TCC

Mission Critical Networks | Global Communications | End to End Security

2000 Annual Report

Technical Communications Corporation
Annual Report for
Fiscal Year 2000

Contents

December 2000,

To Our Shareholders,

The process of restructuring our Company to compete and grow continued through fiscal 2000 with a variety of results. As we stated a year ago, TCC expected that the international market would remain slow, resulting in delays to key projects. That condition materialized and has continued beyond our expectations into the first part of fiscal 2001. On the positive side, our product development programs have reached the intended goals and are on track for completion of development and introduction to the markets.

Revenue for the fiscal year ended September 30, 2000 was $5,574,000 and the earnings were a loss of $1,740,000 or $1.35 per share. Results for the comparable period in 1999 were revenues of $6,434,000 with a net loss of$1,219,000 or $0.96 per share. The loss in fiscal 2000, as in 1999, resulted from the delays in international sales and the continuing investment in forward looking technologies and programs which will build a future for TCC.

Carl H. Guild, Jr.
President and CEO

During the last two years, our focus and investment at TCC has been on restructuring the company so that we can compete more effectively in selected worldwide markets for secure communications. To accomplish this goal we have implemented initiatives in three areas: streamlining operations and cost reduction; development of partnerships; and new product technologies. Streamlining generates higher margins for investment in growth. Partnerships leverage our core capabilities. And new technologies bring us to the future opportunities.

Operating margins (less internal product development expenses) improved by over 30% in FY00 vs. FY99. Through the successful efforts of product improvement teams, manufacturing costs have been reduced and features enhanced. Administrative costs continue to be reduced through redefinition of our procedures and elimination of inefficient methods. Improved performance from our sales and marketing channels has come through better project targeting and by finding and retaining more productive field representation. The combined effect of these on-going actions provides a foundation for improved profitability and highly efficient operations.

Important to TCC's growth is our development of partnerships with higher level hardware and software providers. Integration of TCC encryption technology into higher level products and systems expands our market opportunities by using the strength of the prime suppliers' products and services. We are actively pursuing partnership projects in: airborne communications; HF/VF/UHF radio networks; microwave links; network systems; and communications services. These partnerships will imbed TCC encryption technology into the prime equipment or service and provide TCC with access to new and larger markets.

New product technologies is a principal element of TCC's plan for growth and during fiscal 2000 we made significant progress in two important areas. Security for wireless communications presents many challenges due to the requirements for high voice clarity, low latency and the tight packaging constraints of today's cellular phones. TCC has made significant progress in developing the fundamental technologies that meet these requirements and can be directly imbedded into the software architecture of the mobile phone. Using the same technology, companion products that provide secure communication between the mobile phone and desk sets and the capability for secure net-conferencing are possible

Our CipherONE™ family of network products has been strengthened with a new version of the CX7200 Internet Protocol Encryptor that meets the US federal FIPS 140-1, Level 3 standard for high strength security. Compliance with this standard is necessary to compete in both domestic and foreign markets. During the period, work began on the capacity upgrade to CX7100 Frame Relay Encryptor product line which is expected to obtain the FIPS certification in early 2001. The CipherONE product line is developing interest in our foreign markets with several potential projects having been identified and demonstrations being conducted.

All of us at TCC continue to work to the vision of being "the leading provider of Optimized Network Encryption solutions". To reach the vision we must continue to make progress with our initiatives of streamlining, partnerships and new technologies. The results of our progress and a recovery in the markets should combine to improve our fiscal 2001 revenues and profitability. Thank you for your continued interest and support.

Carl H. Guild, Jr.

President and Chief Executive Officer

TCC…Secure Communications for Global Requirements

TCC designs, manufactures, and supports superior grade secure communications systems that protect highly sensitive information being transmitted over a wide range of data, voice and fax networks. Our proven security solutions protect information privacy on every continent in 100 countries. Government agencies, military organizations, financial institutions, telecom carriers and multinational corporations worldwide rely on TCC solutions to protect their communications networks.

Throughout our history of over 38 years in providing communication encryption equipment to military and government agencies, TCC has applied the most advanced technologies and highest quality standards to meet the rigorous demands of our customers. Our state-of-the-art voice, fax and data encryption systems used over telephone, radio and data networks, have been deployed by ground, air and naval defense forces, as well as non-military government agencies and commercial enterprises worldwide. TCC's expertise lies in our ability to provide security solutions tailored to meet the unique requirements of the most demanding clients. Our goal and commitment is to provide highly secure and reliable secure communications for our client's mission-critical networks.

Secure Government and Military Communications

TCC's cryptographic technology ensures dependable, error-resistant secure communications in radio relay networks, missile systems, and microwave backbone systems around the world. In order to provide a strategic-level cryptographic security for their high-speed voice and data communications, several important government agencies are expanding their networks with the incorporation of the DSD 72A-SP, TCC's rugged High-Speed Field Bulk Data Encryptor. Its robust features, including the availability of a large number of stored keys, fully automatic key management, customized algorithm and interface capability and ease of use, are deciding factors in the selection of the DSD 72A-SP.

TCC's DSP 9000 family of Narrow Band Radio and Telephone Systems continues to provide the ground, naval and air forces of over 50 countries security for their HF, VHF, and UHF radio communications and telephone command networks . This 'best-in-class' system delivers strong encrypted communications security, while maintaining excellent recovered voice quality even in the harshest field and network environments.


DSD 72A


CSD 3324


DSP 9000

The defense forces of several nations have decided to significantly expand their TCC secure phone system with new installations of our CSD 3324E Secure Voice, Fax and Data desktop telephone system. The privacy of their voice, fax and data communications is now fully protected with our fully automated key management, CSD 3324 system, which also provides and direct communication with the field forces. Even over severely degraded line conditions, our client now has highly secure voice and data communications with excellent voice recognition quality.

Throughout the world, (whether for military or commercial applications) wherever high-level communications privacy is the priority, TCC can provide the appropriate solution.

Secure Office Communications

Thousands of TCC's Secure Office Systems products, such as the CSD 4100 Executive Secure Telephone, the CSD 3700 Fax Security System and the CSD 3600 Secure Telephone Device, are on-line today providing security for voice and fax communications throughout the world. Our expanding client list is impressive. Government and commercial users are located in North America, Europe, Asia, the Middle East and Africa. In the U.S., TCC provides our Secure Office Systems to a long list of Fortune 500 companies.

The CSD 3600 Secure Telephone Device was recently introduced into Eastern European markets and is gaining acceptance with both commercial and government users. These small portable units operate over both digital and analog lines enabling corporate executives to have secured communications wherever they travel around the world. The interoperability of the CSD 3600 with the CSD 4100 Desk Set and the CSD 3700 Secure Fax provide a flexible family of products that meet a wide range of user requirements.

Several major aerospace companies have recently procured TCC Secure Office products in order to establish or expand mission critical communication networks for: satellite launch monitoring and control data; command and control communications for operations in remote South American jungle areas; border control and response system for an African nation.

Secure Network Encryption

CipherONE™ is an evolving, growing family of network encryption products designed by TCC for secure Internet, Intranet and Extranet requirements of the new millennium.

TCC's CipherX 7100 Frame Relay Encryptor protects information sent over public frame relay networks. Aimed at protecting mission critical networks such as those used in financial institutions, large multi-site corporations and governments, CipherX 7100 Frame Relay Encryptors reduce costs by eliminating the need for private networks. The encryptor has been designed in compliance with the US FIPS 140-1, Level 3 standard. Companies can now establish Virtual Private Networks (VPN's) assured that confidentiality is never compromised. TCC is working with manufacturers of frame relay access device (FRAD) products to establish OEM relationships enabling the sale of integrated, secure solutions.

The CipherX 7200 Internet Applications Encryptor is US FIPS 140-1, Level 3 certified, and provides encryption, authentication and multiple levels of access protection for Internet networking applications. Already embraced by our military and government customers, it is finding it's niche in the high security needs market in the world of commercial enterprise.

TCC's KEYNET is an advanced, automated key and network management system which securely and efficiently manages and protects global networks of CipherONE encryption products. Designed to manage multiple protocols, KEYNET is scalable as system architectures change or grow and controls both Internet and Frame Relay networks.

When utilizing KEYNET key management, the security of cryptographic public and private keys is maintained at every point in their lifecycle, from key generation through key use and finally key destruction; all the while being user-transparent.

Specialized Encryption for OEM Suppliers and Systems

TCC's significant experience in the development of specialized, imbedded encryption technologies is being applied to the built-in encryption needs of Original Equipment Manufacturers (OEMs) and suppliers of communications networks and systems. User requirements for communications security can be effectively and transparently met with the use of TCC's encryption technologies integrated into the prime transmission equipment. The resulting partnerships expand TCC's market reach through sales of the prime equipment products to the worldwide market.

Customer Support and Satisfaction

Our worldwide customers demonstrate their satisfaction by awarding TCC a high measure of repeat business based largely on the high level of performance of the equipment and the responsiveness of TCC to their specific security requirements.

We believe that this is a direct result of our dedication to worldwide customer service. TCC provides personalized on-site user and field service training. The ease of use and serviceability that is designed into our product is complimented by the satisfaction our customers gain when we install and test our equipment at customer locations.

Opportunities for growth

Current rapid developments in communications technology for VPN applications, and the convergence of voice, multimedia and data transport over IP, provide new opportunities to apply our core competencies in encryption toward new avenues in product development. Our product development program reflects our strong commitment to continue to offer the best communications security technology available, often specialized or adapted for the most demanding requirements. Whether it be standard, special or extreme environments, TCC is the choice for encryption technology solutions.

Consolidated Balance Sheets:
September 30, 2000, and October 2, 1999.

	2000	1999
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 3,121,617	$ 2,338,935
Accounts receivable - trade, less allowance for doubtful accounts of $70,000	363,742	2,603,401
Inventories	3,452,403	3,035,937
Refundable income taxes		276,960
Deferred income taxes	157,500	809,555
Other current assets	269,980	84,065
Total current assets	7,365,242	9,148,853
Equipment and leasehold improvements	4,899,615	4,640,222
Less accumulated depreciation	(4,330,749)	(3,960,614)
Equipment and leasehold improvements, net	568,866	679,608
Goodwill	1,614,131	1,614,131
Less accumulated amortization	(1,146,262)	(931,352)
Goodwill, net	467,869	682,779
Other assets	740	149,675
	$ 8,402,717	$ 10,660,915
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 524,231	$ 258,067
Accrued liabilities:		
Compensation and related expenses	162,420	230,654
Other	435,602	870,936
Total current liabilities	1,122,253	1,359,657
Other long-term liabilities	–	365,721
Commitments and contingencies		
Stockholders' Equity		
Common stock - par value $.10 per share; authorized 3,500,000 shares, issued 1,312,151 shares and 1,294,541 shares	131,215	129,454
Treasury stock at cost, 15,037 and 27,063 shares	(118,610)	(213,375)
Additional paid-in capital	1,294,579	1,305,870
Retained earnings	5,973,280	7,713,588
Total stockholders' equity	7,280,464	8,935,537
	$ 8,402,717	$ 10,660,915

Consolidated Statements of Operations:
Years Ended September 30, 2000, October 2, 1999, and October 3, 1998.

	2000	1999	1998
Net sales	$ 5,574,108	$ 6,433,683	$ 13,855,781
Cost of sales	2,376,433	3,128,491	5,462,608
Gross profit	3,197,675	3,305,192	8,393,173
Operating expenses:			
Selling, general and administrative expenses	3,874,424	4,312,162	6,220,992
Product development costs	1,156,692	1,935,859	1,414,746
Total operating expenses	5,031,116	6,248,021	7,635,738
Operating profit (loss)	(1,833,441)	(2,942,829)	757,435
Other income (expense):			
Gain on sale of investment	–	1,151,172	–
Investment income	210,939	147,860	24,068
Interest expense	(2,305)	(4,641)	(142,056)
Other	57,869	23,717	2,690
Total other income (expense)	266,503	1,318,108	(115,298)
Income (loss) before income taxes	(1,566,938)	(1,624,721)	642,137
Provision (benefit) for income taxes	173,376	(406,179)	160,534
Net income (loss)	$ (1,740,314)	$ (1,218,542)	$ 481,603
Net income (loss) per common share			
Basic	$ (1.35)	$ (0.96)	$ 0.38
Diluted	$ (1.35)	$ (0.96)	$ 0.37
Weighted average common shares outstanding			
Basic	1,289,523	1,264,626	1,281,924
Diluted	1,289,523	1,264,626	1,288,007

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows:
Years Ended September 30, 2000, October 2, 1999, and October 3, 1998.

	2000	1999	1998
Operating Activities:			
Net income (loss)	$ (1,740,314)	$ (1,218,542)	$ 481,603
Adjustments to reconcile net income (loss)			
to cash provided by (used for) operating activities:			
Depreciation and amortization	733,980	896,965	873,642
Loss on disposal of fixed assets	–	28,697	20,000
Non-cash compensation	47,602	14,675	18,263
Deferred income taxes	292,478	(167,341)	9,907
Gain on sale of investment	–	(1,151,168)	–
Changes in current assets and current liabilities:			
Accounts receivable	2,239,659	5,592,895	(4,936,747)
Unbilled revenue	–	–	198,038
Inventories	(416,466)	83,354	304,688
Refundable income taxes	276,960	84,572	(68,903)
Other current assets	(185,915)	4,418	29,464
Accounts payable and accrued liabilities	(236,423)	(1,586,926)	114,723
Cash provided by (used for) operating activities	1,011,561	2,581,599	(2,955,322)
Investing Activities:			
Additions to equipment and leasehold improvements	(259,393)	(166,581)	(511,423)
Cancellation of life insurance policies	–	5,437	152,787
Long term receivable	–	(9,824)	114,665
Proceeds from sale of investment	–	1,401,968	–
Investment in capitalized software	–	–	(275,101)
Other assets	–	–	1,500
Cash provided by (used for) investing activities	(259,393)	1,231,000	(517,572)
Financing Activities:			
Exercise of stock options, including income tax benefits	–	–	88,689
Proceeds from stock issuance	37,633	40,803	–
Borrowings under line of credit	–	–	4,500,000
Payment of line of credit	–	(2,250,000)	(2,250,000)
Payment of long-term debt	(7,119)	(4,516)	(2,494)
Cash provided by (used for) financing activities	30,514	(2,213,713)	2,336,195
Net increase (decrease) in cash and cash equivalents	782,682	1,598,886	(1,136,699)
Cash and cash equivalents at beginning of year	2,338,935	740,049	1,876,748
Cash and cash equivalents at end of year	$ 3,121,617	$ 2,338,935	$ 740,049
Supplemental disclosures:			
Interest paid	$ 4,305	$ 7,123	$ 139,063
Income taxes paid (net of refunds received)	(394,430)	(36,366)	108,765

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss) and Stockholders' Equity:
Years Ended September 30, 2000, October 2, 1999, and October 3, 1998.

	2000	1999	1998
Comprehensive Income (Loss)			
Net income (loss)	$ (1,740,314)	$ (1,218,542)	$ 481,603
Other comprehensive items:			
Unrealized gain on available for sale investment	–	326,262	422,000
Less: reclassification adjustment for gains included in net loss, net of income taxes	–	(748,262)	–
Total comprehensive income (loss)	$ (1,740,314)	$ 1,640,542	$ 903,603
Stockholder's Equity			
Shares of Common Stock:			
Beginning balance	1,294,541	1,283,238	1,273,703
Exercise of stock options	–	–	9,535
Issuance of shares to ESPP participants	17,612	11,303	–
Ending balance	1,312,153	1,294,541	1,283,238
Common Stock at par value:			
Beginning balance	$ 129,454	$ 128,324	$ 127,370
Exercise of stock options	–	–	954
Issuance of shares to ESPP participants	1,761	1,130	–
Ending balance	131,215	129,454	128,324
Additional Paid-In Capital:			
Beginning balance	1,305,870	1,266,197	1,526,110
Exercise of stock options	–	–	87,735
Issuance of shares to ESPP participants	35,872	39,673	–
Termination of ESOP	–	–	(347,648)
Ending balance	1,341,742	1,305,870	1,266,197
ESOP Deferred Compensation:			
Beginning balance	–	–	(527,772)
Principal payments on ESOP debt	–	–	–
Termination of ESOP	–	–	527,772
Ending balance	–	–	–
Accumulated Other Comprehensive Items:			
Beginning balance	–	422,000	–
Available for sale investment, net	–	(422,000)	422,000
Ending balance	–	–	422,000
Retained Earnings:			
Beginning balance	7,713,588	8,945,941	8,464,338
Issuance of stock grants	(47,163)	(13,811)	–
Net income (loss)	(1,740,314)	(1,218,542)	481,603
Ending balance	5,926,111	7,713,588	8,945,941
Treasury Stock:			
Beginning balance	(213,375)	(241,861)	(80,000)
Termination of ESOP	–	–	(180,124)
Issuance of stock grants	94,765	28,486	18,263
Ending balance	(118,610)	(213,375)	(241,861)
Total stockholders' equity	$ 7,280,458	$ 8,935,537	$ 10,520,601

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Company Operations

Technical Communications Corporation incorporated in 1961 in Massachusetts, and its wholly-owned subsidiaries (the Company) operate in one industry segment: the design, development, manufacture, distribution and sale of communications security devices and systems worldwide.

(2) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, TCC Foreign Sales Corporation (FSC), a qualified foreign sales corporation, and TCC Investment Corporation, a Massachusetts Security Corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Liquidity Matters

The Company's revenues have historically included significant transactions with foreign governments and other organizations. The Company expects this trend to continue. The timing of these transactions has in the past and will in the future impact the cash flow of the Company. Although the Company believes there are currently sufficient cash and available funds under the line of credit to meet its working capital needs, delays in the timing of significant transactions may cause the Company to reevaluate and adjust its operations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits at banks, and certificates of deposit and other investments (including mutual funds) readily convertible into cash. Cash equivalents are stated at cost, which approximates market value.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful life of the asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in operations for the period. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized.

Capitalized Software Costs

The Company sells software as a component of its communications systems. Certain computer software costs are capitalized in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," and are reported at the lower of unamortized cost or net realizable value. Upon initial product release, these costs are amortized based upon the straight-line method, over three years. As of September 30, 2000, the Company's had fully amortized its investments in capitalized software totaling $357,445.

Notes to Consolidated Financial Statements (continued)

Goodwill

The Company acquired substantially all of the assets of Datotek, Inc. in May 1995. The excess purchase cost over net assets acquired is being amortized on a straight-line basis over 7 1/2 years. The Company assesses the future useful life of this asset whenever events or changes in circumstances indicate that the current useful life has diminished. The Company considers the future undiscounted cash flows of the acquired company in assessing the recoverability of this asset. If impairment has occurred the excess of carrying value over fair value is recorded as a loss.

Recognition of Revenue

The Company generally recognizes revenue upon shipment of products, except in the case of long-term contracts for which the revenue is recognized using the percentage-of-completion method. In 1998, the Company recorded a significant amount of deferred revenue due to customer billings in excess of the revenue recognized under the percentage of completion accounting method. The deferred revenue from 1998 was recognized in 1999.

Stock-Based Compensation

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based employee compensation using the intrinsic value method prescribed in Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees," and related Interpretations.

Reclassification

Certain reclassifications have been made to the prior years' consolidated financial statements to conform with the fiscal year 2000 presentation.

Income Taxes

The Company records income tax expense (benefit) in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes," which requires the use of the asset/liability method in accounting for income taxes. Under the asset/liability method, deferred income taxes are recognized at current income tax rates to reflect the tax effect of temporary differences between the consolidated financial reporting basis and tax basis of assets and liabilities.

Warranty Costs

The Company provides for warranty costs at the time of sale based upon historical experience.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

a) Cash and Cash Equivalents, Accounts Receivable and Accounts Payable - the carrying amount of these assets and liabilities on the Company's consolidated balance sheet approximates their fair value because of the short term nature of these instruments.

b) Available for Sale Investment- the carrying amount of this asset on the Company's consolidated balance sheets equals the fair market value based on the market valuation with the difference between cost and market value, net of related tax effects, recorded in stockholders' equity as an unrealized gain on available for sale investment, which is included in "Accumulated Other Comprehensive Items".

c) Line of Credit- the carrying amount of this liability on the Company's consolidated balance sheets approximates its fair value because of the short term nature of this instrument.

Notes to Consolidated Financial Statements (continued)

Earnings (Loss) per Share ("EPS")

In accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share," the Company presents both a "Basic" and a "Diluted" EPS. Basic EPS has been computed by dividing net income by a weighted average number of shares of common stock outstanding during the period. In computing diluted EPS, only stock options that are dilutive (those that reduce earnings per share) have been included in the calculation of EPS using the Treasury Stock Method. Exercise of outstanding stock options is not assumed if the result would be antidilutive, such as when a net loss is reported for the period or the option exercise price is greater than the average market price for the period presented.

Fiscal Year-End Policy

The Company by-laws call for its fiscal year to end on the Saturday closest to the last day of September, unless otherwise decided by its Board of Directors. The years 2000 and 1999 ended on September 30, 2000 and October 2, 1999 and each included 52 weeks, while the year ended October 3, 1998, included 53 weeks.

Comprehensive Income

During fiscal 1999, the Company adopted Statement of Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income". SFAS 130 established standards for the reporting and display of comprehensive income and its components. In general, comprehensive income combines net income and "other comprehensive income".

Operating Segments

During fiscal 1999, the Company adopted Statement of Financial Accounting Standards No. 131 (SFAS 131), "Disclosures About Segments of an Enterprise and Related Information". SFAS 131 establishes standards for the way that public companies report information about operating segments and geographic distribution of sales in financial statements. This Statement supercedes Statement of Financial Accounting Standards No. 14, " Financial Reporting for Segments of a Business Enterprise", but retains the requirement to report information about major customers. The Statement is effective for fiscal years beginning after December 15, 1997. The adoption of this Statement did not have a material effect on the Company's financial statements, as the Company has only one operating segment.

Newly Issued Pronouncements

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB No. 101"), "Revenue Recognition in Financial Statements." SAB No. 101 provides guidance on applying generally accepted accounting principles to revenue recognition, presentation and disclosure in financial statements. Subsequently, the SEC has amended the implementation dates so that the Company is required to adopt the provisions of SAB No. 101 in the fourth quarter of 2001. We are currently reviewing the impact of SAB No. 101, but we believe that it will not materially affect the Company's results of operations or financial position.

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities". The Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as Accounting Standards No. 137 (SFAS 137), "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133—an amendment of FASB Statement No. 133". This Statement has delayed the effective date of SFAS 133 until fiscal years beginning after June 15, 2000. In June 2000, SFAS No. 133 was amended by Statement of Financial Accounting Standards No. 138 (SFAS 138), "Accounting for Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133. Management does not expect the adoption of these statements to have a material impact on its financial position or results of operations.

Notes to Consolidated Financial Statements (continued)

(3) Earnings per Share

In accordance with SFAS No. 128, "Earnings Per Share", basic and diluted EPS were calculated as follows:

	September 30, 2000	October 2, 1999	October 3, 1998
Basic Net Income (Loss)	$ (1,740,314)	$ (1,218,542)	$ 481,603
Weighted Average Share Outstanding	1,289,523	1,264,626	1,281,924
Outstanding dilutive stock options with option price less than average market price	–	–	6,083
Adjusted Weighted Average Shares	1,289,523	1,264,626	1,288,007
Basic Earnings Per Share	$ (1.35)	$ (0.96)	$ 0.38
Diluted Earnings Per Share	$ (1.35)	$ (0.96)	$ 0.37

Outstanding potentially dilutive stock options which were not included in the above calculations for the respective fiscal years were as follows: 217,669 in 2000; 180,169 in 1999 and 138,316 in 1998.

(4) Treasury Stock Transactions

During fiscal years 2000, 1999 and 1998, 12,026, 3,500 and 2,865 shares, respectively, of Technical Communications Corporation Common Stock were granted to members of the Company's Board of Directors. The prices of shares issued in 2000 ranged from $3.00 to $6.00 per share. The price of shares issued in 1999 and 1998 were at a price per share of $4.00 and $6.38, respectively. All grants were made at the current market value on the date of grant and were issued from the Company's Treasury Stock.

The Company terminated its ESOP on October 1, 1997, and accounted for this termination in the manner specified in AICPA Statement of Position (SOP) 93-6, Employers' Accounting for Employee Stock Ownership Plans. Specifically, the Company transferred the remaining 23,543 shares that had not been allocated to participants to Treasury Stock and valued the transaction at the fair market value of the shares at the October 1, 1997 reacquisition date.

(5) Stock Options

At the February 1992 Annual Meeting of Stockholders, the Company adopted the Technical Communications Corporation 1991 Stock Option Plan (the SOP Plan) to replace a previous, expired plan. The Company reserved 250,000 shares of common stock for issuance to employees at prices not less than the fair market value on the date of grant. At the February 1997 Annual Meeting of Stockholders, the Company increased the reserve for shares under the SOP Plan to 350,000. Options under this plan generally expire ten years from the date of grant and are exercisable in cumulative annual increments commencing one year after the date of grant.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," which sets forth a fair-value based method of recognizing stock- based compensation expense. As permitted by SFAS 123, the Company has elected to continue to apply Accounting Principles Board Opinion No. 25 to account for its stock-based employee compensation plans. Had compensation for awards in fiscal years 1998 through 2000 under the Company's stock-based compensation been determined based on the fair value at the grant dates consistent with the method set forth under SFAS 123, the effect on the Company's net income (loss) and earnings (loss) per share would have been as follows:

Notes to Consolidated Financial Statements (continued)

	September 30, 2000	October 2, 1999	October 3, 1998
Net income (loss)			
As reported	$ (1,740,314)	$ (1,218,542)	$ 481,603
Pro forma	$ (1,887,120)	$ (1,549,036)	$ 296,646
Basic earnings (loss) per common share			
As reported	$ (1.35)	$ (0.96)	$ 0.38
Pro forma	$ (1.46)	$ (1.22)	$ 0.26

Because the method prescribed by SFAS 123 has not been applied to options granted prior to September 1, 1994, the resulting pro forma compensation expense may not be representative of the amount to be expensed in future years. Pro forma compensation expense for options granted is reflected over the vesting period; future pro forma compensation expense may be greater as additional options are granted.

The fair value of each option granted was estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rates of 6.31%, 5.00%, and 4.08% for 2000, 1999, and 1998, respectively, expected life equal to 5 years, expected volatility of 122%, 85% and 100% in 2000, 1999 and 1998, respectively, and an expected dividend yield of 0%.

A summary of the Company's stock option activity is as follows:

	September 30, 2000		October 2, 1999		October 3, 1998	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Options outstanding, beginning of year	256,074	$ 5.91	144,399	$ 7.79	261,155	$10.14
Options granted						
Option price = Fair Market Value	19,000	$ 6.53	114,000	$ 3.91	106,369	$ 6.58
Option price > Fair Market Value	–		–		–	
Option price < Fair Market Value	8,000	$ 5.10	7,000	$ 3.40	–	
Options exercised	–		–		(3,100)	$ 4.00
Options forfeited	(28,000)	$ 8.43	9,325	$ 8.61	(220,025)	$ 9.57
Options outstanding, end of year	255,074	$ 5.65	256,074	$ 5.91	144,399	$ 7.79
Options exercisable	209,149	$ 5.40	193,924	$ 5.45	69,029	$ 8.12
Weighted average fair value per share of options granted during the year		$ 5.44		$ 2.73		$ 4.65

Notes to Consolidated Financial Statements (continued)

The following summarizes certain data for options outstanding at September 30, 2000:

	Range of Exercise prices	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Options outstanding, end of year:	$ 1.68 - $ 5.00	142,000	$ 4.06	7.9
	$ 5.01 - $10.00	91,294	$ 6.56	7.0
	$10.01 - $15.00	20,160	$12.04	5.1
	$15.01 - $16.75	1,620	$15.80	2.4
		255,074	$ 5.66	7.3
Options exercisable:	$ 1.68 - $ 5.00	129,000	$ 4.11	
	$ 5.01 - $10.00	66,069	$ 6.52	
	$10.01 - $15.00	11,860	$11.81	
	$15.01 - $16.75	1,620	$15.80	
		209,149	$ 5.40	

(6) Inventories

Inventories consist of the following:

	September 30, 2000	October 2, 1999
Finished goods	$ 622,003	$ 655,167
Work in process	1,181,510	216,072
Raw materials and supplies	1,648,891	2,164,698
Total inventories	$ 3,452,404	$ 3,035,937

(7) Equipment and Leasehold Improvements

Equipment and leasehold improvements consist of the following:

	September 30, 2000	October 2, 1999	Estimated Useful Life
Engineering and manufacturing equipment	$ 2,489,172	$ 2,330,876	3–8 years
Demonstration equipment	842,568	779,732	3 years
Furniture and fixtures	1,127,373	1,089,112	3–8 years
Automobiles	24,385	24,385	3 years
Leasehold improvements	416,117	416,117	Remaining term of lease
Total equipment and leasehold improvements	$ 4,899,615	$ 4,640,222	3–8 years

Notes to Consolidated Financial Statements (continued)

(8) Other Accrued Liabilities

Other accrued liabilities consist of the following:

	September 30, 2000	October 2, 1999
Reserve for product warranty	$ 92,996	$ 240,462
Professional service fees	95,008	176,803
Sales representative commissions	38,595	131,075
Customer support agreements	44,000	147,700
Income taxes payable	–	3,735
Other	165,003	171,161
Total other accrued liabilities	$ 435,602	$ 870,936

(9) Debt

In August 2000, the Company successfully negotiated a new $5 million asset-based credit facility with Coast Business Credit (“Coast”). The line carries an interest rate of prime plus 1/2% (10.0% at September 30, 2000). This revolving line of credit is collateralized by substantially all the assets of the Company and requires no compensating balances. There is one financial covenant associated with the line, which calls for a minimum net tangible worth starting at $6,250,000 and increasing over time based on certain criteria. The amount of borrowings is limited to a percentage of certain accounts receivable and inventory balances. At September 30, 2000 the Company was in default of the net worth covenant. Subsequently, Coast waived the default and modified the agreement to reduce the minimum net worth requirement for the future and added an interest coverage ratio requirement. In addition, Coast has suspended the Company’s ability to request loans, of up to $500,000, against inventory balances. The line matures in August 2003. The Company believes this new credit facility, as amended will meet its current credit needs and its need for the forseeable future.

Previously the Company had a $5,000,000 revolving line of credit with Wainwright Bank and Trust Company at an interest rate of the bank’s base rate plus 1/2 of 1%. This line of credit was secured by a pledge of substantially all the assets of the Company. This line matured on May 1, 2000 and was not renewed. As of September 30, 2000, the Company has outstanding standby letters of credit, which were supported by the line of credit amounting to $20,879. Wainwright Bank has agreed to honor these standby letters of credit until they mature on December 31, 2000.

(10) Leases

The Company leases its headquarters under an operating lease. The Company has renewed the lease on its headquarters located in Concord, Massachusetts through December 31, 2002. Future minimum lease payments amount to $171,216 in fiscal 2001, $171,216 in fiscal 2002 and $42,804 in fiscal 2003. The Company also retains an option to purchase the building at fair market value, but not to exceed $2,262,000, exercisable at the end of the lease term, if elected. Annual rental expense amounted to $161,492 in fiscal year 2000, $157,182 in fiscal year 1999 and $155,300 in fiscal year 1998.

During 1998, the Company entered into a capital lease for computer equipment in the amount of $20,370, an additional $3,850 was added to the lease in fiscal 1999 (accumulated depreciation amounted to $19,542 at September 30, 2000). This asset is included in the Engineering and Manufacturing Equipment category of the Company’s equipment and leasehold improvements. The lease term is for three years and contains a bargain purchase option, which may be exercised upon lease expiration. Minimum annual principal payments amount to $6,241 in 2001.

Notes to Consolidated Financial Statements (continued)

(11) Income Taxes

The provision (benefit) for income taxes consist of the following:

	September 30, 2000	October 2, 1999	October 3, 1998
Current:			
Federal	$ (117,470)	$ (109,625)	$ 29,629
State	3,235	(213,184)	26,706
Total current taxes	(114,235)	(322,809)	56,335
Deferred:			
Federal	231,446	(46,142)	111,641
State	56,165	(37,228)	(7,442)
Total deferred taxes	287,611	(83,370)	104,199
Total provision (benefit)	$ 173,376	$ (406,179)	$ 160,534

The provisions for income taxes are different from those that would be obtained by applying the statutory federal income tax rate to earnings before income taxes due to the following:

	September 30, 2000	October 2, 1999	October 3, 1998
Tax at U.S. statutory rate	$ (532,759)	$ (552,405)	$ 220,210
Benefit of Foreign Sales Corp.	–	–	(74,269)
State income taxes, net of federal benefit	39,204	(165,272)	12,714
Other	(147,352)	(665)	32,933
Prior year under accrual	(156,765)	–	–
Transfer of long-term liability to deferred tax asset	(359,229)	–	–
Increase (reduction) in valuation allowance	1,330,277	312,163	(31,054)
Total provision (benefit)	$ 173,376	$ (406,179)	$ 160,534

Deferred income taxes consist of the following:

	September 30, 2000	October 2, 1999
NOL carry forward	$ 1,532,480	$ 639,884
Goodwill	73,211	35,890
Inventory reserve	422,716	588,479
Warranty reserve	29,218	96,834
Payroll related accruals	25,875	42,529
Tax credits	181,232	179,489
Other	129,074	132,479
Total	2,393,806	1,715,584
Less: Valuation allowance	$ (2,236,306)	$ (906,029)
Total	$ 157,500	$ 809,555

Notes to Consolidated Financial Statements (continued)

The valuation allowance relates to uncertainty with respect to the Company's ability to realize its deferred tax assets.

Refundable income taxes represent estimated refunds from the Federal government from carryback claims. All refunds from 1999 were received in fiscal 2000. Additionally the Company received a refund in fiscal 2000 related to prior years which is recorded as a current benefit.

As of September 30, 2000 the Company has available tax loss carryforwards for federal income tax purposes of $3,000,000, which expire in 2019. The Company also has available tax loss carryfowards for state income tax purposes of $5,100,000, which expire in 2004.

(12) Employee Benefit Plans

The Company has a qualified, contributory, trusteed profit sharing plan covering substantially all employees. The Company's policy is to fund contributions as they are accrued. The contributions are allocated based on the employee's proportionate share of total compensation. The Company's contributions to the plan are determined by the Board of Directors and are subject to other specified limitations. There were no Company profit sharing contributions during fiscal 2000, 1999 or 1998. However, the Board of Directors approved a corporate match of 25 cents per dollar of the first 6% of each participant's contributions to the plan. The Company's matching contributions were $36,091, $39,094 and $37,700 in 2000, 1999 and 1998, respectively.

The Company has an Executive Incentive Bonus Plan for the benefit of key management employees. The bonus pool is determined based on the Company's performance as defined by the plan. No bonuses were earned and accrued under the plan in 2000, 1999 or 1998.

On November 17, 1989, the Company established the Technical Communications Corporation Employees' Stock Ownership Trust (the "Trust") for the benefit of its employees. At its August 27, 1997 meeting, the Board of Directors voted to terminate the Employee Stock Ownership Plan effective October 1, 1997. Actual termination of the Company's ESOP was effected in fiscal 1998 by transferring all remaining shares that had not been allocated to participants to Treasury Stock.

(13) Business, Credit and Off-Balance Sheet Risks

The Company is exposed to a number of business risks. These include, but are not limited to, concentration of its business among a relatively small number of customers, technological change (which can cause obsolescence of the Company's products and inventories), actions of competitors (some of whom have access to considerably greater financial resources than the Company), cancellation of major contracts (either before or after award), variations in market demand, the loss of key personnel, etc. The Company attempts to protect itself in various ways against such risks, but its success cannot be guaranteed.

At September 30, 2000 and October 2, 1999, the Company was contingently liable under open standby letters of credit totaling $20,879 and $67,476, respectively. These letters of credit were issued in the ordinary course of business to secure the Company's performance under contracts with its customers. These letters of credit expire as provided for in the contracts, unless exercised or renewed. To date, no letters of credit have been exercised. The Company does not expect to incur any loss associated with these letters of credit.

As of September 30, 2000, management believes it has no significant concentrations of credit risk due to placement of its cash equivalents with high-credit-quality financial institutions, and the fact that the majority of its foreign trade receivables are secured by letters of credit or foreign credit insurance.

Notes to Consolidated Financial Statements (continued)

(14) Related Party Transactions

On November 19, 1998, the Company reached agreement on the settlement of shareholder litigation initiated by Philip Phalon and Dr. Mahmud Awan, which had been pending in Middlesex County, Massachusetts Superior Court since February 1998. The settlement agreement and standstill agreement executed by the Company and members of the opposition group that had filed a Form 13D (the 13D Group) in the settlement of the above described litigation set forth mutual full releases as to the litigation and also include provisions requiring (i) the Company to reimburse the 13D Group's expenses in payments aggregating $395,000, all of which has been paid as of September 30, 2000, (ii) the dissolution of the 13D Group (Note: members of the 13D Group filed an amendment to their Form 13D dissolving the 13D Group in January 1999) and (iii) the former proxy contestants to abide by certain standstill provisions until October 1, 2000.

(15) Major Customers and Export Sales

In fiscal 2000, the Company had two customers, representing 41% (21% and 20%) of net sales. In fiscal 1999, the Company had three customers, representing 60% (32%, 17% and 11%) of net sales. In fiscal 1998, the Company had two customers representing 71% (54% and 17%) of net sales.

A breakdown of net sales is as follows:

	September 30, 2000	October 2, 1999	October 3, 1998
Domestic	$ 2,446,083	$ 1,239,275	$ 1,631,459
Foreign	3,128,025	5,194,408	12,224,322
Total Sales	$ 5,574,108	$ 6,433,683	$ 13,855,781

A summary of foreign sales by geographic area follows:

	September 30, 2000	October 2, 1999	October 3, 1998
North America (excluding the U.S.)	3.9%	1.0%	0.1%
Central and South America	8.3%	1.0%	5.0%
Europe	22.0%	14.2%	4.2%
Mid-East and Africa	55.1%	82.6%	84.4%
Far East	10.7%	1.2%	6.3%

(16) Legal Matters

The Company was the defendant in GERARD v. TECHNICAL COMMUNICATIONS CORPORATION, ET AL., filed in the Superior Court of the Commonwealth of Massachusetts in 1999. This case arose from disputes concerning the hiring and termination of Roland Gerard, former president of the Company. The Complaint alleges state law claims for breach of contract, wrongful termination, and civil conspiracy. During the fiscal year 2000 the Company settled this lawsuit. An earlier complaint brought by Mr. Gerard in the Federal court, which included the state claims, and a federal securities claim was dismissed in July 1999; the securities claims were dismissed with prejudice.

Notes to Consolidated Financial Statements (continued)

(17) Sale of Investment in Visual Network, Inc. Common Stock

During 1999, the Company sold its investment in Visual Network, Inc. common stock. The Company recognized a gain on the sale of $1,151,172 on a cost basis of $250,800. The Company's investment in Visual Network's Common Stock followed the merger of Net2Net into Visual Networks, Inc. on May 15, 1998. This investment was carried as an available-for-sale investment in the October 3, 1998 balance sheet, at market value. At October 3, 1998, the market value of the investment was $900,800, giving rise to an unrealized gain of $650,000 ($422,000 net of tax effects) when compared to the $250,800 cost.

Net2Net's President was Stephen McCalmont, son of Arnold McCalmont, a former director and former Chairman of Technical Communications Corporation, and brother of James McCalmont, another former Director of the Company. Both of these gentlemen, in addition to Herbert A. Lerner, a former director and former Treasurer of the Company, were also investors in Net2Net Corporation.

Selected Quarterly Financial Data (Unaudited)

For the years ended September 30, 2000, and October 2, 1999:

Fiscal 2000	First Quarter January 1, 2000	Second Quarter April 1, 2000	Third Quarter July 1, 2000	Fourth Quarter September 30, 2000
Net Sales	$ 2,253,403	$ 1,381,050	$ 744,010	$ 1,195,645
Gross profit	1,443,068	678,906	310,449	765,252
Net Income (loss)	106,687	(418,109)	(703,517)	(725,375)
Net Income (loss) per share				
Basic	$ .08	$ (.32)	$ (.54)	$ (.57)
Diluted	$ .08	$ (.32)	$ (.54)	$ (.57)

Fiscal 1999	First Quarter January 2, 1999	Second Quarter April 3, 1999	Third Quarter July 3, 1999	Fourth Quarter October 2, 1999
Net Sales	$ 1,071,356	$ 1,247,336	$ 1,361,671	$ 2,753,320
Gross profit	689,806	714,414	670,818	1,230,154
Net Income (loss)	(988,388)	147,100	(593,927)	216,673
Net Income (loss) per share(1)				
Basic	$ (.79)	$ .12	$ (.47)	$ .17
Diluted	$ (.79)	$ .12	$ (.47)	$ .17

(1) As a result of a miscalculation of weighted average shares during each of the first three quarters of 1999, net income (loss) per share was misstated in the 10Q filings. Quarterly earnings (loss) amounts were understated in amounts ranging from $.01 to $.04 and year to date amounts from $.04 to $.07. The corrected amounts are reflected in the table above.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors of Technical Communications Corporation

We have audited the accompanying consolidated balance sheet of Technical Communications Corporation and subsidiaries as of September 30, 2000, and the related consolidated statements of operations, cash flows, and comprehensive income (loss) and stockholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated balance sheet of Technical Communications Corporation and subsidiaries, as of October 2, 1999, and the related consolidated statements of operations, cash flows, and comprehensive income (loss) and stockholders' equity as of and for the years ended October 2, 1999 and October 3, 1998, were audited by other auditors whose report dated November 5, 1999, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2000 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Technical Communications Corporation and subsidiaries, as of September 30, 2000, and the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

Grant Thornton LLP

Boston, Massachusetts
November 7, 2000

Selected Financial Data

(Dollars in thousands, except per share data)

Fiscal Years:

	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Net sales:										
Domestic	$ 2,446	1,239	1,632	2,735	3,634	1,535	708	3,044	3,011	1,997
Foreign *(Note A)*	$ 3,128	5,195	12,224	9,524	10,379	8,693	8,358	6,679	11,515	10,523
Total net sales *(Note B)*	$ 5,574	6,434	13,856	12,259	14,013	10,228	9,066	9,723	14,526	12,520
Net income (loss)	$(1,740)	(1,219)	482	(1,244)	532	89	116	83	1,258	1,557
Net income (loss) per share of Common Stock										
Basic	($ 1.35)	($ 0.96)	$0.38	($ 0.98)	$ 0.42	$ 0.07	$ 0.09	$ 0.07	$ 1.02	$ 1.27
Diluted	($ 1.35)	($ 0.96)	$0.37	($ 0.98)	$ 0.41	$ 0.07	$ 0.09	$ 0.07	$ 1.02	$ 1.27
(Note C)										

	Sept. 30, 2000	Oct. 2, 1999	Oct. 3, 1998	Sept. 27, 1997	Sept. 28, 1996	Sept. 30, 1995	Oct. 1, 1994	Oct. 2, 1993	Sept. 26, 1992	Sept. 28, 1991
Assets	$8,403	10,661	16,173	12,893	16,000	15,348	12,089	12,019	13,444	12,579
Line of credit/ current portion, long-term debt *(Note D)*	–	–	2,250	–	1,145	696	246	1,088	327	327
Long-term obligations	–	–	–	–	1,200	2,551	1,133	550	1,639	2,156

Notes to Selected Financial Data

(A) A summary of foreign sales by geographic area may be found in Note 15 to the consolidated financial statements.

(B) Amounts include the sales since May 31, 1995 of Datotek, Inc. The Company acquired the assets comprising the secure communications business of Datotek, Inc. on May 31, 1995.

(C) Dual Earnings per Share reporting in accordance with Financial Accounting Standards Board Statement 128, “Earnings Per Share.” Diluted weighted average shares outstanding have not been calculated for years prior to 1996.

(D) At October 3, 1998, amount represents outstanding borrowings against line of credit.

Corporate Information
as of December, 2000

Officers
Carl H. Guild, Jr.
Vice Chairman, President, and Chief Executive Officer

Michael P. Malone
Chief Financial Officer and Treasurer

Edward E. Hicks, Esquire
Secretary and Clerk
Partner, Comins & Newbury

John I. Gill
Executive Vice President

Directors
M.Mahmud Awan, Ph.D.
Chairman, TCC

Carl H. Guild, Jr.
Vice Chairman, President, and Chief Executive Officer, TCC

Mitchell B. Briskin
Vice President, Stonebridge Associates, LLC

David A.B. Brown
President, The Windsor Group, Inc.

Donald Lake
Consultant

Robert T. Lessard
Consultant

Thomas E. Peoples
Senior Vice President, GenCorp

Independent Public Accountants
Grant Thornton
Boston, Massachusetts

General Counsel
Comins & Newbury
Boston, Massachusetts

Annual Stockholders Meeting
This year's annual meeting will be held Monday, February 12, 2001 at 10:00 a.m. at The Hartwell House, 94 Hartwell Ave. Lexington, Massachusetts 02173. The shareholder record date is December 15, 2000.

Stock Exchange Listing
The common stock is traded on NASDAQ Over-the-Counter SmallCap, NASDAQ Symbol: TCCO. Trading activity can be found in the *Wall Street Journal* and other newspapers under the listing TechCom.

Common Stock Data
The following discloses the market price of the Company's common stock by quarter:

	Price	
Quarter Ended	Low	High
09/30/2000	2.531	3.969
07/01/2000	2.375	6.125
04/01/2000	5.188	10.813
01/01/2000	2.563	7.500
10/02/1999	2.250	3.125
07/03/1999	1.625	3.375
03/03/1999	2.375	4.500
01/02/1999	3.375	6.000

Dividends
No cash dividends were declared or paid during the years ended September 30, 2000, October 2, 1999 and October 3, 1998.

10-K Report
A copy of the Company's Annual Report on Form 10-K for 2000, filed with the Securities and Exchange Commission, may be obtained upon written request to the Company.

Transfer Agent and Registrar
American Stock Transfer & Trust Company
40 Wall Street
New York, New York 10005

Investor Relations
Technical Communications Corporation
100 Domino Drive
Concord, MA 10742
(978) 287-5100

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Telephone: 978-287-5100 • Fax: 978-371-1280 • Info@tccsecure.com • www.tccsecure.com

PLEASE NOTE: THE DISCUSSIONS IN THIS FORM 10-K, INCLUDING ANY DISCUSSION OF OR IMPACT, EXPRESSED OR IMPLIED, ON TECHNICAL COMMUNICATIONS CORPORATION'S (THE COMPANY) ANTICIPATED OPERATING RESULTS AND FUTURE EARNINGS, INCLUDING STATEMENTS ABOUT THE COMPANY'S ABILITY TO ACHIEVE GROWTH AND PROFITABILITY, CONTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED. THE COMPANY'S OPERATING RESULTS MAY DIFFER SIGNIFICANTLY FROM THE RESULTS INDICATED BY SUCH FORWARD-LOOKING STATEMENTS. THE COMPANY'S OPERATING RESULTS MAY BE AFFECTED BY MANY FACTORS, INCLUDING BUT NOT LIMITED TO FUTURE CHANGES IN EXPORT LAWS OR REGULATIONS, CHANGES IN TECHNOLOGY, THE EFFECT OF FOREIGN POLITICAL UNREST, THE ABILITY TO HIRE, RETAIN AND MOTIVATE TECHNICAL, MANAGEMENT AND SALES PERSONNEL, THE RISKS ASSOCIATED WITH THE TECHNICAL FEASIBILITY AND MARKET ACCEPTANCE OF NEW PRODUCTS, CHANGES IN TELECOMMUNICATIONS PROTOCOLS, THE EFFECTS OF CHANGING COSTS, EXCHANGE RATES AND INTEREST. THESE AND OTHER RISKS ARE DETAILED FROM TIME TO TIME IN THE COMPANY'S FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION, INCLUDING THE COMPANY'S FORM 10-K FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2000.