendor-specific objective evidence (if available), third-party evidence (if vendor-specific evidence is not available), or estimated selling price if neither of the first two are available. This Update also eliminates the residual method for allocating revenue between the elements of an arrangement and requires that arrangement consideration be allocated at the inception of the arrangement. Finally, this Update expands the disclosure requirements regarding a vendor's multiple-deliverable revenue arrangements. This Update is effective for fiscal years beginning on or after June 15, 2010. We do not anticipate any material impact from this Update.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (the "Update"), which provides amendments to Accounting Standards Codification 820-10 (Fair Value Measurements and Disclosures – Overall Subtopic) of the Codification. The Update requires improved disclosures about fair value measurements. Separate disclosures need to be made of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements along with a description of the reasons for the transfers. Also, disclosure of activity in Level 3 fair value measurements needs to be made on a gross basis rather than a net basis. The Update also requires: (1) fair value measurement disclosures for each class of assets and liabilities, and (2) disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements, which are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the Level 3 activity disclosures, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company has complied with the new disclosure requirements.

TEL-INSTRUMENT ELECTRONICS CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 13 Long-Term Debt

In September 2010 the Company entered into an agreement with BCA Mezzanine Fund LLP (“BCA”) to loan the Company \$2.5 million in the form of a Promissory Note (“the “Note”). The Company incurred expenses of \$541,604 in connection with this loan, including legal fees, investment banking fees and other transaction fees. These expenses are included as deferred debt expense in the accompanying balance sheet, and these expenses will be amortized over the term of the loan. The features of the note are as follows:

1. The Note has a term of five (5) years with an interest rate of 14% on the outstanding principal amount. Payments for the first year are interest only, and after the first year the Company will make monthly payments of approximately \$69,000 for the remaining term of the loan.
2. The Company issued BCA a nine-year warrant for 136,090 shares, based upon 4.5% of the fully –diluted outstanding shares of the Company’s common stock at \$6.70 per share, the average closing price over the three days preceding the closing on the NYSE-Amex Exchange. In the event of specific major corporate events or the maturity of the five-year loan, BCA can require the Company to purchase the warrant and warrant shares at the higher of the then Exchange market price or five times operating income per share. In connection with the warrant issued in conjunction with this debt, the Company recorded a debt discount and warrant liability of \$267,848, which will be marked to fair value at the end of each period (see Note 9). The debt discount is to be amortized over the life of the loan.
3. Loan provisions also contain customary representations and warranties.
4. BCA has a lien on all of the Company’s assets.
5. Provisions of the loan also include certain financial covenants that the Company must comply with, beginning December 31, 2010.

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.

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

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.

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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. While such estimates have historically been within our expectation and the provision established, the Company cannot guarantee that its estimates will continue to be within the provision established.

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. While such credit losses have historically been within our expectation and the provision established, the Company cannot guarantee that its estimates will continue to be within the provision established.

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 recorded 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 and Management's Discussion and Analysis in the Company's Annual Report on Form 10-K for the year ended March 31, 2010.

Overview

As previously reported, the Company concluded a loan agreement in September 2010 in order to raise additional funding to support the increasing volume of sales and as a bridge to the anticipated higher sales and cash flow commencing in the latter part of this fiscal year. The \$2.5 million loan agreement with BCA Mezzanine Fund L.P. is a five year loan at 14% per year, payable interest only in the first year at approximately \$29,000 per month, and thereafter payments will be approximately \$69,000 monthly until paid. The loan is described in Note 13 to the Financial Statements.

The Company used the loan proceeds to repay its bank loan, pay accounts payable, and working capital needs to fund increases in inventories and accounts receivable. As a result, the Company increased working capital by approximately \$1.8 million as it replaced the bank loan, classified as a current liability, with the BCA Loan, which is mostly classified as long-term debt. The Company believes that it now has adequate funding to support the anticipated substantial increase in sales.

Shareholder equity declined by approximately \$254,000 during the six months ended September 30, 2010 as the loss for the year was partially offset by proceeds from the issuance of additional common stock. The stock was sold pursuant to the exercise of outstanding employee stock options, and director purchases at the closing market price of the common stock on the NYSE Amex on the date of purchase.

Sales for the quarter ended September 30, 2010 increased \$644,822 (26.7%) over the same period in the prior fiscal year to \$3,055,933 and the operating loss declined to \$84,486 as compared to \$290,709 for the quarter ended September 30, 2009.

At September 30, 2010 the Company's backlog was approximately \$32.8 million as compared to approximately \$18.3 million at September 30, 2009. Recently, the Company received orders, included in the aforementioned backlog, for approximately \$6.5 million, most of which will be shipped in the current fiscal year.

Two of the Company's key new products are currently undergoing evaluation by the U.S. Navy. The Company believes that both products will be successfully evaluated and that upon successful completion of the evaluation, the Navy will exercise the remaining production options for the CRAFT AN/USM-708, and will allow the Company to begin production of the order for 102 units of the ITATS AN/ARM-206 already received.

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

Overview (continued)

The Company has also received \$17 million of delivery orders from the U.S. Army for the TS-4530A program, and the Company expects to begin shipping the qualification units in the next several months.

As a result of the foregoing, as well as projected sales of other products, the Company anticipates a substantial increase in revenues and solid profits in this fiscal year ending March 31, 2011.

As previously reported, on July 30, 2010, Tel received a letter from the staff of the NYSE Amex that, based on the Tel's financial statements, Tel was no longer in compliance with the Exchange's requirement for continued listing of its shares under Section 1009 of the Exchange's rules. Tel is not in compliance with the listing requirements as its reported stockholders' equity at March 31, 2010 was \$3.85 million as compared to the \$4.0 million minimum requirement. Pursuant to Exchange rules, the Company's stock continues to be listed for trading, and the Company furnished the Exchange with a specific plan of how it will return to compliance on or before January 30, 2012.

On October 18, 2010 the NYSE Amex accepted the Company's proposed plan to return to compliance with the minimum stockholder equity requirement by January 30, 2012. Based upon the information provided by the Company, the Exchange has determined that the Company has made a reasonable demonstration of its ability to regain compliance with Section 1009 of the Company Guide by January 30, 2012. Based on this, the Exchange will continue the listing of the Company.

The Exchange will periodically review the Company for compliance with the Plan. If the Company does not show progress consistent with the Plan, the Exchange Staff will review the circumstances and could commence delisting proceedings. The Company is confident that it will achieve its objectives and maintain its listing on the NYSE Amex.

In December 2009, the Kansas court dismissed the Aeroflex civil suit against the Company. While this decision was based on jurisdictional issues, the ruling did note that Aeroflex, after discovery proceedings, did not provide any evidence that Tel or its employees misappropriated Aeroflex trade secrets. The Kansas ruling also referenced the Army's findings, in its response to the General Accountability Office, which rejected Aeroflex's claims and determined that Tel used its own proprietary technology on this program. Aeroflex has elected to appeal this Kansas decision and has agreed to stay any action against the two former employees until a decision is reached. Tel remains confident as to the outcome of this appeal. See Note 11 to the Financial Statements.

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

Results of Operations (continued)

Sales

For the quarter ended September 30, 2010, total sales increased \$644,822 (26.7%) to \$3,055,933 as compared to \$2,411,111 for the same quarter in the prior year. Avionics Government sales increased \$599,542 (33.3%) to \$2,397,847 for the period as compared to \$1,798,305 for the same period last year. This increase in Avionics Government sales is primarily attributed to AN/APM-719 units partially offset by a decline in sales of the TR-420. Commercial sales increased \$72,037 (12.3%) to \$658,086 for the three months ended September 30, 2010 as compared to \$586,049 in the same period in the prior year. This increase is due to the timing of orders and shipments. The Company continues to experience weakness in the commercial market and does not expect this growth in the commercial segment to continue.

For the six months ended September 30, 2010, total sales increased \$757,903 (15.9%) to \$5,511,213 as compared to \$4,753,310 for the same period in the prior year. Avionics Government sales increased \$556,775 (15.1%) to \$4,246,320 for the period as compared to \$3,689,545 for the same period last year. This increase in Avionics Government sales is primarily attributed to AN/APM-719 units partially offset by a decline in sales of the TR-420. Commercial sales increased \$244,329 (23.9%) to \$1,264,893 for the six months ended September 30, 2010 as compared to \$1,020,564 in the same period in the prior year. This increase is due to the timing of orders and shipments. The Company continues to experience weakness in the commercial market and does not expect this growth in the commercial segment to continue.

Gross Margin

Gross margin increased \$221,583 (17.8%) to \$1,469,235 for the quarter ended September 30, 2010 as compared to \$1,247,652 for the same quarter in the prior fiscal year. The increase in gross margin is primarily attributed to the increase in volume. The gross margin percentage for the quarter ended September 30, 2010 was 48.1% as compared to 51.7% for the quarter ended September 30, 2009. Gross profit is lower as a percent of sales due to a change in sales mix.

Gross margin increased \$225,501 (9.6%) to \$2,551,615 for the six months ended September 30, 2010 as compared to \$2,326,114 for the same period in the prior fiscal year. The increase in gross margin is primarily attributed to the increase in volume. The gross margin percentage for the six months ended September 30, 2010 was 46.3% as compared to 48.9% for the six months ended September 30, 2009. The decrease in gross percentage is due to a change in sales mix.

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

Results of Operations (continued)

Operating Expenses

Selling, general and administrative expenses decreased \$18,178 (2.6%) and 67,531 (4.4%) to \$692,631 and \$1,450,675, respectively, for the three and six months ended September 30, 2010, as compared to \$710,809 and \$1,518,206 for the three and six months ended September 30, 2009. This decrease is attributed mainly to a decrease in legal fees associated with the Aeroflex litigation offset partly by an increase in outside commissions.

Engineering, research and development expenses increased \$33,538 (4.1%) to \$861,090 for three months ended September 2010 as compared to \$827,552 for the three months ended September 30, 2009 primarily as a result of increased salaries and fringes offset mostly by lower outside contractor costs. Engineering, research and development expenses decreased \$153,728 (8.7%) to \$1,618,436 for six months ended September 30, 2010 as compared to \$1,772,164 for the six months ended September 30, 2009, primarily as a result of reduced outside contractor expenses associated with the near completion of major programs. Further decreases are expected as major engineering projects are completed.

Other Income (Expense).net

Interest expense increased as a result of interest on the new \$2.5 million loan from BCA, increased cumulative borrowings on the line of credit, increased interest expenses associated with the officers' subordinated notes, and higher interest rate associated with the line of credit. Amortization of debt discount is in connection with the stock options issued in conjunction with the officers' subordinated notes and warrants issued in conjunction with the loan from BCA. The amortization of deferred expenses is also associated with the loan from BCA.

Loss before Income Taxes

As a result of the above, the Company recorded a loss before income taxes of \$146,342, for the quarter ended September 30, 2010 as compared to a loss before income taxes of \$302,111 for the quarter ended September 30, 2009. The Company also recorded a loss before income taxes of \$604,979 for the six months ended September 30, 2010 as compared to a loss before income taxes of \$982,759 for the six months ended September 30, 2009.

Income Taxes

An income tax benefit of \$241,573 was recorded for the six months ended September 30, 2010 as compared to \$392,610 for the six months ended September 30, 2009. The change is due to the lower loss before taxes for the six months ended September 30, 2010. These amounts represent the effective federal and state tax rate of approximately 40% on the Company's net income or loss before taxes.

Net Loss

As a result of the above, the Company recorded net losses of \$87,699 and \$363,111 for the three and six months ended September 30, 2010 as compared to net losses of \$181,418 and \$590,149 for the three and six months ended September 30, 2009.

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

Liquidity and Capital Resources

At September 30, 2010, the Company had working capital of \$4,112,687 as compared to \$2,319,588 at March 31, 2010, primarily as a result of the increase in accounts receivable and inventories and the payment of the line of credit with the bank that was classified as a current liability with the long-term BCA loan, partially offset by the increase in accounts payable and other accrued expenses.

During the six months ended September 30, 2010, the Company had a net increase in cash of \$315,258. The Company's principal sources and uses of funds were as follows:

Cash used in operating activities. For the six months ended September 30, 2010, the Company used \$1,026,581 in cash for operations as compared to using \$808,001 in cash for operations for the six months ended September 30, 2009. This is primarily attributed to the increase in accounts receivable and inventories offset mostly by an increase in accounts payable and progress billings as well as the lower loss from operations.

Cash used in investing activities. Net cash used in investing activities was \$90,290 for the six months ended September 30, 2010 from \$16,108 for the six months ended September 30, 2009 due to the increase in purchases of equipment.

Cash provided by financing activities Net cash provided by financing activities for the six months ended September 30, 2010 was \$1,432,129 as compared to \$679,885 for the six months ended September 30, 2009. In September 2010 the Company raised \$2.5 million in financing which was offset by financing costs and repayment to the bank of the line of credit. This amount was also offset partially by lower proceeds from the issuance of common stock and exercise of stock options.

At September 30, 2010 the Company's backlog was approximately \$32.8 million as compared to approximately \$18.3 million at September 30, 2009. The backlog at September 30, 2010 includes only the amount of currently exercised delivery orders on open IDIQ (indefinite delivery/indefinite quantity) contracts, and the Company's backlog is expected to materially increase when the large volume production orders for the AN/USM-708 and AN/ARM-206 units are received.

In September 2010 the Company, pursuant to an agreement with BCA Mezzanine Fund LP, borrowed \$2.5 million for five years. See Overview and Note 13 to the Financial Statements.

On certain government contracts the Company has been granted progress payments from the government, which allows the Company to bill and collect a portion of its incurred costs on long-term programs before shipment of units, thus helping to fund the costs of these programs.

There was no significant impact on the Company's operations as a result of inflation for the six months ended September 30, 2010. 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, 2010.

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, 2010, Note 11 to the Financial Statements above, and under Management's Analysis and Discussion of the Results of Operations – Overview included in this report.

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

On or about July 22, 2010, three directors entered into agreements with the Company providing that, inter alia, if the Company needed additional capital at any time until September 30, 2010, the directors would purchase shares of common stock at the average closing price of the stock on the NYSE-Amex for the three days preceding the date the Company requested the capital. These agreements are limited as to the amount of capital the Company can request from each director.

On July 26, the Company requested capital under this agreement and sold 7,462 shares of its Common Stock at the average closing price of \$6.70 per share to a director pursuant to this agreement. The shares sold were restricted against transfer and were sold pursuant to the exemption from registration provided by Section 4 of the Securities Act of 1933.

See Note 13 to the Financial Statements regarding warrant issued to BCA Mezzanine Fund LP

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.

D a t e :
2010
Fletcher

N o v e m b e r 1 2 ,
By: /s/ Harold K.

Harold K. Fletcher
CEO

Date: November 12, 2010
By: /s/ Joseph P. Macaluso

Joseph P. Macaluso
Principal Accounting Officer

