

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

TEL INSTRUMENT ELECTRONICS CORP

Form 10-K

July 16, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the fiscal year ended March 31, 2007

Commission File No. 33-18978

TEL-INSTRUMENT ELECTRONICS CORP

(Exact name of Registrant as specified in its charter)

New Jersey

22-1441806

(State of incorporation)

(IRS Employer
Identification Number)

728 Garden Street
Carlstadt, New Jersey

07072

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (201) 933-1600

Securities registered pursuant to Section 12(b) of the Act:

2,241,861 shares of Common Stock were outstanding as of July 6, 2007.

Title of Each Class
Common Stock \$.10 par value

Name of Exchange on Which Registered
American Stock Exchange

Indicate by checkmark if registrant is a well-known seasoned issuer, as defined
in Rule 405 of the Securities Act.

Yes No X

Indicate by checkmark if registrant is not required to file reports pursuant to
Section 13 or Section 15(d) of the Act. Yes No X

Indicate by checkmark 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 if disclosure of delinquent filers pursuant to Item 405
of Regulation S-K is not contained herein, and will not be contained, to the
best of the Registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-K or any
amendment to this Form 10-K. []

Indicate by check mark whether the registrant is a large accelerated filer, an
accelerated filer, or a non-accelerated filer. See definition of "accelerated

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [] Accelerated filer [] Non-accelerated filer [X]
Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Act).

Yes No X

The aggregate market value of the voting Common Stock (par value \$.10 per share) held by non-affiliates on September 30, 2006 was \$2,886,456 using the closing price on September 30, 2006.

Total Pages - 65; Exhibit Index - pages 59-60

1

PART I

Item 1. Description of Business

General

Tel-Instrument Electronics Corp ("Tel" or the "Company") has been in business since 1947, and is a leading designer and manufacturer of avionics test and measurement solutions for the global commercial air transport, general aviation, and government/military aerospace and defense markets. The Company manufactures and sells instruments to test, measure, calibrate, and repair a wide range of airborne navigation and communication equipment.

Tel's instruments are used to test navigation and communications equipment installed in aircraft, both on the flight line ("ramp testers") and in the maintenance shop ("bench testers"), and range in list price from \$7,500 to \$85,000 per unit. Tel continues to develop new products in anticipation of customers' needs and to maintain its strong market position. Its development of multifunction testers, for example, has made it easier for customers to perform ramp tests with less operator training, fewer test sets, and lower product support costs. In recent years the Company has become a major manufacturer and supplier of IFF (Identification Friend or Foe) flight line test equipment, and recently was awarded major military contracts, CRAFT and ITATS (see below), incorporating new technology.

Tel is in a transitional phase between the end of deliveries pursuant to its multi-year AN/APM-480 contract, and the commencement of production deliveries under its new multi-year Navy contracts (CRAFT - AN/USM-708 and ITATS - AN/ARM-206).

The AN/USM-708 is a key product for the Company as it represents a cutting edge technology product, and is currently the only IFF Mode 5 flight line test set under contract with the U.S. Military. The AN/USM-708 contract awarded the Company by the United States Navy is a \$17.3 million multi-year, firm-fixed-price, indefinite-delivery/indefinite-quantity contract for the systems engineering, design and integration, fabrication, testing, and production of a Communications/Navigation (COMM/NAV) Radio Frequency (RF) Avionics Flightline Tester ("CRAFT") with sonobuoy simulator

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

capabilities. The AN/USM-708 CRAFT unit combines advanced navigation, communication, Mode 5 IFF and sonobuoy test capabilities in a portable test set, which will utilize a flexible and expandable digital-signal-processing-based architecture. The engineering design is being completed, and fabrication of 15 prototype units will begin shortly. These units will undergo design validation testing in late 2007, with production scheduled to begin late in calendar year 2008. This contract currently has production options totaling 750 units, which, if exercised, would generate approximately \$14 million in revenues over a several year period. The contract for the AN/USM-708 is a significant milestone for the Company, because the development of this technology, which has been funded by the Company, will establish Tel's position as a leader in the industry, and will meet the U.S. Navy's test requirements for years to come. The Company believes, given the unique nature of the design, this unit could generate sales to other military customers. The Company has already received orders for a limited number of units for a modified CRAFT test set from customers other than the U.S. Navy. The AN/USM-708 contract also includes options for testing encrypted communications, which, if exercised, could represent a major expansion in the Company's core business.

2

Item 1. Description of Business

General (continued)

The AN/ARM-206 Intermediate Level TACAN Test Set (ITATS) combines advanced digital technology with state of the art automated testing capabilities. This product will represent an important expansion to Tel's current product line, and the automated testing capabilities will represent a significant labor savings benefit to our customers. This contract has options for approximately 180 units with a total value of over \$12 million; the initial work authorization was \$4.4 million. Tel will be working with an engineering sub-contractor and, as a result, this program will entail a much lower level of Tel engineering effort than the AN/USM-708. This contract and the current AN/USM-708 contract, represents a solid base for the future profitable growth of the Company. The AN/ARM-206 program, which was temporarily interrupted by a GAO protest, is proceeding on schedule and the Company successfully completed its Preliminary Design Review (PDR) with the U.S. Navy in May 2007. Given the unique nature of the design, this unit could also generate significant sales to other military customers, both domestically and overseas.

In January, 2004, the Company acquired privately held Innerspace Technology, Inc. ("ITI"). References to the Company or Tel include ITI unless the context requires otherwise (see Note 16 to the Notes to Consolidated Financial Statements - Segment Information).

ITI is a leading designer and manufacturer of marine instrumentation systems, including depth sounders and tide gauges, and is a systems integrator to support hydrographers, oceanographers, researchers, engineers, geophysicists, and surveyors worldwide with components,

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

complete turnkey systems, and equipment rentals. To assist in providing a full-function system for its customers, ITI sells Trimble Global Positioning (GPS) products as part of its systems offerings.

A depth sounder is an instrument that uses an acoustic transmitter and receiver to map the contour of the sea floor, and ITI offers these products with both single and dual frequency operation, and at unit prices ranging from approximately \$5,000 to \$20,000.

ITI's sales have not grown as expected and the Company is closely monitoring its performance, and is evaluating its future potential.

Marketing and Distribution

Domestic commercial sales are made directly or through distributors. No direct commercial customer accounted for more than 10% of commercial sales in fiscal years 2007, 2006, and 2005. Domestic distributors receive a 15%-20% discount for stocking, selling, and, in some cases, providing product calibration and repairs. Tel gives a 5% to 15% discount to non-stocking distributors, and to independent sales representatives, depending on their sales volume and promotional effort. Avionics International and Aero Express, independent domestic distributors, accounted for 12%, 9%, and 10%, and 12%, 7%, and 15% of commercial sales, respectively, for the three years ended March 31, 2007, 2006, and 2005. Dallas Avionics, an independent domestic distributor, accounted for 16% of total commercial sales for the years ended March 31, 2007 and 2006, respectively. The loss of any of one these distributors would not have a material adverse effect on the Company or its operations.

3

Item 1. Description of Business

General (continued)

Marketing and Distribution (continued)

Marketing to the U.S. Government is made directly by employees of the Company or through independent sales representatives, who receive similar commissions to the distributors. For the years ended March 31, 2007, 2006, and 2005, sales to the U.S. Government, including shipments through the government's logistics center, represented approximately 27%, 47%, and 37%, respectively, of net avionics sales. One direct government customer (Boeing Corp.) accounted for 13% of government sales in fiscal year 2007. No direct government customers represented over 10% of government sales for fiscal years 2006 and 2005.

International sales are made direct, through American export agents, or through the Company's overseas distributors at a discount reflecting a 20% to 22% selling commission, under written or oral, year-to-year arrangements. The Company has an exclusive distribution agreement with Muirhead Avionics and Accessories, Ltd, based in the

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

United Kingdom, to represent the Company in parts of Europe, and with Milspec Services in Australia and New Zealand. Muirhead accounted for approximately 4%, 17%, and 20% of commercial sales in the years ended March 31, 2007, 2006 and 2005, respectively. In addition, Muirhead sells to the government segment. For the year ended March 31, 2006, sales to Milspec represented approximately 11% of government sales. Tel also sells its products through exclusive distributors in Spain, Portugal, and the Far East and is exploring distribution in other areas. For the years ended March 31, 2007, 2006, and 2005, total international sales were 19%, 20%, and 18%, respectively, of total sales. Additionally, the Company has an agreement with M.P.G. Instruments s.r.l., based in Italy, wherein this distributor has the exclusive sales rights for DME/P ramp and bench test units. For the fiscal year ended March 31, 2007, sales to M.P.G. Instruments s.r.l represented 13% of total government sales. The Company continues to explore additional marketing opportunities in other parts of the world, including the Far East. The Company has no material assets overseas.

Tel also provides customers with calibration and repair services. Future domestic market growth will be affected in part by whether the U.S. Federal Aviation Administration (FAA) implements plans to upgrade the U.S. air traffic control system and by continuing recent industry trends towards more sophisticated avionics systems, both of which would require the design and manufacture of new test equipment. The military market is affected by additional requirements by the Department of Defense. The Company believes its test equipment is recognized by its customers for its quality, durability, reliability, and affordability.

Most ITI sales of marine products are made directly to customers. In fiscal 2007 only the U.S. Government (20%) accounted for over 10% of total sales. In fiscal year 2006, one customer, Severson Environmental Services represented 18% percent of total sales. No one customer accounted for 10% or more of ITI's sales for fiscal 2005. ITI's products are recognized in the market for their quality, reliability, and affordability.

4

Item 1. Description of Business

General (continued)

Backlog

Set forth below is Tel's avionics backlog at March 31, 2007, 2006, and 2005.

	Commercial	Government	Total
	-----	-----	-----
March 31, 2007	\$ 660,027	\$ 8,863,006	\$ 9,523,033
March 31, 2006	\$ 100,600	\$ 3,091,793	\$ 3,192,393
March 31, 2005	\$ 567,095	\$ 5,603,658	\$ 6,170,753

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

ITI's backlog was \$22,305, \$39,065 and \$65,315, respectively, at March 31, 2007, 2006, and 2005.

Tel believes that most of its backlog at March 31, 2007 will be delivered during the next two fiscal years. The increase in the backlog from fiscal year 2006 to 2007 is due to the initial orders on the ITATS program (\$4.4 million) and the order from the Royal Australian Air Force (through our distributor) for the T-47NC Test Set (\$615,000). Commercial backlog increased as a result of long-term orders from the Company's distributors. Reduction in backlog from fiscal year 2005 to 2006 is primarily a result of having completed delivery of the 50 T-47NH units to the Royal Australian Air Force (\$694,350), and the T-36M and T-47NH to the U.S. Army (\$1,815,000). Commercial backlog declined from 2005 to 2006 as a result of the continuing financial difficulties in the commercial airline industry. Historically, commercial and government orders received by the Company, other than for larger programs, like the AN/APM-480 or AN/USM-708, are received and shipped within the year and, as such, are not reflected in year-end backlog.

All of the backlog is pursuant to purchase orders and all of the government contracts are fully funded. However, government contracts are always susceptible to termination for convenience by the government.

Suppliers

Tel and ITI obtain its purchased parts from a number of suppliers. These materials are standard in the industry, and the Company foresees no difficulty in obtaining purchased parts, as needed, at acceptable prices.

Competition

The Company manufactures and sells commercial and military products as a single avionics business, and its designs and products cross markets.

The general aviation market consists of some 1,000 avionics repair and maintenance service shops, at private and commercial airports in the United States, which purchase test equipment to assist in the repair of aircraft electronics. The commercial aviation operator market consists of approximately 80 domestic and foreign commercial airlines.

The civilian market for avionic test equipment is dominated by two manufacturers, including Tel and Aeroflex. This market is relatively small and highly competitive. Tel has been successful because of its high quality, user friendly products and competitive prices.

5

Item 1. Description of Business

General (continued)

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Competition (continued)

The military market is large and is dominated by large corporations with substantially greater resources than the Company. Tel competitively bids for government contracts on the basis of the uniqueness of its products and "small business set asides" (i.e., statutory provisions requiring the military to entertain bids only from statutorily defined small businesses), and on bids for sub-contracts from major government suppliers. There are a limited number of competitors who are qualified to bid for "small business set asides." The military market consists of many independent purchasing agencies and offices.

In recent years the Company has become an important supplier for the U.S. Military, as well as the NATO countries, for flight line IFF test equipment. The AN/USM-708 program, discussed above, involves a new generation of technology, including the next generation of IFF testing, and is expected to allow the Company to continue to be a major supplier of avionics test equipment to the military for years to come.

The market for marine instrumentation systems is small and is dominated by five major manufacturers, including Innerspace Technology, Inc. (wholly owned by Tel), Odom Hydrographic Systems, Inc., Knudsen Engineering Limited, Simrad AS (a division of Kongsberg), and Reson AS. There are approximately another five companies that compete on a smaller scale.

Patents

Tel has no patents or licenses which are material to its business.

Engineering, Research, and Development

In the fiscal years ended March 31, 2007, 2006, and 2005, Tel spent \$2,580,381 \$2,534,497, and \$2,186,828, respectively, on the engineering, research, and development of new and improved products. None of these amounts was sponsored by customers. Tel's management believes that continued significant expenditures for engineering, research, and development are necessary to enable Tel to expand its products, sales, and profits.

Engineering, research, and development expenditures in fiscal 2007 were directed primarily to the continued development of the new AN/USM-708 (CRAFT) next generation multi-function test set for the U.S. Navy, including the next generation of IFF testing sets, improvements to the multi-function commercial bench tester (TB-2100), and the incorporation of other product enhancements in existing designs. The Company owns all of these designs.

Personnel

At July 6, 2007, Tel had 19 full-time employees in manufacturing, materials management, and quality assurance, 13 in administration and sales, and 12 in engineering, research and development, none of whom belongs to a union. The Company also utilized 2 part-time individuals in manufacturing and 2 in administration. From time to time, the

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Company also employs independent contractors to support its manufacturing, engineering, and sales organizations. At July 6, 2007, the Company utilized 4 outside contractors in manufacturing, 4 in sales, and 6 in engineering. We believe we have been successful in attracting skilled and experienced management and scientific personnel.

6

Item 1A. Risk Factors

The statements contained in this Report on Form 10-K that are not purely historical are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including and without limitations, statements regarding the Company's expectations, hopes, beliefs, anticipations, commitments, intentions and strategies regarding the future. Forward-looking statements include, but are not limited to, statements contained in "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." Actual results could differ from those projected in any forward-looking statements for the reasons, among others, detailed below. The Company believes that many of the risks detailed here are part of doing business in the industry in which the Company competes and will likely be present in all periods reported. The forward-looking statements are made as of the date of this Report on Form 10-K and the Company assumes no obligation to update the forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements. You should carefully consider these factors that could materially affect the Company's business, financial condition or future results. The risks described below are not the only risks facing the Company.

Additional risks and uncertainties not currently known or deemed to be immaterial also may materially adversely affect the business, financial condition and/or operating results.

Changes in the Spending Priorities of the Federal Government

In fiscal year 2007, approximately 27% of the Company's revenues were related to products purchased by the U.S. Government. The Company's business depends upon continued federal government expenditures on defense, aerospace, and other programs that the Company supports. In addition, foreign military sales are affected by U.S. Government regulations. There can be no assurance that the U.S. defense and military budget will continue to grow, and/or funds be allocated to the types of products that the Company manufactures. The Company has two significant contracts with the U.S. Navy that are important to the growth of the Company. The terms of defense contracts with the U.S. Government generally permit the government to terminate such contracts, with or without cause, at any time. The Company has not experienced any such terminations in the last five years, and has no reason to believe its two new contracts will be terminated. Any unexpected termination of a significant contract with the U.S. Government can adversely affect the future financial condition and results of operations of the Company.

Airline Industry Concerns

Several of the Company's aviation customers filed for bankruptcy protection during fiscal years 2007 and 2006. The aviation industry continues to struggle with the cost of security and higher fuel prices, and the Company's commercial sales have declined over the last three years. Additional bankruptcy filings and continued financial difficulties in the aviation industry could have a material adverse impact on the Company's operating results and financial condition. Commercial backlog has increased significantly over prior years because of long-term orders from distributors.

7

Item 1A. Risk Factors (continued)

New Products

The successful operation of the Company depends on its ability to anticipate market needs and develop and introduce new products and product enhancements that respond to technological changes or evolving industry standards on a timely and cost-effective basis. The Company must continue to develop leading-edge products and introduce them to the market quickly in order to be successful. The Company's failure to produce technologically competitive products in a cost-effective manner and on a timely basis could harm the business, financial condition and results of operations. The Company believes the products it is making under its new contracts with the U.S. Navy are new technologies that respond to market needs.

Financial Results

As more fully discussed under Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), the Company is in a transitional phase between the end of its long-term AN/APM-480 contract and the commencement of deliveries under its new multi-year AN/USM-708 contract. As a result, revenues declined in 2007 and the Company sustained a loss. However, at March 31, 2007, new contracts and new orders have significantly increased the backlog over the last fiscal year, and management believes working capital is adequate to fund its plans over the next year (see Management's Discussion and Analysis). Deliveries under CRAFT and ITATS should commence in late calendar year 2008. Financial results are dependent upon delivery of its new products in a timely and compliant manner. The Company expects to meet its commitment.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

The Company leases 19,564 square feet in Carlstadt, New Jersey as its manufacturing plant and administrative offices, pursuant to a ten-year lease expiring in February, 2011 (see Note 12 to the Notes to the Consolidated Financial Statements). The Avionics and Marine Divisions are both located in this facility, which is adequate for the Company's needs, currently and for the near future. Tel is unaware of any environmental problems in connection with its location and, because of the nature of its manufacturing activities, does not anticipate such problems.

Item 3. Pending Legal Proceedings

There are no material pending legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

8

PART II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters

The Common Stock, \$.10 par value, of the Registrant ("Common Stock") is traded on the American Stock Exchange and its symbol is TIK. The Company was listed on the American Stock Exchange and started trading on February 10, 2004 at an opening price of \$3.00 per share. Prior to that date, the Tel shares had traded sporadically in the Over-The-Counter ("OTC") market. On July 6, 2007, the closing share price on the Amex was \$3.70.

The following table sets forth the high and low per share sale prices for our common stock for the periods indicated as reported for 2006 and 2007 by the Amex:

Fiscal Year	High	Low
2007		
First Quarter	3.49	1.95
Second Quarter	3.07	1.86
Third Quarter	3.20	2.20
Fourth Quarter	3.60	2.91
2006		
First Quarter	4.48	3.22
Second Quarter	4.20	3.60
Third Quarter	3.75	3.29
Fourth Quarter	4.00	3.25

During fiscal year 2007, the Company issued 42,450 shares of common stock upon exercise of stock options granted pursuant to its 1998 and

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

2003 Employee Stock Option Plans for an aggregate \$79,581 which was added to working capital. All of the shares were issued pursuant to our S-8 Registration Statement filed on August 18, 2005. See Note 14 to the Notes to the Consolidated Financial Statements and Item 11, Executive Compensation for information on the Company's Employee Stock Option Plans of 1998, 2003 and 2006.

In 2007 and 2006 Mr. Harold K. Fletcher, CEO, converted each \$50,000 note due into 20,000 shares of common stock at \$2.50 per share. These shares were sold pursuant to Section 4(2) of the Securities Act of 1933, and are restricted. These conversions reduced the Company's liabilities by \$50,000 each year.

Approximate number of equity holders

Title of Class	Number of Holders of Record as of March 31, 2007
Common Stock, par value \$.10 per share	284

Dividends

Registrant has not paid dividends on its Common Stock and does not expect to pay such dividends in the foreseeable future.

9

Item 6. Selected Financial Data

TEL-INSTRUMENT ELECTRONICS CORP. SUMMARY OF FINANCIAL INFORMATION			
	Years Ended Ma		
	2007	2006	2005
Statement of Operations Data:			
Net sales	\$ 7,666,587	\$ 11,196,059	\$ 10,511,284
Cost of sales	3,685,528	5,729,736	5,030,088
Gross margin	3,981,059	5,466,323	5,481,196
Operating expenses:			
Selling, general and administrative	2,698,829	3,196,773	3,183,577
Amort. and impairment of intangibles	--	326,851	86,196
Engineering, research & development	2,580,381	2,534,497	2,186,828

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

	5,279,210	6,058,121	5,456,601
	-----	-----	-----
Income (loss) from operations	(1,298,151)	(591,798)	24,595
Interest, net	33,722	8,927	(10,878)
	-----	-----	-----
Income (loss) before income taxes	(1,264,429)	(582,871)	13,717
Income tax expense (benefit)	(515,401)	(188,335)	42,625
	-----	-----	-----
Net (loss) income	(749,028)	(394,536)	(28,908)
	=====	=====	=====
Basic (loss) income per common share	(\$ 0.33)	(\$ 0.18)	(\$ 0.01)
	=====	=====	=====
Diluted (loss) income per common share	(\$ 0.33)	(\$ 0.18)	(\$ 0.01)
	=====	=====	=====
	Years Ended March 31,		
	-----	-----	-----
	2007	2006	2005
	----	----	----
Balance Sheet Data:			
Working capital	\$ 3,121,343	\$ 4,302,369	\$ 4,127,991
Total assets	6,127,842	7,116,582	7,670,730
Long-term debt	50,000	100,000	150,000
Stockholders' equity	4,554,252	5,168,066	5,327,177

Item 7. Management's Discussion and Analysis of Financial Condition and

Results of Operations

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 1965.

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, future

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

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 costs and availability of its raw materials; the actions of 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.

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 with the Statement of Critical Accounting Policies noted below. The Company's fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references in this document to a particular year shall mean the Company's fiscal year ending on March 31.

The Company's avionics business is conducted in the Government, Commercial and General aviation markets (see Note 16 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 have been consolidated with the Company's financial statements since then.

11

Item 7. Management's Discussion and Analysis of Financial Condition and ----- Results of Operations -----

Overview 2007

In fiscal year 2007, revenues declined, and the Company sustained a net loss, primarily due to the lower revenues. Sales in the prior fiscal year were higher due to the shipment of the T-36M and the T-47N with the U.S. Army and shipment of the T-47N to Royal Australian Air Force, through our distributor, as well as the final shipments of the AN/APM-480 to the U.S. Navy and sales of the T-760. The delay in government contract awards contributed to this decline in revenues as well as the continued financial difficulties in the commercial airline industry and the increased competition. Over the last two years the Company won competitive awards from the U.S. Navy for two multi-year contracts for the AN/UPM-708 (CRAFT) and the AN/ARM-206 (ITATS). These contracts include multi-year deliveries, commencing late in calendar

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

year 2008, and have an aggregate value of approximately \$30 million. The products under these contracts represent cutting edge technology, and should provide Tel with a competitive advantage for years to come (see Item 1. Description of Business).

The Company's backlog at March 31, 2007 has significantly increased to approximately \$9.5 million, including \$4.4 million attributed to the AN/ARM-206 (ITATS) contract. The gross profit on the \$4.4 million initial portion of the ITATS contract will be significantly less than Tel's historical gross profit due to the use of an engineering subcontractor, and the competitiveness of the bidding process. Design validation for the AN/USM-708 is not expected to begin until late in 2007, with shipments to begin late in calendar year 2008. Commercial backlog also increased as a result of orders from the Company's distributors.

A substantial part of the Company's business comes from orders that are filled in less than a year, and therefore, are not reflected in the backlog. The Company has recently hired a new Director of Business Development to pursue these opportunities as well as long-term government contracts.

Research and development expenditures will continue to remain high in order to support the two new large contract awards previously discussed. The Company has been able to partially offset the research and development expenditures by implementing a Profit Improvement Plan, which resulted in substantial reductions in operating expenses.

As a consequence of this temporary significant decline in revenues exceeding operating costs, operating profits, working capital, stockholders' equity, and cash have declined for the current fiscal year. However, the Company believes that it has adequate liquidity, resources and backlog to fund operating plans during this interval, and until deliveries of its new units commence.

In December 2006, the Company received an order for 50 T-47N Test Sets from the Royal Australian Air Force (through the Company's distributor) for approximately \$600,000 which was delivered in the first quarter of fiscal year 2008. The Company is also participating in several military solicitations in fiscal year 2008.

12

Item 7. Management's Discussion and Analysis of Financial Condition and

Results of Operations (continued)

Results of Operations 2007 Compared to 2006

Sales

Consolidated net sales decreased \$3,529,472 (31.5%) to \$7,666,587 for the fiscal year ended March 31, 2007 as compared to the fiscal year ended March 31, 2006

Sales of avionics products declined \$3,253,783 (31.7%) to \$7,002,941

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

for fiscal year 2007 as compared to fiscal year 2006. Avionics commercial decreased from prior year by \$429,895 (14.6%) to \$2,500,142. This decrease is mostly attributed to a decline in sales of the TR-220 line of Multi-Function Test sets, partially offset by an increase in revenues from repairs and part sales. The weak financial condition of the commercial airline industry continues to limit growth in this segment in addition to increased competition.

Avionics government sales decreased \$2,823,888 (38.5%) to \$4,502,799 for the year ended March 31, 2007 as compared to the year ended March 31, 2006. In the prior fiscal year, the Company had contracts for shipment of the T-36M and the T-47N with the U.S. Army and shipment of the T-47N to Royal Australian Air Force, through our distributor, as well as the final shipments of the AN/APM-480 to the U.S. Navy and sales of the T-760, which accounted for the higher sales in fiscal 2006. The delay in contract awards (discussed above) contributed to this decline in revenues.

Marine systems sales decreased \$275,689 (29.3%) to \$663,646 for the year ended March 31, 2007 as compared to the year ended March 31, 2006, primarily as a result of lower sales of specialty systems to the dredging industry.

Gross Margin

Gross margin decreased \$1,485,264 (27.2%) to \$3,981,059 for the year ended March 31, 2007 as compared to the prior fiscal year. This decrease is primarily attributed to the lower sales volume, although gross margin percent improved as a result of the change in product mix, and improved efficiency. During the current fiscal year, the Company reversed its remaining liability of approximately \$151,000 relating to its upgrade liability (see Critical Accounting Policies - Revenue Recognition).

Operating Expenses

Selling, general and administrative expenses decreased \$497,944 (15.6%) to \$2,698,829 for the year ended March 31, 2007 as compared to the year ended March 31, 2006, resulting primarily from lower commission (\$209K), and professional and consulting expenses (\$105K) in the avionics division, and a decrease in marketing and sales expenses for the marine systems division (\$256K).

Engineering, research and development expenses increased \$45,884 (1.8%) to \$2,580,381 for fiscal year 2007 as compared to the prior fiscal year. Research and development efforts were mostly related to the CRAFT program.

13

Item 7. Management's Discussion and Analysis of Financial Condition and

Results of Operations (continued)

Results of Operations 2007 Compared to 2006 (continued)

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Income Taxes

An income tax benefit in the amount of \$515,401 was recorded for the year ended March 31, 2007 as a result of the loss before taxes as compared to an income tax benefit of \$188,335 for the year ended March 31, 2006. These amounts represent the effective federal and state tax rate of approximately 40% on the Company's net loss before taxes

Net Loss

As a result of the above, the Company incurred a net loss of \$749,028 for the year ended March 31, 2007 as compared to a net loss of \$394,536 for the year ended March 31, 2006.

Results of Operations 2006 Compared to 2005

Sales

Consolidated sales increased \$684,775 (6.5%) for the year ended March 31, 2006 as compared to the year ended March 31, 2005. Avionics sales increased \$548,855 (5.7%) and sales from the marine systems' division increased \$135,920 (16.9%) for the same period, primarily as a result of the introduction of its 456W, the upgraded sounder with a Windows operating system, and increased sales efforts.

Avionics government sales increased \$665,126 (10%) for the year ended March 31, 2006 as compared to the prior year. An increase in the sales of the T-47N as a result of contracts with the U.S. Military and the Royal Australian Air Force was offset by declines in the Company's other government products, including the T-30CM, T-36M and the AN/APM-480. Avionics commercial sales decreased \$116,271 (3.8%) for the same period primarily as a result of lower pricing due to more intense competition and lower repair and calibration sales.

Gross Margin

Gross margin decreased \$14,873 for the year ended March 31, 2006 as compared to the year ended March 31, 2005. Gross margin on avionics products decreased \$770 for the same period, even though sales increased. The increase in sales volume was offset by lower prices due to more intense competition, change in product mix, and lower gross margin on billings related to the documentation activities for the CRAFT program. Gross margin on avionics products for the year ended March 31, 2006 was 50.4% as compared to 53.2% for the year ended March 31, 2005. Gross margin on marine system products decreased \$15,643 for the same period. The increase in sales was offset by a change in sales mix.

14

Item 7. Management's Discussion and Analysis of Financial Condition and

Results of Operations (continued)

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Results of Operations 2006 Compared to 2005 (continued)

Operating Expenses

Selling, general and administrative expenses increased modestly by \$13,196 for the year ended March 31, 2006 as compared to the year ended March 31, 2005. Lower marketing consulting fees, travel expenses, legal costs and advertising expenditures were mostly offset by the addition of a program manager for the AN/USM-708 program, an increase in outside commission expenses, higher administrative consulting expenses, and termination pay related to the marine systems division.

Engineering, research, and development expenses increased \$347,669 (15.9%) for the year ended March 31, 2006 as compared to the year ended March 31, 2005. Expenditures for AN/USM-708, including additional personnel, materials and consulting fees, and additional costs associated with the enhancement of the TB-2100 account for most of this increase.

Amortization and Impairment of Intangibles

In March 2006, the Company recognized an impairment loss and charged to operations (included in amortization expense) the remaining unamortized value of its acquired intangible assets in the amount of \$240,655 relating to its marine systems division.

Income Taxes

For the year ended March 31, 2006, the Company had a tax benefit of \$188,335 as a result of the loss for the year. The Company had a provision for income taxes of \$42,625 in fiscal year 2005.

Net Loss

As a result of the above, the Company incurred a net loss of \$394,536 for the year ended March 31, 2006 as compared to a net loss of \$28,908 for the year ended March 31, 2005.

Liquidity and Capital Resources

At March 31, 2007, the Company had working capital of \$3,121,343 as compared to \$4,302,369 at March 31, 2006. For the year ended March 31, 2007, the Company used \$1,454,692 in operating activities as compared to providing \$1,213,105 from operations in the prior year. This decrease in cash from operations is primarily attributed to the operating loss and the increase in inventories. The cash balance at March 31, 2007 was \$655,836.

For the year ended March 31, 2007, the Company used \$124,594 in investing activities as compared to using \$208,895 in fiscal year 2006. The decrease is attributed to lower purchases of capital equipment. Cash provided by financing activities was \$300,581 in fiscal year 2007 as compared to \$103,372 in fiscal year 2006. This

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

increase is primarily attributed to the proceeds of \$250,000 from the loan on a keyman life insurance policy on the Company's CEO on which the Company is beneficiary. The insurance policy has a face value of \$599,000. The Company borrowed from the insurance policy due to the lower interest rate. Repayment terms are at the discretion of the Company. This was offset partially by lower proceeds from the exercise of employee stock options.

15

Item 7. Management's Discussion and Analysis of Financial Condition and

Results of Operations (continued)

Liquidity and Capital Resources (continued)

The Company has a line of credit in the amount of \$1,750,000 from a bank, that bears an interest rate of 0.5% above the lender's prevailing base rate, which is payable monthly on any outstanding balance. The Company does not pay fees to maintain this open line. At March 31, 2007, the Company had no outstanding balance. In April 2007, the Company borrowed \$250,000. The line of credit is collateralized by substantially all of the assets of the Company. As of March 31, 2007, the Company was in compliance with all financial covenants required by the credit agreement. The line of credit expires at September 30, 2007, and the Company anticipates, although no assurance can be given, that it will be renewed as it has been in each of the last four years.

Based upon the backlog, which was approximately \$9,500,000 at March 31, 2007, its existing credit line, and cash balance, the Company believes it has sufficient working capital to fund its operating plans at least for the next twelve months. Currently, the Company has no material capital expenditure requirements. The Company maintains its cash balances primarily in a money market account for use in operations. There was no significant impact on the Company's operations, as a result of inflation for the year ended March 31, 2007.

Critical Accounting Policies

In preparing our 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 Consolidated Financial Statements. 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 under service contracts are recognized when the services are performed.

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

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

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.

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

16

Item 7. Management's Discussion and Analysis of Financial Condition and

Results of Operations (continued)

Critical Accounting Policies (continued)

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 it will continue to receive positive results.

Income taxes - 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 will 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. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in the period that such tax rate changes are enacted.

Off Balance Sheet Items

The Company is not party to any off-balance sheet items that have not already been appropriately disclosed in these financial statements.

17

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Contractual Obligations and Commitments

At March 31, 2007, the Company's contractual obligations and commitments to make future payments are as follows:

		Payment Due by Period	
	Total	Less than 1 year	1-3 Years
Long-Term Debt Obligations	100,000	50,000	50,000
Operating Leases	603,828	162,396	441,432
Purchase Commitments (1)	852,979	850,319	2,660
Interest on long-term obligations	6,750	4,500	2,250
Total Contractual Obligations	\$1,563,557	\$ 1,067,215	\$ 496,342

(1) Purchase commitments consist primarily of obligations to purchase certain raw materials to be utilized in the ordinary course of business. See Notes 11, and 12 to the Financial Statements.

Borrowings

See Note 7 to Notes to Consolidated Financial Statements.

In April the Company borrowed \$250,000 against its line of credit with the bank.

Item 7A. Qualitative and Quantitative Disclosures About Market Risk

The Company, at this time, is generally not exposed to financial market risks, including changes in interest rates, foreign currency exchange rates, and marketable equity security prices.

18

Item 8. Financial Statements and Supplementary Data

Pages

(1) Financial Statements:

Report of Independent Registered Public Accounting Firm	20
---	----

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Consolidated Balance Sheets - March 31, 2007 and 2006	21
Consolidated Statements of Operations - Years Ended March 31, 2007, 2006 and 2005	22
Consolidated Statements of Changes in Stockholders' Equity - Years Ended March 31, 2007, 2006 and 2005	23
Consolidated Statements of Cash Flows - Years Ended March 31, 2007, 2006 and 2005	24
Notes to Consolidated Financial Statements	25 - 44
(2) Financial Statement Schedule: II - Valuation and Qualifying Accounts	45
	19

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Tel-Instrument Electronics Corp
Carlstadt, New Jersey

We have audited the accompanying consolidated balance sheets of Tel-Instrument Electronics Corp and subsidiary (the "Company") as of March 31, 2007 and 2006 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2007. We have also audited the schedule listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tel-Instrument Electronics Corp and subsidiary as of March 31, 2007

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

and 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule presents fairly, in all material respects, the information set forth therein.

/s/ BDO Seidman, LLP

BDO Seidman, LLP
Woodbridge, New Jersey

July 13, 2007

20

TEL-INSTRUMENT ELECTRONICS CORP

Consolidated Balance Sheets

ASSETS	March 31, 2007	March
Current assets:	-----	-----
Cash and cash equivalents	\$ 655,836	\$ 1,
Accounts receivable, net of allowance for doubtful accounts of \$34,544 and \$40,994	982,214	1,
Inventories, net	2,460,642	2,
Taxes receivable	28,776	
Prepaid expenses and other	98,053	
Deferred income tax benefit	395,756	
	-----	-----
Total current assets	4,621,277	6,
Equipment and leasehold improvements, net	625,247	
Deferred income tax benefit - non-current	800,000	
Other assets	81,318	
	-----	-----
Total assets	\$ 6,127,842	\$ 7,
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Convertible note payable - related party	\$ 50,000	\$
Notes payable - other	--	
Accounts payable	372,106	
Deferred revenues	115,409	
Accrued expenses - payroll, vacation pay and payroll withholdings	353,727	
Accrued expenses - related parties	74,999	
Accrued expenses - other	533,693	
Total current liabilities	1,499,934	1,

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Deferred revenues	23,656	
Deferred taxes	--	
Convertible note payable - related party	50,000	
	-----	-----
Total liabilities	1,573,590	1,
	-----	-----
Commitments	--	
Stockholders' equity		
Common stock, par value \$.10 per share, 2,341,861 and 2,279,411 issued and outstanding	234,186	
Additional paid-in capital	4,380,149	4,
(Accumulated deficit) retained earnings	(60,083)	
	-----	-----
Total stockholders' equity	4,554,252	5,
	-----	-----
Total liabilities and stockholders' equity	\$ 6,127,842	\$ 7,
	=====	=====

The accompanying notes are an integral part of the financial statements

TEL-INSTRUMENT ELECTRONICS CORP Consolidated Statements of Operations

	For the years ended March 31,		
	2007	2006	2005
	----	----	----
Net sales	\$ 7,666,587	\$ 11,196,059	\$ 10,511,
Cost of sales	3,685,528	5,729,736	5,030,
	-----	-----	-----
Gross margin	3,981,059	5,466,323	5,481,
Operating expenses:			
Selling, general and administrative	2,698,829	3,196,773	3,183,
Amortization and impairment of intangibles	--	326,851	86,
Engineering, research and development	2,580,381	2,534,497	2,186,
	-----	-----	-----
Total operating expenses	5,279,210	6,058,121	5,456,
	-----	-----	-----
Income (loss) from operations	(1,298,151)	(591,798)	24,

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Other income/(expense):			
Interest income	42,692	23,386	11,
Interest expense	(2,220)	(2,684)	(10,
Interest expense - related parties	(6,750)	(11,775)	(11,
Income (loss) before income taxes	(1,264,429)	(582,871)	13,
Income tax (benefit) expense	(515,401)	(188,335)	42,
	-----	-----	-----
Net loss	\$ (749,028)	\$ (394,536)	\$ (28,
	=====	=====	=====
Basic and diluted loss per common share	\$ (0.33)	\$ (0.18)	\$ (0,
	=====	=====	=====
Weighted average number of shares outstanding			
Basic and diluted	2,303,858	2,204,476	2,157,
	=====	=====	=====

The accompanying notes are an integral part of the financial statements.

22

TEL-INSTRUMENT ELECTRONICS CORP Consolidated Statements of Changes in Stockholders' Equity

	Common Stock			
	Number of Shares			Additional
	Authorized	Issued	Amount	Paid-In
	-----	-----	-----	Capital
Balances at April 1, 2004	4,000,000	2,144,181	\$ 214,418	\$ 3,960,8
Net loss	--	--	--	--
Issuance of common stock in connection				
with the exercise of stock options	--	43,680	4,368	64,0
	-----	-----	-----	-----
Balances at March 31, 2005	4,000,000	2,187,861	218,786	4,024,9
Net loss	--	--	--	--
Non-cash stock-based compensation	--	--	--	43,2
Conversion of notes payable to common stock		25,000	2,500	55,0
Issuance of common stock in connection				
with the exercise of stock options	--	66,550	6,655	128,0
	-----	-----	-----	-----
Balances at March 31, 2006	4,000,000	2,279,411	227,941	4,251,1

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Net loss	--	--	--	--
Non-cash stock-based compensation	--	--	--	5,6
Conversion of notes payable to common stock	--	20,000	2,000	48,0
Issuance of common stock in connection with the exercise of stock options	--	42,450	4,245	75,3
	-----	-----	-----	-----
Balances at March 31, 2007	4,000,000	2,341,861	\$ 234,186	\$ 4,380,1
	=====	=====	=====	=====

The accompanying notes are an integral part of the financial statements.

TEL-INSTRUMENT ELECTRONICS CORP Consolidated Statements of Cash Flows

	For the years ended	
	2007	2006
	----	----
Cash flows from operating activities:		
Net loss	\$ (749,028)	\$ (394,53)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Deferred income taxes	(518,713)	(136,52)
Depreciation	258,609	267,02
Amortization and impairment of intangibles	--	326,85
Provision for inventory obsolescence	158,370	122,68
Non-cash stock-based compensation	5,633	43,23
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	67,364	560,94
Decrease (increase) in inventories	(516,732)	701,04
Decrease in taxes receivable	53,712	43,18
Decrease (increase) in prepaid expenses and other	38,980	(14,58)
(Decrease) increase in accounts payable	83,620	(192,62)
(Decrease) increase in deferred revenues	(1,012)	(29,78)
(Decrease) increase in accrued expenses	(335,495)	(83,80)
	-----	-----
Net cash provided by (used in) operating activities	(1,454,692)	1,213,10
	-----	-----
Cash flows from investing activities:		
Acquisition of equipment and leasehold improvements	(108,791)	(198,01)
Increase in cash surrender value of life insurance	(15,803)	(10,88)
	-----	-----
Net cash used in investing activities	(124,594)	(208,89)
	-----	-----
Cash flows from financing activities:		

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Proceeds from exercise of stock options	79,581	134,69
Repayment of convertible notes payable - related party	--	--
Repayment of note payable	(29,000)	(29,00
Proceeds from loan on life insurance policy	250,000	--
Payment of capitalized lease obligations	--	(2,32
	-----	-----
Net cash provided by (used in) financing activities	300,581	103,37
	-----	-----
Net increase (decrease) in cash and cash equivalents	(1,278,705)	1,107,58
Cash and cash equivalents, beginning of year	1,934,541	826,95
	-----	-----
Cash and cash equivalents, end of year	\$ 655,836	\$ 1,934,54
	=====	=====
Supplemental information:		
Taxes paid	\$ 21,882	\$ 23,38
	=====	=====
Interest paid	\$ 5,695	\$ 20,51
	=====	=====
Notes converted into common stock	\$ 50,000	\$ 57,50
	=====	=====

The accompanying notes are an integral part of the financial statements.

TEL-INSTRUMENT ELECTRONICS CORP

Notes To Consolidated Financial Statements

1. Business, Organization, and Liquidity

Business and Organization

Tel-Instrument Electronics Corp ("Tel" or the "Company") has been in business since 1947. The Company is a leading designer and manufacturer of avionics test and measurement instruments for the global, commercial air transport, general aviation, and government/military defense markets. Tel provides instruments to test, measure, calibrate, and repair a wide range of airborne navigation and communication equipment. The Company sells its equipment to both domestic and international markets.

In January, 2004, the Company acquired Innerspace Technology, Inc. ("ITI"). ITI has been in the marine instrumentation systems business for over 30 years designing, manufacturing and distributing a variety of shipboard and underwater instruments to support hydrographers, oceanographers, researchers, engineers, geophysicists, and surveyors worldwide.

2. Summary of Significant Accounting Policies

Principles of Consolidation:

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, and include the Company and its wholly-owned subsidiary. All significant inter-company accounts and transactions have been eliminated.

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 under service contracts, which consist of repairs and calibrations of the Company's products (approximately 9% of revenues), are recognized when the services are performed.

Shipping and handling costs charged to customers are not material. The revenues and related shipping and handling costs are included in selling, general and administrative expenses.

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

Since 2001, the Company had a contract with the U.S. Navy for the delivery of test equipment (AN/APM-480), which ended in fiscal year 2006. The AN/APM-480 is a catalog product, which the Company also sells to civilian and other government customers. While the Company sells this product to the U.S. Navy, the proprietary rights to the technology are retained by the Company. Since the AN/APM-480 was a significant product, and the Company's premier IFF (Identification, Friend or Foe) test set, the Company continued to improve the product to meet the needs of its other customers, to

25

TEL-INSTRUMENT ELECTRONICS CORP

Notes To Consolidated Financial Statements

2. Summary of Significant Accounting Policies

Revenue Recognition (continued):

increase product performance, and to improve the manufacturing process. Further, although the AN/APM-480 was accepted and used by the Navy, since it was in substantial compliance with the specification, there were limited areas where the AN/APM-480 did not operate at maximum performance according to the specification. Since the U.S. Navy was a significant customer and because of these minor specification issues, the Company agreed in fiscal year 2002 to provide enhancements at no additional cost to the customer.

Beginning in fiscal year 2002, the Company began to accrue the cost of these enhancements as the units were shipped in order to properly match the revenues with the expenses. The Company considers this accrual similar to a warranty expense, and recorded the liability and the expense to cost of sales. The enhancements made to the product, the Company believes, are relatively insignificant. The Company has shipped and has been paid for all units (approximately \$18,200,000 in revenues) through the fiscal year ended March 31, 2007, and the cost of these enhancements was approximately 3% of the revenues. The customer continues to use the original product in the field, because the enhancements are not essential to the unit to perform

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

the major functions of the delivered products. The Company continued to ship the units in accordance with the original contract, and was paid, subsequent to the time the Company agreed to perform the enhancements. Revenue was recognized because the Company substantially completed and fulfilled the terms specified in the original contract, the Navy took delivery and the Armed Forces are using the product in the field. In the case of these enhancements, there was no obligation to perform any enhancements at the time the original contract was signed in 2000, and when the first shipments were made in the Company's fiscal year ended March 31, 2001.

The costs, estimated to be approximately \$480 per unit are for labor and material, based upon the Company's experience manufacturing the product, and standard costing information. The Company charged the costs of performing the enhancement to the accrued liability as the units are shipped. Effective December 31, 2006, the Company's obligation to complete the enhancements on the remaining units (approximately 200) was satisfied. In the future, the cost of any upgrades will be invoiced to the customer. As such, the Company reversed its remaining liability of \$151,019 for the upgrade during the third quarter of fiscal year 2007 to cost of sales.

Cash and Cash Equivalents:

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

26

TEL-INSTRUMENT ELECTRONICS CORP

Notes To Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (continued)

Financial Instruments:

The carrying amounts of cash and cash equivalents and other current assets and liabilities approximate fair value due to the short-term maturity of these investments. The debt to related party has an interest rate that approximates current market rates and therefore the carrying value approximates market.

Concentrations of Credit Risk:

Cash held in banks: The Company maintains its cash balances in U.S. Financial Institutions, and amounts at times exceed the Federal Deposit Insurance Company limits.

Accounts Receivable: The Company's avionics customer base is primarily comprised of airlines, distributors, and the U.S. Government. The Company's marine systems customer base consists primarily of engineering and surveying companies, distributors and federal and state agencies. As of March 31, 2007, the Company believes it has no significant risk related to its concentration within its accounts receivable. (See Note 13 to Consolidated Financial Statements).

Inventories:

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventories are written down if the

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

estimated net realizable value is less than the recorded value. The Company reviews the carrying cost of inventories by product to determine the adequacy of reserves for obsolescence. In accounting for inventories, the Company must make estimates regarding the estimated realizable value of inventory. The estimate is based, in part, on the Company's forecasts of future sales and age of inventory. In accordance with industry practice, service parts inventory is included in current assets, although service parts are carried for established requirements during the serviceable lives of the products and, therefore, not all parts are expected to be sold within one year.

Equipment and Leasehold Improvements:

Office and manufacturing equipment are stated at cost. Depreciation and amortization is provided on a straight-line basis over periods ranging from 3 to 8 years.

Leasehold improvements are amortized over the term of the lease or the useful life of the asset, whichever is shorter.

Maintenance, repairs, and renewals that do not materially add to the value of the equipment nor appreciably prolong its life are charged to expense as incurred.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in the Statements of Operations.

27

TEL-INSTRUMENT ELECTRONICS CORP

Notes To Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (continued)

Engineering, Research and Development Costs:

Engineering, research and development costs are expensed as incurred.

Advertising Expenses:

Advertising expenses consist primarily of costs for direct advertising. The Company expenses all advertising costs as incurred, and classifies these costs under selling, general and administrative expenses, which amounted to \$30,741, \$57,526 and \$125,696 for the years ended March 31, 2007, 2006, and 2005, respectively.

Intangible Assets:

Intangible assets consist primarily of purchased intangible assets in connection with the acquisition of ITI. Purchased intangible assets primarily include existing and core technology, non-compete agreements, and customer lists. Intangible assets are amortized using the straight-line method over 5 years (see Note 9 to Consolidated Financial Statements).

Net Income (Loss) Per Common Share:

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Basic net income (loss) per share attributable to common stockholders is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period, including common stock equivalents, such as stock options using the treasury stock method. Diluted loss per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period and excludes the dilutive effects of common stock equivalents.

Accounting for Income Taxes:

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 will 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. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in the period that such tax rate changes are enacted.

28

TEL-INSTRUMENT ELECTRONICS CORP

Notes To Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (continued)

Stock-based Compensation:

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 unvested awards at the date of adoption and 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. Prior to the adoption of SFAS 123R, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The Company estimates the fair value of each option using the Black-Scholes option-pricing model. As a result of adopting SFAS 123(R) on April 1, 2006, the loss before income taxes for fiscal year 2007 was charged with \$5,633.

Had the Company prior to April 1, 2006 determined compensation cost based on the fair market value at the grant date for its stock options under SFAS No. 123R, the pro forma amounts indicated below would have been included in the financial statements based upon the applicable value for the vested options for each year.

Fiscal	Fiscal
Year	Year
2006	2005
----	----

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Net loss - as reported	\$ (394,536)	\$ (28,908)
Stock-based compensation expense		
included in reported net loss, net of taxes	25,960	--
Fair value of stock options, net of taxes	(73,397)	(63,170)
	-----	-----
Net loss - pro forma	\$ (441,973)	\$ (92,078)
	=====	=====
Basic loss per share - as reported	\$ (0.18)	\$ (0.01)
Basic loss per share - pro forma	(0.20)	(0.04)
Diluted loss per share - as reported	(0.18)	(0.01)
Diluted loss per share - pro forma	(0.20)	(0.04)

29

TEL-INSTRUMENT ELECTRONICS CORP

Notes To Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (continued)

Long-Lived Assets:

The Company follows SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The standard provides accounting and reporting requirements for the impairment of all long-lived assets.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates include income taxes, enhancement liability, warranty claims, inventory and accounts receivable valuations.

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 credit limits for 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 the Company's expectation and the provision established, the Company cannot guarantee that this will continue.

Warranty/Enhancement Reserves:

Warranty/enhancement reserves are based upon historical rates and specific items that are identifiable and can be estimated at time of sale. While warranty/enhancement costs have historically been within the Company's expectations and the provisions established, future warranty/enhancement

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

costs could be in excess of the Company's warranty/enhancement 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/enhancement reserves are adjusted from time to time when actual warranty/enhancement claim experience differs from estimates.

30

TEL-INSTRUMENT ELECTRONICS CORP

Notes To Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (continued)

Risks and Uncertainties:

The Company's operations are subject to a number of risks, including but not limited to changes in the general economy, demand for the Company's products, the success of its customers, research and development results, reliance on the government markets and the renewal of its line of credit. The Company has major contracts with the U.S. Government, which like all government contracts, are subject to termination.

New Accounting Pronouncements:

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 establishes 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. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

Also in September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157 "Fair Value Measurements." This SFAS defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies to accounting pronouncements that require or permit fair value measurements, except for share-based payments transactions under SFAS No. 123. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. As SFAS No. 157 does not require any new fair value measurements or measurements of previously computed fair values, the Company does not believe adoption of this Statement will have a material effect on its future financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Liabilities, including an amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157 "Fair Value Measurements" ("SFAS No. 157"). The Company is currently assessing the impact that SFAS No. 159 will have on its future financial statements.

31

TEL-INSTRUMENT ELECTRONICS CORP

Notes To Consolidated Financial Statements (Continued)

3. Accounts Receivable

The following table sets forth the components of accounts receivable:

	March 31,	
	2007	2006
	----	----
Government	\$ 678,688	\$ 548,083
Commercial	338,070	542,489
Less: Allowance for doubtful accounts	(34,544)	(40,994)
	-----	-----
	\$ 982,214	\$ 1,049,578
	-----	-----

4. Inventories

Inventories consist of:

	March 31,	
	2007	2006
	----	----
Purchased parts	\$ 1,414,558	\$ 1,409,502
Work-in-process	1,171,998	723,782
Finished goods	220,896	212,100
Less: Allowance for obsolete inventory	(346,810)	(243,104)
	-----	-----
	\$ 2,460,642	\$ 2,102,280
	=====	=====

Work-in-process inventory includes \$387,269 and \$482,507 for government contracts at March 31, 2007 and 2006, respectively.

32

TEL-INSTRUMENT ELECTRONICS CORP

Notes To Consolidated Financial Statements (Continued)

5. Equipment and Leasehold Improvements

Equipment and leasehold improvements consist of the following:

		March 31, -----	
	2007 ----		2006 ----
Leasehold Improvements	\$ 513,826	\$	495,826
Machinery and equipment	1,381,758		1,325,456
Automobiles	16,514		16,514
Sales equipment	529,519		489,871
Rental assets	161,153		168,029
Assets under capitalized leases	367,623		367,623
Less: Accumulated depreciation & amortization	(2,345,146)		(2,088,254)
	-----		-----
	\$ 625,247	\$	775,065
	=====		=====

6. Accrued Expenses

Accrued payroll, vacation pay and payroll withholdings consist of the following:

		March 31, -----	
	2007 ----		2006 ----
Accrued vacation pay	\$ 233,010	\$	231,054
Accrued payroll and payroll withholdings	120,717		160,008
	-----		-----
	\$ 353,727	\$	391,062
	=====		=====

Accrued payroll, vacation pay and payroll withholdings includes \$81,780 and \$66,885 at March 31, 2007 and 2006, respectively, which is due to officers.

33

TEL-INSTRUMENT ELECTRONICS CORP

Notes To Consolidated Financial Statements (Continued)

6. Accrued Expenses (continued)

Accrued expenses - other consist of the following:

March 31,

34

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

	2007	2006
	----	----
Accrued consulting	\$ 194,050	\$ 132,332
Accrued commissions	19,400	124,629
Accrued audit and tax preparation fees	76,000	71,000
Enhancement liability	-	350,581
Accrued - other	244,243	170,251
	-----	-----
	\$ 533,693	\$ 848,793
	=====	=====

The reconciliation of the changes to the enhancement liability
(see Note 2, Revenue Recognition) is as follows:

Balance at March 31, 2004	505,364
Fiscal 2005 accrual	29,825
Fiscal 2005 usage	(22,233)

Balance at March 31, 2005	512,956
Fiscal 2006 accrual	6,218
Fiscal 2006 usage	(168,593)

Balance at March 31, 2006	350,581
Fiscal 2007 accrual reversal (see Note 2)	(151,019)
Fiscal 2007 usage	(199,562)

Balance at March 31, 2007	\$ -0-
	=====

Accrued expenses - related parties consists of the following:

	March 31,	
	2007	2006
	----	----
Interest and professional fees to non-employee officer stockholder	\$ 26,276	\$ 23,518
Interest and other expenses due to Company's Chairman/President	48,723	34,541
	-----	-----
	\$ 74,999	\$ 58,059
	=====	=====

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Notes To Consolidated Financial Statements (Continued)

7. Line of Credit

The Company has a line of credit in the amount of \$1,750,000 from Bank of America. Interest on any outstanding balances is payable monthly at an annual interest rate of one-half of one percent (0.5%) above the lender's prevailing base rate. The Company's interest rate was 8.75% and 8.25% at March 31, 2007 and 2006 respectively, and the Company has paid no interest. The Company pays no fee to maintain the line of credit. The line is collateralized by substantially all of the assets of the Company. The credit facility requires the Company to maintain certain financial covenants. As of March 31, 2007 and March 31, 2006, the Company was in compliance with all financial covenants and had no outstanding borrowings, and made no borrowings during fiscal years 2007, 2006, and 2005. The line of credit currently expires at September 30, 2007. The Company has renewed its line of credit with the bank annually since 2002.

In April 2007, the Company borrowed \$250,000.

8. Capitalized Lease Obligations

The Company entered into lease agreements for equipment that meet the requirements for capitalization. The net book value of equipment acquired under capitalized lease obligations amounted to \$-0- and \$12,582, respectively, at March 31, 2007 and 2006. As of March 31, 2007 and 2006, accumulated amortization under capital leases were \$367,623 and \$355,041, respectively. As of March 31, 2007 all capital lease obligations have been paid.

9. Intangible Assets

Intangible assets consist of intellectual property, customer lists, and non-compete agreements acquired and are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful life of the respective assets, five years. The Company follows Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS 142 and SFAS 144 provide guidance on the financial accounting and reporting of intangible assets. The Company reviews intangibles for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Factors which are considered important that could trigger an impairment include, but are not limited to, underperformance relative to projected future operating results, competition, and negative industry or economic trends. In March 2006, the Company recognized an impairment loss and charged to operations (included in amortization expense) the remaining unamortized value of its acquired intangible assets in the amount of \$240,655 relating to its marine systems division. The impairment was caused by the underperformance of this operating subsidiary and its negative cash flows.

The intangible assets were fully amortized at March 31, 2007 and 2006.

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Notes To Consolidated Financial Statements (Continued)

10. Income Taxes

Income tax (benefit) expense:

	March 31, ----- 2007 ----	March 31, ----- 2006 ----
Current:		
Federal	\$ --	\$ (60,971)
State and local	3,312	18,754
	-----	-----
Total current tax provision (benefit)	3,312	(42,217)
	-----	-----
Deferred:		
Federal	(397,398)	(124,597)
State and local	(121,315)	(21,521)
	-----	-----
Total deferred tax benefit	(518,713)	(146,118)
	-----	-----
Total (benefit) expense	\$ (515,401)	\$ (188,335)
	=====	=====

The components of the Company's deferred taxes at March 31, 2007 and 2006 are as follows:

	March 31, ----- 2007 ----	March 31, ----- 2006 ----
Deferred tax assets:		
Net operating loss carryforwards & credits	\$ 822,000	171,000
Allowance for doubtful accounts	14,000	16,000
Reserve for inventory obsolescence	139,000	98,000
Inventory capitalization	78,000	66,000
Deferred payroll and accrued interest	50,000	70,000
Vacation accrual	93,000	92,000
Warranty/Enhancement reserve	8,000	154,000
Deferred revenues	44,000	55,000
Non-compete agreement	27,000	30,000
Depreciation	--	(10,000)
	-----	-----
Deferred tax asset	1,275,000	742,000
Less valuation allowance	79,000	65,000
	-----	-----
Deferred tax asset, net	\$ 1,196,000	677,000
	=====	=====

The recognized deferred tax asset is based upon the expected utilization of its benefit from the reversal of tax asset temporary differences. The Company has net operating loss ("NOL") carryforwards of approximately \$1,953,000 at March 31, 2007. These carryforward losses are available to offset future taxable income, and begin to expire in the year 2024. A

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

valuation allowance has been recorded against certain state net operating loss carryforwards, since management does not believe that the realization of these NOL's is more likely than not.

36

TEL-INSTRUMENT ELECTRONICS CORP

Notes To Consolidated Financial Statements (Continued)

10. Income Taxes (Continued)

The foregoing amounts are management's estimates and the actual results could differ from those estimates. Future profitability in this competitive industry depends on continually obtaining and fulfilling new profitable sales agreements and modifying products. The inability to obtain new profitable contracts or the failure of the Company's engineering development efforts could reduce estimates of future profitability, which could affect the Company's ability to realize the deferred tax assets.

A reconciliation of the income tax provision (benefit) at the statutory Federal tax rate of 34% to the income tax expense recognized in the financial statements is as follows:

	March 31, ----- 2007 ----	March ----- 2006 -----
Income tax provision (benefit)- statutory rate	\$ (429,906)	\$ (198,
Income tax expenses - state and local, net of federal benefit	(75,107)	(3,
Change in valuation allowance	(14,000)	-
Non-deductible expenses	10,591	15,
Other	(6,979)	(1,
	-----	-----
Income tax provision (benefit)	\$ (515,401)	\$ (188,
	=====	=====

11. Related Party Transactions

On March 31, 1997, the Company's Chairman/President renegotiated the terms of the non-current note payable-related party. This note, along with \$250,000 of other accrued expenses due to the Company's Chairman/President, were converted into seven \$50,000 convertible subordinated notes (the "Notes") totaling \$350,000. The Notes were due in consecutive years beginning March 31, 1999 with the last note due March 31, 2005.

In November 2002 the Company paid and redeemed \$100,000 of the previously matured and extended Notes. The Notes bore interest at a rate of 10% per annum, payable semi-annually on the last day of September and March of each year. Effective October 1, 2003, the interest rate was changed to 4.5%. The Company is required to prepay the outstanding balance of the Notes and any accrued interest thereon, if the Company sells all or substantially all of its assets. The Notes can be converted into newly issued common shares of the Company at the conversion price of \$2.50 per share. The conversion

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

prices shall be adjusted for any stock dividends, stock issuances or capital reorganizations. The Notes may be redeemed by the Company prior to maturity upon giving written notice of not less than 30 days or more than 60 days at a redemption price equal to 120% of the principal if redeemed two years or more prior to the maturity date or 110% of the principal if redeemed more than one year, but less than two years prior to the maturity date.

37

TEL-INSTRUMENT ELECTRONICS CORP

Notes To Consolidated Financial Statements (Continued)

11. Related Party Transactions (Continued)

In May 2004, the Company and its Chairman/President renegotiated the terms of the Notes payable-related party. The Notes now become due in consecutive years beginning March 31, 2005. The interest rate remains at 4.5%. On March 31, 2007 and 2006, respectively, each of the \$50,000 notes due were converted into common stock. Each \$50,000 note due was converted into 20,000 shares of the Company's common stock at \$2.50 per share. The total principal amount outstanding was \$100,000 and \$150,000 at March 31, 2007 and 2006, respectively.

The Company has obtained legal services from a non-employee officer/stockholder with the related fees amounting to \$93,179, \$111,858, and \$149,259 for the years ended March 31, 2007, 2006, and 2005, respectively. The Company obtained management and marketing services from a director/stockholder with the related fees amounting to \$68,973, \$81,700, and \$97,400 for the years ended March 31, 2007, 2006, and 2005, respectively.

12. Commitments

The Company leases manufacturing and office space under an operating lease agreement expiring in February 2011. Under terms of the lease, the Company pays all real estate taxes and utility costs for the premises.

In addition, the Company has agreements to lease equipment for use in the operations of the business under operating leases.

The following is a schedule of approximate future minimum rental payments for operating leases subsequent to the year ended March 31, 2007.

Years Ended March 31,

2008	\$ 162,000
2009	147,000
2010	152,000
2011	143,000

	\$ 604,000
	=====

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Total rent expense, including real estate taxes, was approximately \$227,000, \$236,000, and \$237,000 for the years ended March 31, 2007, 2006 and 2005, respectively.

38

TEL-INSTRUMENT ELECTRONICS CORP

Notes To Consolidated Financial Statements (Continued)

13. Significant Customer Concentrations

For the years ended March 31, 2007, 2006, and 2005, sales to the U.S. Government represented approximately 27%, 47%, and 34%, respectively of net avionics sales. No other individual customer represented over 10% of avionics sales for these years. One domestic distributor (Avionics International) accounted for 12%, 9%, and 10% of commercial avionics sales for the years ended March 31, 2007, 2006, and 2005, respectively. Additionally, another domestic distributor (Aero Express) accounted for 12%, 7% and 15% of commercial avionics sales for the years ended March 31, 2007, 2006, and 2005, respectively. Another international distributor accounted for 4%, 17%, and 20% of commercial avionics sales for the years three ended March 31, 2007, 2006 and 2005, respectively. One direct government customer (Boeing Corp.) accounted for 13% of government sales in fiscal year 2007. No direct government customers represented over 10% of government sales for fiscal years 2006 and 2005. An international distributor (M.P.G. Instruments) accounted for 13% of total government sales in fiscal year 2007. Foreign sales were \$1,467,314, \$2,197,019, and \$1,938,346 for the years ended March 31, 2007, 2006, and 2005, respectively. All other sales were to customers located in the U.S.

For the marine systems division in fiscal year 2007, sales to the U.S. Government represented approximately 20% of sales. In fiscal year 2006, one customer (Sevenson Environmental Services) represented 18% of this division's sales. No one customer accounted for 10% or more of this division's sales in fiscal year 2005.

As of March 31, 2007, two individual customer balances represented 45% and 10%, respectively, of the Company's outstanding receivables. As of March 31, 2006, two individual customer balances represented 34% and 15%, respectively, of the Company's outstanding receivables.. Receivables from the U.S. Government represented approximately 10% and 1%, respectively, of total receivables for the fiscal years ended March 31, 2007 and 2006.

14. Stock Option Plans

In June 1998, the Board of Directors adopted the 1998 Stock Option Plan ("the Plan") which reserves for issuance options to purchase up to 250,000 shares of its Common Stock. The shareholders approved the Plan at the December 1998 annual meeting. The Plan, which has a term of ten years from the date of adoption is administered by the Board of Directors or by a committee appointed by the Board of Directors. The selection of participants, allotment of shares, and other conditions related to the grant of options, to the extents not set forth in the Plan, are determined by the Board of Directors. Options granted under the Plan are exercisable up to a period of 5 years from the date of grant at an exercise price which is not less than the fair market value of the common stock at the date of grant, except to a shareholder owning 10% or more of the outstanding common stock of the Company, as to which the exercise price must be not less than 110% of the fair market value of the common stock at the date of grant.

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Options are exercisable, on a cumulative basis, 20% at or after each of the first, second, and third anniversary of the grant and 40% after the fourth year anniversary.

39

-TEL-INSTRUMENT ELECTRONICS CORP

Notes To Consolidated Financial Statements (Continued)

14. Stock Option Plans (continued)

In May 2003, the Board of Directors of the Company adopted the 2003 Stock Option Plan which reserves for issuance options to purchase up to 250,000 shares of its common stock and is similar to the 1998 Plan. The shareholders approved this plan at the November 2003 annual meeting. In March 2006, the Board of Directors of the Company adopted the 2006 Stock Option Plan which reserves for issuance options to purchase up to 250,000 shares of its common stock and is similar to the 1998 and 2003 Plans. The shareholders approved this plan at the December 2006 annual meeting.

The fair value of each option awarded is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. Expected volatilities are based on historical volatility of the Company's stock, and other factors. The expected life of the options granted represents the period of time from date of grant to expiration (5 years). The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant. The per share weighted-average fair value of stock options granted for the years 2007, 2006, and 2005 was \$1.44, \$1.81, and \$1.56, respectively, on the date of grant using the Black Scholes option-pricing model with the following assumptions:

Year	Dividend Yield	Risk-free Interest rate	Volatility	Life
2007	0.0%	4.50%-4.77%	54.24% - 58.03%	5 years
2006	0.0%	5.0%	50%	5 years
2005	0.0%	3.5%	50%	5 years

A summary of the status of the Company's stock option plans for the fiscal years 2007, 2006, and 2005 and changes during the years are presented below: (in number of options):

	Number of Options	Average Exercise Price	A Re Cont
Outstanding options at April 1, 2004	319,300	\$2.07	
Options granted	145,750	\$3.32	
Options exercised	(43,680)	\$1.57	

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Options canceled/forfeited	(30,470)	\$2.34
Outstanding options at March 31, 2005	390,900	\$2.57
Options granted	88,000	\$3.66
Options exercised	(66,550)	\$2.02
Options canceled/forfeited	(12,500)	\$2.62
Outstanding options at March 31, 2006	399,850	\$2.89
Options granted	59,500	\$3.18
Options exercised	(42,450)	\$1.87
Options canceled/forfeited	(35,250)	\$2.59
Outstanding options at March 31, 2007	381,650	\$3.08

Remaining options available for grant were 203,420 and 227,670 as of March 31, 2007 and 2006, respectively.

40

TEL-INSTRUMENT ELECTRONICS CORP

Notes To Consolidated Financial Statements (Continued)

14. Stock Option Plan (continued)

As of March 31, 2007, 2006, and 2005, 173,800, 166,806, and 141,230, respectively, of options were outstanding, vested, and exercisable.

The total intrinsic value of options exercised during the years ended March 31, 2007, 2006, and 2005 was \$22,486, \$104,146, and \$69,213, respectively. Cash received from the exercise of stock options for the years ended March 31, 2007, 2006 and 2005 was \$79,581, \$134,695, and \$68,392, respectively. The total intrinsic value of outstanding options at March 31, 2007 was \$211,649.

Due to the acceleration of 50,000 stock options, the Company incurred non-cash compensation expense in the amount of \$43,230 for the fiscal year ended March 31, 2006.

15. Net Income (Loss) Per Share Attributable to Common Stockholders

Incremental shares of 58,426, 70,824 and 181,960 are attributable to the assumed exercise of outstanding options and have been excluded from the calculation of diluted net loss per share for fiscal years 2007, 2006 and 2005, respectively, as their effect would have been anti-dilutive due to the losses incurred in these period.

16. Segment Information

Information is presented for the Company's three reportable segments, avionics government, avionics commercial and marine systems. There are no inter-segment revenues.

The Company is organized primarily on the basis of its avionics and marine

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

instrument 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 instrumentation systems segment consists of sales to hydrographers, oceanographers, researchers, engineers, geophysicists and surveyors. 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.

41

-TEL-INSTRUMENT ELECTRONICS CORP

Notes To Consolidated Financial Statements (Continued)

16. Segment Information (continued)

The Company's selling and engineering, research and development costs are only segment specific for total avionics and marine systems. General and administrative expenses are not managed on a segment basis. The Company does allocate certain expenses, such as facility costs, to the marine systems segment. Net interest includes expenses on debt and income earned on cash balances, both maintained at the corporate level.

The table below presents information about reportable segments within the avionics business for the years ending March 31:

2007 ----	Avionics Government -----	Avionics Commercial -----	Avionics Total -----	Marine Systems -----	Reconcil -----
Net sales	\$4,502,799	\$ 2,500,142	7,002,941	\$663,646	\$
Cost of Sales	1,767,672 =====	1,433,756 =====	3,201,428 =====	484,099 =====	====
Gross Margin	2,735,127 =====	1,066,386 =====	3,801,513 =====	179,547 =====	=====
Engineering, research, and Development			2,390,450	189,931	
Selling, general, and admin.			1,297,374	162,658	1
Interest (income) expense net			-- =====	-- =====	=====

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Income (loss) before income taxes			\$113,689	\$ (230,032)	\$ (
			=====	=====	=====
Segment Assets	\$ 3,152,513	\$ 838,360		\$ 97,380	\$
	=====	=====		=====	=====
2006					
	Government	Commercial	Avionics Total	Marine Systems	Reconci
	-----	-----	-----	-----	-----
Net sales	\$7,326,687	\$ 2,930,037	10,256,724	\$ 939,335	\$
Cost of Sales	3,165,808	1,923,251	5,089,059	640,677	
	=====	=====	=====	=====	=====
Gross Margin	4,160,879	1,006,786	5,167,665	298,658	
	=====	=====	=====	=====	=====
Engineering, research, and Development				2,337,696	
Selling, general, and admin.			1,366,207	416,612	
Amortization of intangibles			--	--	
Interest (income) expense, net			--	147	
			=====	=====	
Income (loss) before income taxes			\$ 1,366,207	\$ (314,902)	\$ (
			-----	-----	-----
Segment Assets	\$2,740,699	\$ 863,246		\$ 610,984	\$
	=====	=====		=====	=====

TEL-INSTRUMENT ELECTRONICS CORP

Notes To Consolidated Financial Statements (Continued)

16. Segment Information (continued)

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

2005			Avionics	Marine	
----	Government	Commercial	Total	Systems	Reconci
-----	-----	-----	-----	-----	-----
Net sales	\$6,661,561	\$3,046,308	9,707,869	\$ 803,415	\$
Cost of Sales	2,730,910	1,810,064	4,540,974	489,114	
	=====	=====	=====	=====	=====
Gross Margin	3,930,651	1,236,244	5,166,895	314,301	
	=====	=====	=====	=====	=====
Engineering, research, and Development			1,867,404	319,424	
Selling, general, and admin.			1,356,812	383,216	
Amortization of intangibles			--	--	
Interest expense, net			10,621	257	
			=====	=====	=====
Income (loss) before income taxes			\$1,932,058	\$ (388,596)	\$ (
			-----	-----	-----

TEL-INSTRUMENT ELECTRONICS CORP

Notes To Consolidated Financial Statements (Continued)

17. Quarterly Results of Operations (Unaudited)

Quarterly consolidated data for the years ended March 31, 2007 and 2006 is as follows:

	Quarter Ended			
FY 2007	June 30	September 30	December 31	March 31
Net sales	\$ 1,765,051	\$ 2,127,349	\$ 2,269,148	\$ 1,500,000
Gross margin	805,578	1,071,160	1,263,905	840,000
Income (loss) before taxes	(451,546)	(138,185)	(65,258)	(60,000)
Net income (loss)	(271,154)	(82,978)	(39,453)	(40,000)
Basic and diluted earnings (loss) per share	(0.12)	(0.04)	(0.02)	

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

FY 2006	Quarter Ended			
	June 30	September 30	December 31	March 31
Net sales	\$ 3,150,978	\$ 3,094,442	\$ 3,008,995	\$ 1,940,000
Gross margin	1,606,683	1,504,819	1,530,457	820,000
Income (loss) before taxes	57,991	64,884	157,419	(86,000)
Net Income (loss)	29,148	36,116	86,544	(54,000)
Basic and diluted earnings (loss) per share	0.01	0.02	0.04	(0.02)

Revenues beginning in the fourth quarter of fiscal year 2006 were substantially lower than quarterly amounts reported for the first three quarters of fiscal year 2006 as Tel is in a transitional phase between the end of deliveries in fiscal year 2006, pursuant to its multi-year AN/APM-480 contract and other government contracts, and the commencement of production deliveries under its multi-year AN/USM-708 contract.

TEL-INSTRUMENT ELECTRONICS CORP

Schedule II - Valuation and Qualifying Accounts

Description	Balance at Beginning of the Year	Charged to Costs and Expenses	Deductions	Balance at End of Year
Year ended March 31, 2007:				
Allowance for doubtful Accounts	\$ 40,994	\$ --	\$ (6,450)	\$ 34,544
Allowance for obsolete Inventory	\$ 243,104	\$ 158,370	\$ (54,664)	\$ 346,810
Year ended March 31, 2006:				
Allowance for doubtful Accounts	\$ 46,206	\$ --	\$ (5,212)	\$ 41,000
Allowance for obsolete Inventory	\$ 170,640	\$ 122,685	\$ (50,221)	\$ 243,104
Year ended March 31, 2005:				
Allowance for doubtful accounts	\$ 41,598	\$ 4,608	\$ --	\$ 46,206
Allowance for obsolete inventory	\$ 140,898	\$ 29,742	\$ --	\$ 170,640

TEL-INSTRUMENT ELECTRONICS CORP

Item 9. Changes in and Disagreements with Accountants on Accounting and

Financial Disclosure

None.

Item 9a. Controls and Procedures

The Company adopted disclosure controls and procedures, which are defined under Rules promulgated by the SEC as "those controls or other procedures of the issuer that are designed to ensure that information required to be disclosed by the issuer in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the commission's rules and forms." The Company's Chief Executive Officer and Principal Accounting Officer evaluated the Company's Disclosure Controls and Procedures at March 31, 2007 and have concluded that they are effective based on their evaluation of these controls and procedures required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

There were no changes in our internal control over financial reporting identified in connection with the evaluation as of March 31, 2007 by the Chief Executive Officer and Principal Accounting Officer, required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Item 9b. None.

46

PART III

Item 10. Directors and Executive Officers of the Registrant

Name (age) -----	Position -----	Year First Elected a Director -----
Harold K. Fletcher (1) (81)	Chairman of the Board, President and Chief Executive	1982

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

	Officer since 1982.	
George J. Leon (2) (3) (63)	Director; Investment Manager and beneficiary of the George Leon Family Trust (investments) since 1986.	1986
Robert J. Melnick (73)	Director; Vice President since 1999; Marketing and Management Consultant for the Company since 1991.	1998
Jeffrey C. O'Hara, CPA (1) (49)	Director; Vice President since 2005; COO since June 2006; Financial Consultant from 2001; Chief Financial Officer from 1999-2000 of Alarm Security Group;	1998
Robert A. Rice (2) (51)	Director; President and Owner of Spurwink Cordage, Inc since 1998 (textile manufacturing).	2004
Robert H. Walker (2) (3) (70)	Director; Retired Executive Vice President, Robotic Vision Systems, Inc. (design and manufacture of robotic vision systems) 1983-1998.	1984

47

TEL-INSTRUMENT ELECTRONICS CORP

Item 10. Directors and Executive Officers of the Registrant (Continued)

All directors serve until the next annual shareholders' meeting and until their successors are duly elected and qualified.

- (1) Mr. O'Hara is the son-in-law of Mr. Fletcher
- (2) Member of the Audit Committee
- (3) Member of the Compensation Committee

Audit Committee

The Board of Directors established a separately designated standing Audit Committee in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The Audit Committee is comprised of Messrs. Walker (chairman), Leon, and Rice. Messrs. Walker, Leon, and Rice are independent, as that term is defined under the Securities Exchange Act of 1934, and Mr. Walker is a financial expert as defined in that act. As noted above, Mr. Walker served as director and Executive Vice President of Robotic Vision Systems, Inc., a reporting company, and as its principal financial officer for over 15 years.

Section 16(a) Beneficial Ownership Reporting Compliance

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

As of March 31, 2007, the end of the last fiscal year, all officers, directors and 10% beneficial owners, known to the Company, had timely filed required forms reporting beneficial ownership of Company securities, based on review of Filed Forms 3 and 4.

Code of Ethics

The Board of Directors has adopted a written Code of Ethics that applies to all of the Company's officers and employees, including the Chief Executive Officer and the Principal Accounting Officer. A copy of the Code of Ethics is available to anyone requesting a copy without cost by writing to the Company, attention Joseph P. Macaluso.

48

Item 11. Executive Compensation

Compensation Discussion and Analysis

The following contains a description and analysis of compensation arrangements and policies for fiscal year 2007 for the executive officers named in the Summary Compensation table below. Such named executive officers are referred to as "NEO's".

The main elements of our compensation program are designed to support individual motivation and excellence, align executive interest with the interest of shareholders and recognize business and leadership results.

Tel is a small company and the three NEOs are critical to its business success. As a consequence, compensation of NEOs is also based on the overall business success of the Company as well as compensation paid by comparable companies, as reported in industry surveys, and available resources.

Compensation Committee

The Board of Directors established a Compensation Committee comprised of two independent directors, Messrs. George J. Leon and Robert H. Walker, to review compensation arrangements for NEOs and make recommendations to the full Board. The Committee considers recommendations from Management, except with respect to compensation of the CEO, as well as published information on compensation for similar positions in competitive businesses, and makes recommendations to the Board based on the foregoing information and the compensation criteria set forth above.

Salary

Salaries set a baseline level of compensation to NEOs, and are intended to compensate them for carrying out duties and responsibilities of their position and the business success of the Company. The Compensation Committee periodically reviews salary levels and adjusts them, as deemed necessary, but not necessarily annually. During the review and adjustment process, the Compensation Committee considers the matter discussed above.

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

The Compensation Committee reviews compensation for NEOs each year prior to the stockholders' annual meeting.

The Compensation Committee's review of the foregoing factors is subjective and the Committee assigns no fixed value or weight to any specific factors when making its decisions.

Stock Options

The Board of Directors believes that stock option participation aligns NEOs long-term interests with those of stockholders and allows them to share appreciation in the Company's common stock. When establishing stock option grants for NEOs, the Compensation Committee considers the individual's motivation and performance, the Company's business results, the level of other compensation paid, the stock and options owned, the stock grants made to other employees pursuant to the Company's Stock Option Plans (see Note 14 to Notes to Financial Statements), and the impact on stockholder profits and stock values.

49

Item 11. Executive Compensation (continued)

Options granted to NEOs are consistent with the terms of options granted to other employees pursuant to the Employee Stock Option Plans. Mr. O'Hara's employment contract provides for the grant of 15,000 options.

NEOs were not awarded any stock options in fiscal year 2007. Options granted to NEOs may be tax sheltered to the grantee, and their cost constitutes a current charge to the Company (see Notes 2 and 14 to Financial statements.)

Incentive Plan

The Company has a key man incentive compensation program. Each year the Committee determines a percentage of operating profits to be distributed among senior employees, including NEOs. The percentage determined is based on the general performance of the Company, and the amount of operating profits available for shareholders and for reinvestment in the business. This element of compensation provides an incentive for short-term performance.

The percentage of operating profits so determined is then distributed to senior employees, including NEOs and to a category entitled "other", based on (a) the amount of the employee's base salary, (b) his contribution to the Company, (c) the results of that contribution, (d) an estimated amount of his "special effort" on behalf of the Company, (e) his technical expertise, leadership, and management skills, and (f) the level of the overall compensation paid employees performing similar work in competitive companies. No incentive awards have been made to the NEOs the last three fiscal years.

Other Benefits

The Company sponsors the Tel-Instrument Electronics Corp 401(k) Plan (the "Plan"), a tax qualified Code Section 401(k) retirement savings

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

plan, for the benefit of its employees, including its NEOs. The Plan encourages savings for retirement by enabling participants to make contributions on a pre-tax basis and to defer taxation on earnings on funds contributed to the Plan. The Company makes matching contributions to the Plan. All NEOs can make contributions to the Plan.

The NEOs also participate in group health and life benefits generally on the same terms and conditions that apply to other employees.

CEO Performance and Compensation

Within the framework described above, the Compensation Committee evaluates performance of the CEO and determines the CEO's salary, bonus, and stock option grant. The Compensation Committee sets qualitative objectives and responsibilities for the CEO consistent with the Corporation's business model. These include creating shareholder value through a balanced focus on long-term returns on capital employed, earnings per share, and total shareholder return; developing the long-term business strategy and assessing the effectiveness and execution of that strategy against the Corporation's financial performance; assuring the effectiveness of the Corporation's management development and succession planning process across the organization; ensuring that every business line develops and meets high standards of safety, health, and environmental performance; stewardship and enforcement on internal business controls; communicating effectively with all the Corporation's stockholders; and working effectively with the Board in the pursuit of all these objectives.

50

Item 11. Executive Compensation (continued)

The Compensation Committee, in consultation with the other non-employee director, evaluates the performance of the CEO on an ongoing basis throughout the year in the course of regular meetings and interactions with the CEO, and during reviews of the Company's financial and operating results. The Compensation Committee also holds a formal meeting once a year to which all non-employee directors are invited to review the performance of senior executives, and to review progress on the executive's development and succession planning program.

Compensation Committee Report

The Compensation Committee of Tel-Instrument Electronics Corp has reviewed and discussed with management the Compensation Discussion and Analysis immediately preceding this report. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's Annual report on Form 10-K for the fiscal year ended March 31, 2007.

July 13, 2007

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Compensation Committee

George J. Leon,
Chair Robert H. Walker

51

Item 11. Executive Compensation (continued)

The following table presents information regarding compensation of our principal executive officer, our chief operating officer, and our principal accounting officer for services rendered during fiscal year 2007.

Name and Principal Position	Salary (\$) (1)	Incentive (\$) (2)	Option Awards (\$) (2)	All Other
Harold K. Fletcher, CEO	159,000	-0-	-0-	
Jeffrey C. O'Hara, COO	108,000	-0-	-0-	
Joseph P. Macaluso, Principal Accounting Officer	93,000	-0-	-0-	

- (1) The amounts shown in this column represent the dollar value of base cash salary earned by each executive officer.
- (2) No incentive or option grants were made to NEOs in 2007 and therefore no amounts are shown in these columns.
- (3) The amounts shown in this column represent amounts for medical and life insurance as well as the Company's match in the 401(k) Plan.
- (4) Robert J. Melnick, Vice President and director, serves pursuant to a consulting contract that provided \$68,973 in compensation for fiscal year 2007.

GRANTS OF PLAN-BASED AWARDS TABLE FOR FISCAL YEAR 2007

The following table sets forth information on stock options granted during or for the 2007 fiscal year to our named executive officers. No options were granted in fiscal year 2007.

52

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END TABLE

The following table sets forth the Unexercisable outstanding stock option equity grants awards held by named executive officers at the end of the 2007 fiscal year. The option exercise price set forth in the table is based on the closing price on the date of grant.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Ex Price
Harold K. Fletcher	35,000 6,000	-- 9,000	\$2. \$3.
Jeffrey C. O'Hara	6,400 5,800 4,500 4,200	-- 2,600 5,000 14,300	\$2. \$1.50 -- \$2.75 -- \$3.55 --
Robert J. Melnick	4,000	6,000	\$3.
Joseph P. Macaluso	4,000	6,000	\$3.

OPTIONS EXERCISED AND STOCK VESTED DURING FISCAL YEAR 2007

The following table sets forth the number of shares acquired upon exercising options awards by our named executive officers during fiscal year 2007.

Name	Number of shares acquired on exercise	Value realized on exercise (1)
Joseph P. Macaluso	12,500	\$3,125
Jeffrey C. O'Hara	3,200	\$2,240

(1) Value stated calculated by subtracting the exercise price from the market value at time of exercise.

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Director Compensation

Directors who are not employees or officers of the Company receive \$1,250 in cash and options, at the then market price, to purchase 1,000 shares of common stock for attendance at each in-person meeting and \$625 in cash and options to purchase 500 shares for attendance at each formal telephonic meeting of the Board or of a standing committee. During fiscal year 2007 non-employee directors received the following compensation pursuant to this plan.

Name	Cash Compensation	Option Awards (\$)(1)	Total \$
George J. Leon	\$5,000	\$4,984	\$9,984
Robert A. Rice	\$4,375	\$4,155	\$8,530
Robert H. Walker	\$5,000	\$4,984	\$9,984

(1) Amounts in this column represent the fair value required by FASB 123R to be included in our financial statements for all options granted during fiscal year 2007.

Compensation Committee Interlock and Insider Participation

During the last fiscal year, Messrs. Leon and Walker served as members of the Compensation Committee of the Board of Directors, neither of whom was or has been an officer or employee of the Company, had a material business relationship with or a loan from the Company. The Company has no compensation committee interlocks or insider participation to report.

54

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information known to the Company with respect to the beneficial ownership as of March 31, 2007, by (i) all persons who are beneficial owners of five percent (5%) or more of the Company's Common Stock, (ii) each director and nominee, (iii) the Named Executive Officers, and (iv) all current directors and executive officers as a group.

Name and Address	Number of Shares Beneficially Owned	Percentage of Class (1)
Named Directors and Officers		
Harold K. Fletcher, Director 728 Garden Street Carlstadt, NJ 07072	577,102 (2)	24.7%
George J. Leon, Director	328,967 (3)	14.2%

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

116 Glenview
Toronto, Ontario, Canada M4R1P8

Robert J. Melnick, Director 57 Huntington Road Basking Ridge, NJ 07920	41,600	(4)	1.8%
Jeffrey C. O'Hara, Director 853 Turnbridge Circle Naperville, IL 60540	136,600	(5)	5.9%
Robert A. Rice 5 Roundabout Lane Cape Elizabeth, ME 04107	83,100	(6)	3.6%
Robert H. Walker, Director 27 Vantage Court Port Jefferson, NY 11777	53,483	(7)	2.3%
Donald S. Bab, Secretary 770 Lexington Ave. New York, New York 10021	82,034		3.6%
All Officers and Directors as a Group (8 persons)	1,330,399	(8)	55.2%

Other Officers

Joseph P. Macaluso (55)	Principal Accounting Officer since August 2002. Director - Finance and Administration for the Company since February 1999.
----------------------------	--

55

Item 12. Security Ownership of Certain Beneficial Owners and Management

(Continued)

- (1) The class includes 2,341,861 shares outstanding plus shares outstanding under Rule 13d-3(d)(1) under the Exchange Act. The common stock deemed to be owned by the named parties, includes stock which is not outstanding but subject to currently exercisable options held by the individual named. The foregoing information is based on reports made by the named individuals.
- (2) Includes 24,681 shares owned by Mr. Fletcher's wife, and 4,254 shares owned by his son. Mr. Fletcher disclaims beneficial ownership of the shares owned by his wife and son. Also includes 41,000 subject to currently exercisable stock options.
- (3) Includes 299,517 shares owned by the George Leon Family Trust, of which Mr. Leon is a beneficiary, and 18,700 shares subject to currently exercisable stock options. Mr. Leon acts as manager of the trust assets pursuant to an informal family, oral arrangement, and disclaims beneficial ownership of the shares owned by the trust.
- (4) Includes 4,000 shares subject to currently exercisable stock options

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

- (5) Includes 20,900 shares subject to currently exercisable stock options.
- (6) Includes 4,000 shares subject to currently exercisable stock options
- (7) Includes 18,700 shares subject to currently exercisable stock options.
- (8) Includes 111,300 shares subject to currently exercisable options held by all executive officers and directors of the Company (including those individually named above).

Equity Compensation Plan Information

In June 1998, the Board of Directors adopted the 1998 Stock Option Plan ("the Plan") which reserves for issuance options to purchase up to 250,000 shares of its Common Stock. The shareholders approved the Plan at the December 1998 annual meeting. The Plan, which has a term of ten years from the date of adoption, is administered by the Board of Directors or by a committee appointed by the Board of Directors. The selection of participants, allotment of shares, and other conditions related to the grant of options, to the extent not set forth in the Plan, are determined by the Board of Directors. Options granted under the Plan are exercisable up to a period of 5 years from the date of grant at an exercise price which is not less than the fair market value of the common stock at the date of grant, except to a shareholder owning 10% or more of the outstanding common stock of the Company, as to which the exercise price must be not less than 110% of the fair market value of the common stock at the date of grant. Options are exercisable, on a cumulative basis, 20% at or after each of the first, second, and third anniversary of the grant and 40% after the fourth year anniversary.

In May 2003, the Board of Directors of the Company adopted the 2003 Stock Option Plan which reserves for issuance options to purchase up to 250,000 shares of its common stock and is similar to the 1998 Plan. The shareholders approved this plan at the November 2003 annual meeting.

56

Equity Compensation Plan Information (continued)

In March 2006, the Board of Directors of the Company adopted the 2006 Stock Option Plan which reserves for issuance options to purchase up to 250,000 shares of its common stock and is similar to the 1998 and 2003 Plans, and is subject to shareholder approval. This Plan was ratified by the shareholders at the Annual Meeting in December 2006. Additionally, at March 31, 2007 the Company has individual employment agreements with eight individuals for the grant of 71,000 stock options with a weighted average exercise of \$3.07 per share. These employee contracts have been approved by the directors, but not by the shareholders, and were included as consideration for their employment. Since these options were granted under the Stock Option Plans, they are included in the 381,650 shares in the second column of the following schedule.

The following table provides information as of March 31, 2007 regarding compensation plans under which equity securities of the Company are authorized for issuance.

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Plan category	Number of securities to be issued upon exercise of options	Weighted average exercise price of options	Number of options remaining available for future issuance under Equity Compensation Plan
Equity Compensation Plans approved by shareholders	381,650	\$3.08	203,420
Equity Compensation Plans not approved by shareholders	--	--	--
Total*	381,650	\$3.08	203,420

* See discussion above.

Item 13. Certain Relationships and Related Transactions

The disclosures required by this item are contained in Note 11 to Notes to Consolidated Financial Statements included on pages 37 and 38 of this document. Any corporate transaction which involves a related person must be approved by the independent directors as being fair and reasonable to the Corporation and its shareholders. Any such approval would be included in the minutes of the Board of Directors. There were no such transactions during the last fiscal year that would be required to be reported under Item 404 (b) of Regulation S-K promulgated by the Securities and Exchange Commission.

57

TEL-INSTRUMENT ELECTRONICS CORP

Item 14. Principal Accountant Fees and Services

For the fiscal years ended March 31, 2007 and 2006, professional services were performed by BDO Seidman, LLP, the Company's independent registered public accountant. Fees accrued for those years were as follows:

	2007	2006
	----	----
Audit Fees	\$89,000	\$83,000
Audit-Related Fees	--	--
	-----	-----
Total Audit and Audit-Related Fees	89,000	83,000
Tax Fees	--	--
All Other Fees	--	--
	-----	-----

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

Total	\$89,000	\$83,000
	=====	=====

Audit Fees. This category includes the audit of the Company's consolidated financial statements, and reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q. It also includes advice on accounting matters that arose during, or as a result of, the audit or the review of interim financial statements, and services which are normally provided in connection with regulatory filings, or in an auditing engagement.

Audit Related Fees. No fees were paid in 2007 and 2006.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor

The Audit Committee has established a policy which requires it to pre-approve all audit and permissible non-audit services, including audit-related and tax services, if any, to be provided by the independent auditor. Pre-approval is generally provided for up to one year and is detailed as to the particular service or category of service to be performed, and is subject to a detailed budget. The auditor and management are required to report periodically to the Audit Committee regarding the extent of services performed and the amount of fees paid to date, in accordance with the pre-approval. Pursuant to that policy, the Audit Committee has approved, for the fiscal year ended March 31, 2007, an aggregate of specified services, including audit, audit-related and tax services, expected to be rendered during the year, together with specified amounts of approved fees to be incurred for those services.

58

Item 15. Exhibits and Financial Statement Schedules

a.) The following documents are filed as a part of this report:

	Pages
(1) Financial Statements:	-----
Report of Independent Registered Public Accounting Firm	20
Consolidated Balance Sheets - March 31, 2007 and 2006	21
Consolidated Statements of Operations - Years Ended March 31, 2007, 2006 and 2005	22
Consolidated Statements of Changes in Stockholders' Equity - Years Ended March 31, 2007, 2006 and 2005	23
Consolidated Statements of Cash Flows - Years Ended March 31, 2007, 2006 and 2005	24
Notes to Consolidated Financial Statements	25 - 44

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

(2) Financial Statement Schedule
II - Valuation and Qualifying Accounts

45

59

TEL-INSTRUMENT ELECTRONICS CORP

Item 15. Exhibits and Financial Statement Schedules (continued)

c.) Exhibits identified in parentheses below on file with the Securities and Exchange Commission, are incorporated herein by reference as exhibits hereto.

- * (3.1) TelInstrument Electronics Corp's Certificate of Incorporation, as amended.
- * (3.2) TelInstrument Electronics Corp's ByLaws, as amended.
- * (3.3) TelInstrument Electronics Corp's Restated Certificate of Incorporation dated November 8, 1996.
- * (4.1) Specimen of TelInstrument Electronics Corp's Common Stock Certificate.
- * (10.1) 7%, \$30,000 Convertible Subordinated Note dated March 31, 1992 between Registrant and Donald S. Bab.
- * (10.2) Distributor Agreement with Muirhead Avionics & Accessories Ltd.
- * (10.3) Naval Air Warfare Center Aircraft Division Contract No. N6833597D0060
- * (10.4) Lease dated March 1, 2001 by and between Registrant and 210 Garibaldi Group.
- * (10.5) Agreement with Semaphore Capital Advisors dated November 28, 2001 and amendment dated as of June 1, 2002.
- * (10.6) 10% convertible subordinated note between Registrant and Harold K. Fletcher.
- * (10.7) 1998 stock option plan and option agreement.
- (*) (10.8) Purchase agreement between Registrant and Innerspace Technology
- * (10.9) Agreement between Registrant and Semaphore Capital Advisors, LLC
- * (10.10) 2003 Stock Option Plan

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

- (23.1) Consent of Independent Registered Public Accounting Firm
- (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 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (32.2) Certification by CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Incorporated by reference to Registration 33-18978 dated November 7, 1988.

The Company will furnish to a stockholder, upon request, any exhibit at cost.

60

TEL-INSTRUMENT ELECTRONICS CORP

Signatures

Pursuant to the requirements of Section 13 or 15(d) 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

(Registrant)

Dated: July 13, 2007

By: /s/ Harold K. Fletcher

Harold K. Fletcher
President and Director
(Principal Executive
Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated and by signature hereto.

Signature

Title

Date

/s/ Harold K. Fletcher

Director

July 13, 2007

/s/ Harold K. Fletcher

Edgar Filing: TEL INSTRUMENT ELECTRONICS CORP - Form 10-K

/s/ Joseph P. Macaluso -----	Principal Accounting Officer	July 13, 2007
/s/ Joseph P. Macaluso		
/s/ George J. Leon -----	Director	July 13, 2007
/s/ George J. Leon		
/s/ Robert J. Melnick -----	Director	July 13, 2007
/s/ Robert J. Melnick		
/s/ Jeffrey C. O'Hara -----	Director	July 13, 2007
/s/ Jeffrey C. O'Hara		
/s/ Robert A. Rice -----	Director	July 13, 2007
/s/ Robert A. Rice		
/s/ Robert H. Walker -----	Director	July 13, 2007
/s/ Robert H. Walker		