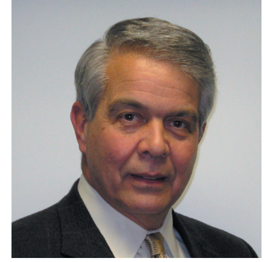
Technical Communications Corporation

Encryption Solutions

Communicate in Confidence

2008 Annual Report

December 2008



To Our Shareholders,

I am pleased to report to you that fiscal 2008 was a year that produced positive financial performance with improvements in both revenues and profitability. These results reflect successes in developing new international projects that have a sustainable follow-on business base combined with new opportunities for the introduction of the entire TCC product line. Both the radio and network encryption product lines produced significant sales and orders, boosting our revenues in 2008 and our business outlook for fiscal 2009.

Revenues in fiscal 2008 increased to $6.9 million, which is a 39% increase over fiscal 2007, and we produced a profit of $1,061,000 for the period, up 25% from 2007. These results are largely due to continuing strong sales of our radio encryption products. In addition to the improved sales and profit performance, TCC's backlog at the end of the year is at $7,146,000 which is a 93% increase from the fiscal 2007 year-end position. Subsequent orders have increased backlog to approximately $9,500,00 as of mid-December, 2008, which provides a strong foundation for revenue performance in 2009 and 2010.

For the fiscal year ended September 27, 2008, the Company reported revenues of $6,852,000 as compared to $4,920,000 for the previous year. Income for fiscal year 2008 was $1,061,000 or $0.75 per share, as compared to a net income of $846,000 or $0.62 per share in fiscal 2007.

During fiscal 2008, significant sales were generated by our DSP9000 radio encryption product line with shipments to several customers in South America and a continuation of sales destined for use in Afghanistan by both the coalition and indigenous forces. TCC's DSP9000 family of radio encryption products is a large success in many countries where the need for high quality, ruggedized encryption is required for secure communication over the HF, UHF and VHF radio bands. The DSP9000 products have the very attractive feature that they mate to a wide variety of radios, providing end-to-end security between differing regions, vehicles and forces which may be using radios produced by different manufacturers. We believe that the DSP9000 provides a universal encryption solution that is readily deployable, cost effective and adaptable to meet unique user requirements.

TCC's network products also performed well in 2008. During the year, we received a contract, currently valued at $6,300,000, for production of our DSD72A-SP Military Bulk Encryptors in support of a major customer in the Middle East. This US Government Foreign Military Sales contract will continue the expansion of the customer's networks and provide improved features for the user's key management system. We also expect that the evolution of this customer's radio systems will provide opportunities for upgrades and adaptations of the deployed bulk encryptors in the future. TCC maintains a strong record of being supportive of our customers' requirements and providing unique customized solutions to maintain a high security level as the transmission systems change.

In the area of internal product development, TCC continues to invest in the development of new products that expand the application and roles of our product lines. We expect that future network encryption needs in the international government markets will be met with a new generation of very high speed military encryptors currently under development. These encryptors are capable of providing high speed, fiber optic connectivity combined with rugged field environment reliability for the most demanding military applications. Other ongoing product developments are expected to focus on creating new connectivity options that allow insertion of our encryptors into additional networks. New universal encryption solutions for field radio security are also being researched to provide imbedded interoperability and an expanded feature set. The CipherTalk“and CipherSMS‘ wireless products continue to evolve to meet customer requirements for new platforms and capabilities.

TCC's other product lines - secure telephony, custom network encryption and military data encryption - are all performing to plan and continue to provide a solid business base for the company. With these products and those highlighted above, TCC continues to provide a broad range of high quality encryption equipment that meets the demanding requirements of a growing worldwide market.

As 2009 begins, I am very pleased to say that TCC's performance in 2008 is a result of the combined efforts of its employees, marketing representatives and technical partners all of who work at high levels to produce superior quality encryption products and services. The entire TCC team is focused on our commitment to customer satisfaction, corporate growth and continued profitability. Thank you for your continued support as we look forward to a successful 2009.

Carl H. Guild, Jr. President & CEO


CipherTalk 8000 PC


CipherTalk 8000 FP


CipherSMS


DSD 72A SP


DSP 9000


CSD 3324SE/SP


CSD 3600

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 provide communications security on every continent and in over 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 40 years in providing 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 are 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 reliable and secure communications for our clients' mission-critical networks.

Secure Wireless Communication

TCC's Secure Wireless Communication family of products; the CipherSMS™ Enterprise Secure Text Messaging and the CipherTalk®8000 provide End-to-End privacy for mobile communications.

Text Messaging is a popular method of achieving convenient and reliable worldwide communications via cellular networks. Personal, Commercial and Government users who transfer sensitive private information can have robust, End-to-End encrypted security by employing TCC's CipherSMS software application on their mobile phone. The CipherSMS Enterprise Secure Text Messaging system was designed to meet the needs of the corporate IT security market. TCC expects to release future versions of CipherSMS tailored to meet other market needs. CipherSMS operates on multiple mobile devices and operating systems including Microsoft Windows Mobile 2003, Microsoft Windows Mobile 5.0, and on an growing list of mobile devices including TCC's CipherTalk 8000 PC and FP; Cingular's 3125 FlipPhone; T-Mobile's MDA Pocket PC and DASH QWERTY SmartPhone; Sprint's PPC-6700 Pocket PC, and Verizon's XV6700 Pocket PC.

The CipherTalk 8000 FP (FlipPhone) is TCC's latest Global Secure GSM wireless mobile phone. TCC expects to release future versions of the CipherTalk 8000 on new SmartPhones and PDAs while maintaining compatibility with earlier CipherTalk 8000 Secure Phones.

Both the CipherTalk 8000 and the CipherSMS secure wireless product lines provide advanced end-to-end encrypted voice and text messaging security across global wireless networks. Their applications and target markets include protection of sensitive and private information for: homeland security forces, diplomatic personnel, corporate executives and commercial enterprises and both foreign and domestic government officials, agencies and services.

Secure Government and Military Communications

TCC's cryptographic technology ensures dependable secure communications with proprietary crypto-synchronization techniques developed to maintain connections in high error and jamming environments such as radio relay, missile systems, and microwave backbone systems deployed around the world. In order to provide 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. It's robust features, including the availability of a large number of stored keys, fully automatic key management, customized algorithm 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 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 communications security, while maintaining excellent recovered voice quality, even in the harshest field and network environments.

The defense forces of several nations have decided to significantly expand their TCC secure phone systems with new installations of our CSD 3324SE Secure Voice, Fax and Data desktop telephone system. The privacy of their voice, fax and data communications is now fully protected with our CSD 3324SE system employing automated key management and direct communications with the field forces via TCC's CommandersNet. Even over severely degraded line conditions, our clients now have highly secure voice and data communications with excellent voice recognition quality.

Since September 11, 2001, addressing the secure communication requirements of the Department of Homeland Security has become a priority for TCC. For this market, TCC has developed the CSD 3324SP Secure Telephone which protects voice and fax communications using Advanced Encryption Standard (AES) crypto engines powered by 256-bit session keys. The CSD 3324SP is designed to meet the US FIPS 140-2 standards for the protection of Sensitive But Unclassified (SBU) and Law Enforcement Sensitive (LES) information. It is anticipated that there will be substantial Homeland Security requirements for the protection of sensitive information as it is disseminated from U.S. Government agencies to State and local government (i.e. governors, mayors, etc.) and private enterprise (i.e. first responders, power plants, hospitals, etc). TCC's CSD3324SP Secure Telephone is targeted to meet these requirements for both the US and international markets.

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, South America, Europe, Asia, the Middle East and Africa. In the U.S., TCC provides Secure Office Systems to a long list of Fortune 500 companies.

The CSD 4100 Executive Secure Telephone offers strategic level voice and data security in a full featured executive telephone package. Exceptional voice quality is achieved with three different voice-coding algorithms. Multiple security layers are supported such as automatic key management, authentication, certification, and access control. The CSD 4100 is compatible with TCC's CSD 3600 product.

The CSD 3600 Secure Telephone Device is a small portable unit that operates over both digital and analog lines enabling corporate executives to have secure communications wherever they travel around the world. The CSD 3700 Secure Fax and the interoperability of the CSD 3600 with the CSD 4100 Executive Secure Telephone for voice provide a flexible family of products that meet a wide range of user requirements.

Major aerospace companies and foreign governments continue to procure TCC Secure Office products to establish or expand mission critical communications networks. Secure Optimized 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 and/or private 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 standards.

The CipherX 7200 Internet Protocol Encryptor is US FIPS 140 certified, and provides encryption, authentication and multiple levels of access protection for Internet networking applications. Purchased by our military and government customers, it is finding it's niche in the high security world of commercial enterprise.

CSD 4100

CSD 3700

CipherX 7200

KEYNET

CipherX 7100

NS 5, 10, 100

Secure Office Communications (cont.)

TCC's CipherONE suite of Virtual Private Network (VPN) products offers network security solutions for any organization that requires high performance, end-to-end secure communications over IP networks. With TCC's CipherONE suite of VPN products, a business enterprise or government agency can easily and confidently achieve secure communications over any IP based wide area network (WAN) including the Internet. In addition to a high level of encryption, this suite of products offers secure tunneling, strong firewalling and traffic shaping with speeds from 10Mbps to 1Gbps.

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 keys is maintained at every point in their life cycle, from key generation through key use and finally key destruction; all the while being user-transparent.

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

Specialized Encryption for OEM Suppliers and Systems

TCC's significant experience in the development of specialized, embedded 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.

CORPORATE INFORMATION
AS OF DECEMBER 2008

Officers

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

Michael P. Malone
Chief Financial Officer
and Treasurer

David A. White, Esquire
Secretary and Clerk
Partner, White, White & Van Etten LLP

Directors

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

Mitchell B. Briskin
Managing Director, Stonebridge Associates, LLC

Robert T. Lessard
Consultant

Thomas E. Peoples
Consultant

Independent Public Accountants

Vitale, Caturano & Company LTD
Boston, Massachusetts

General Counsel

White, White & Van Etten LLP
Cambridge, Massachusetts

Annual Stockholders Meeting

This year's annual meeting will be held Monday, February 9, 2009 at 10:00 a.m. at TCC's facilities in Concord, Massachusetts. The shareholder record date is December 12, 2008.

Stock Exchange Listing

The common stock is traded on NASDAQ Over-the-Counter Bulletin Board, NASDAQ Symbol: TCCO.

Common Stock Data

The following table discloses the market price of the Company's common stock by quarter.

	Price	
Quarter Ended	Low	High
09/27/2008	4.51	6.40
06/28/2008	5.00	7.30
03/29/2008	4.40	7.49
12/29/2007	4.05	5.95
09/29/2007	4.00	6.30
06/30/2007	2.95	5.60
03/31/2007	3.00	4.25
12/30/2006	2.71	3.30

Dividends

No cash dividends were declared or paid during the years ended September 27, 2008 and September 29, 2007.

10-K Report

A copy of the Company's Annual Report on Form 10-K for 2008, 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
59 Maiden Lane
New York, New York 10038

Investor Relations

Technical Communications Corporation
100 Domino Drive
Concord, MA 01742
(978) 287-5100

The discussion in this Annual Report and Form 10-K may contain statements that are not historical. Certain statements contained herein or as may otherwise be incorporated by reference herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include but are not limited to statements regarding anticipated operating results, future earnings, and the ability to achieve growth and profitability of the Company. Such forward-looking statements involve known and unknown risks, uncertainties and other 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 rates; and the company's ability to secure adequate capital resources. Such risks, uncertainties and other factors could cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. For a more detailed discussion of the risks facing the Company, see the Company's filings with the Securities and Exchange Commission; including this Annual Report and Form 10-K for the fiscal year ended September 27, 2008.

ISO 9001:2000 Certified Quality Management System

Technical Communications Corporation
100 Domino Drive • Concord, MA 01742-2892, U.S.A.
Telephone: 978-287-5100 • Fax: 978-371-1280 • tccinfo@tccsecure.com • www.tccsecure.com

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended September 27, 2008

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

For the transition period from to

Commission File Number 0-8588

Technical Communications Corporation
(Exact name of registrant as specified in its charter)

Massachusetts (State or other jurisdiction of incorporation or organization)	04-2295040 (I.R.S. Employer Identification No.)
100 Domino Drive, Concord, MA (Address of principal executive offices)	01742-2892 (Zip code)

(978) 287-5100
(Registrant's telephone number, including area code)

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

None (Title of each class)	None (Name of each exchange on which registered)

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

Common Stock, $.10 par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ___ NO X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. YES ___ NO X

Indicate by check mark whether the registrant (1) 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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐

Based on the closing price as of March 29, 2008, the aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant as of March 29, 2008, was approximately $6,799,931.

The number of shares of the registrant's Common Stock, par value $ .10 per share, outstanding as of December 12, 2008 was 1,448,995.

Portions of the Company's Definitive Proxy Statement to be delivered to shareholders in connection with the Company's 2009 Annual Meeting of Shareholders to be held February 9, 2009 are incorporated by reference into Part III of this Form 10-K.

TECHNICAL COMMUNICATIONS CORPORATION

Annual Report on Form 10-K
For the Year Ended September 27, 2008

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Item 1. **BUSINESS**

Technical Communications Corporation ("TCC" or the "Company") was organized in 1961 as a Massachusetts corporation to engage primarily in consulting activities. Since the late 1960s, the business has consisted entirely of the design, development, manufacture, distribution, marketing and sale of communications security devices and systems. The secure communications solutions provided by TCC protect vital information transmitted over a wide range of data, fax and voice networks. TCC's products have been sold into over 110 countries and are in service with governments, military agencies, telecommunications carriers, financial institutions and multinational corporations. The Company's business consists of one industry segment, which is the design, development, manufacture, distribution, marketing and sale of communications security devices and systems.

Overview

The Company's products consist of sophisticated electronic devices that enable users to transmit information in an encrypted format and permit receivers to reconstitute the information in a deciphered format if the recipient possesses the right decryption "key". The Company's products can be used to protect confidentiality in communications between radios, telephones, facsimile machines and data processing equipment over wires, fiber optic cables, radio waves and microwave and satellite links. A customer may order and receive equipment that is specially programmed to scramble transmissions in accordance with a code to which only the customer has access. The principal markets for the Company's products are foreign and domestic governmental agencies, law enforcement agencies, financial institutions, and multinational companies requiring protection of mission-critical information.

TCC historically and presently designs and develops its own equipment and software to meet the requirements of general secure communications applications, as well as the custom-tailored requirements of specific users. Management believes the coordinated development of cryptographic software and associated hardware allows TCC to provide high-strength encryption security products with efficient processing and transmission. Both criteria, the Company believes, are essential to customer satisfaction.

TCC manufactures most of its own products using third-party vendors for the supply of components and selected processing. Final assembly, software loading, testing and quality assurance are performed by TCC at its factory. This manufacturing approach allows TCC to competitively procure the components from multiple suppliers while maintaining control of the manufacture and performance of the final product.

TCC's products are sold worldwide through a variety of channels depending on the country and the customer. Generally, TCC does not use stocking distributors because the Company's products are required to be sold under an applicable U.S. government license, which generally requires end-user information. Rather, the Company sells directly to customers, original equipment manufacturers and value-added resellers, using its in-house sales force as well as domestic and international representatives, consultants and distributors. The marketing and selling approach varies with each country and often involves extensive test and demonstration activity prior to the consummation of a sale. TCC has a network of in-country representatives and consultants who conduct performance demonstrations, market the products and close the sale, and who handle on behalf of TCC many of the ancillary requirements pertaining to importation duties, taxes, registration fees, and product receipt and acceptance. After-sale, in-country support by the representatives maintains customer satisfaction and provides a liaison for the Company's customer support services.

The worldwide market for our Government Systems products remains a principal focus for TCC, as the Company believes increasing concerns with security will generate demand for increased protection of both voice and data networks. Management plans selected, evolutionary upgrades to our government/military products both to meet new requirements of the market and to provide entry into new markets. We believe the ability of TCC to custom-tailor cryptographic functions and control systems to meet unique customer requirements will meet a growing demand as governments become more sophisticated in defining their communications security needs.

The U.S. government controls, through a licensing process, the distribution of encryption technology and the sale of encryption products. The procedure for obtaining the applicable license, from either the Department of Commerce or Department of State, is relatively straightforward. Many of TCC's products can be sold under existing "blanket" licenses, while some products and end-users must be submitted for specific approval. A more detailed discussion of the licensing process is included below in the "Regulatory Matters" section.

2008 Highlights and Recent Events

Fiscal 2008 produced positive financial performance with improvements in both revenues and profitability. These results reflect our successes in developing new international projects that have a sustainable follow-on business base combined with new opportunities for the introduction of the entire TCC product line. Both the radio and network encryption product lines produced significant sales and orders during the year, boosting our revenues in 2008 and our business outlook for fiscal 2009.

Revenues in fiscal 2008 increased to $6,900,000, which is a 39% increase over fiscal 2007, and we produced a profit of $1,061,000 for the period, up 25% from 2007. These results are largely due to continuing strong sales of our radio encryption products. In addition to the improved sales and profit performance, TCC's backlog at the end of the year was $7,146,000, which is a 93% increase from the fiscal 2007 year-end position. Subsequent orders have increased backlog to approximately $9,500,000 as of mid-December 2008, which provides a strong foundation for revenue performance in 2009 and 2010. For the fiscal year ended September 27, 2008, the Company reported revenues of $6,852,000 as compared to $4,920,000 for the previous year. Income for fiscal year 2008 was $1,061,000 or $0.75 per share, as compared to a net income of $846,000 or $0.62 per share in fiscal 2007.

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In the area of internal product development, TCC continues to invest in the development of new products that expand the application and roles of our product lines. We expect that future network encryption needs in the international government markets will be met with a new generation of very high speed military encryptors currently under development. These encryptors are capable of providing high speed, fiber optic connectivity combined with rugged field environment reliability for the most demanding military applications. Other ongoing product developments are expected to focus on creating new connectivity options that allow insertion of our encryptors into additional networks. New universal encryption solutions for field radio security are also being researched to provide imbedded interoperability and an expanded feature set. The CipherTalk® and CipherSMS® wireless products continue to evolve to meet customer requirements for new platforms and capabilities.

TCC's other product lines - secure telephony, custom network encryption and military data encryption - are all performing to plan and continue to provide a solid business base for the company. With these products and those highlighted above, TCC continues to provide a broad range of high quality encryption equipment that meets the demanding requirements of a growing worldwide market.

Products

The products described below are currently available and provide communications security solutions for mission-critical networks, voice and facsimile, centralized key and device management, and military ciphering applications.

The Government Systems product line has traditionally been the Company's core product base and has generated the majority of revenue for the Company in recent years. These products have proven to be highly durable, which has led to significant repeat business from our customers. The Company believes that these products and their derivatives will continue to be the Company's most significant source of future revenues.

The Company's Secure Office Systems products primarily consist of products that were originally acquired through an asset and rights purchase from a subsidiary of AT&T in 1995. These products have produced modest revenues since their acquisition. Although these products are readily available and remain profitable, demand for them has diminished in recent years. We will continue to offer our Secure Office Systems products from existing inventory, which we anticipate will be sufficient for several more years. In 2005, we introduced the first in a new line of secure wireless products as part of our Secure Office Systems product line. During 2007 we introduced a new flip phone model for this product line. The market for this product line has developed more slowly than we anticipated and we expect it will take the greater part of fiscal 2009 before this product line generates consistent revenue.

Although we believe our Network Security Systems products are competitive, the demand for this product line has been difficult to establish. Strong competition in this market coupled with weak overall demand for network security products both domestically and overseas have hampered the Company's efforts to develop an active and consistent market. These products are currently available and we believe we will be able to fulfill any customer requirements for the foreseeable future.

Government Systems

The Company's High Speed Data Encryptor is a rugged military system that provides a high level of cryptographic security for data networks operating at up to 34 million bits per second. The product supports a wide variety of interfaces and integrates into existing networks. Reliable secure communication is achieved with communication synchronization methods built to maintain connections in error and jamming environments such as radio relay networks, missile systems and microwave systems.

The Company's Narrowband Radio Security family of products provides strategic security for voice and data communications sent over HF, VHF and UHF channels. Designed for military environments, we believe these products provide high voice quality over poor line connections, making them an attractive security solution for military aircraft, naval, base station and manpack radio applications. These products provide automated key distribution for security and ease of use. They are also radio independent because software programmable interfaces allow radio interface levels to be changed without configuring the hardware. Base station, handset and implant board configurations are available options and the products are compatible with the Company's secure telephone systems to enable "office-to-field" communications.

The Company's Secure Telephone, Fax and Data system is a comprehensive office communications security system that provides voice, fax and data encryption in a telephone package. The product has a fallback mode, which was originally developed for poor HF channels. As a result, secure communications are possible even over poor line conditions. TCC's high-level encryption and automated key distribution system protect sensitive information, and internal storage of 400 keys provides hands-off security.

Secure Office Systems

The Company's Secure Portable Telephone Attachment may be placed between any telephone and handset worldwide to provide digital security. The attachment is small and portable, operates over both digital and analog telephone lines, and is designed to ensure protection through new and unique random keys negotiated with each communication session.

The Company's Fax Security System is a secure, automatic transmission fax system that connects to any standard facsimile machine. Security protection is achieved using key technology, which provides randomly generated keys that are unique to each communication session. Open and closed networks are supported by the device to enable an open exchange of secure documents in the industrial marketplace or restrict secure communications to only authorized parties in highly confidential or government applications.

The Company's Executive Secure Telephone offers strategic-level voice and data security in a full-featured executive telephone package. Exceptional voice quality can be achieved with three different voice-coding algorithms. The product provides ease-of-use security features such as automated key management, authentication, certification and access control.

The CipherTalk8000 is a wireless secure mobile telephone designed to provide encrypted mobile communications anywhere in the world. Its radio interface will operate on the North American, Latin American 850 MHz GSM band; the European, Asian, Latin American 900 MHz GSM band; the European, Latin American 1800 MHz GSM band; and the North American, Latin American 1900 MHz GSM band. The CipherTalk8000, introduced in 2005, is the first product in what the Company expects to be a new line of secure wireless products.

Network Security Systems

The CipherONE® family of Network Security Systems consists of high-performance hardware and software-based encryption products for local area network, wide area network and Internet applications and includes a network security management system.

All of the CipherONE systems have been designed for node-to-node protection and therefore provide node authentication and access control, as well as data integrity. This family of products also utilizes a modular architecture that permits the software to be updated as networks migrate to emerging protocols, thereby protecting the user's investment. Network transparent, the products support U.S. government-backed and proprietary encryption algorithms as well as industry-standard specifications for security key management.

The Company's Frame Relay Network Encryptor is an end-to-end frame relay encryption system and is configured locally with Cipher Site Manager, its accompanying software configuration tool, or remotely with KEYNET™ (discussed below).

The Company's IP Network Encryptor provides encryption security at the Internet protocol layer and is configured locally with Cipher Site Manager or remotely with KEYNET.

The Company's KEYNET Network Security Management System is a Windows NT-based key and security device management system that can centrally and simultaneously manage an entire CipherONE Security Systems Network, including those on mixed networks. KEYNET has an intuitive graphical user interface, making it easy to use. The system securely generates, distributes and exchanges keys, sets address tables, provides diagnostics and performs automatic polling and alarms from central and remote locations. KEYNET also provides instant alarm notification. These high security measures facilitate central management while maintaining security for mission-critical networks worldwide.

<u>Competition</u>

The market for communications security devices and systems is highly competitive and characterized by rapid technological change. The Company has several competitors, including foreign-based companies, in the communications security device field. The Company believes its principal competitors include Crypto AG, Thales Plc, Motorola Inc., General Dynamics Corporation, Omnisec AG, Cisco Systems, Inc., SafeNet, Inc. and Alcatel-Lucent.

The Company competes based on its service, the operational and technical features of its products, its sales expertise and pricing. Many of TCC's competitors have substantially greater financial, technical, sales and marketing, distribution and other resources, greater name recognition and longer standing relationships with customers. Competitors with greater financial resources can be more aggressive in marketing campaigns, can survive sustained price reductions in order to gain market share and can devote greater resources to support existing products and develop new competing products. Any period of sustained price reductions for our products would have a material adverse effect on the Company's financial condition and results of operations. TCC may not be able to compete successfully in the future and competitive pressures may result in price reductions, loss of market share or otherwise have a material adverse effect on the Company's financial condition and results of operations.

Our competitive position will also depend on our ability to attract and retain qualified personnel, obtain intellectual property protection or otherwise develop proprietary products or processes, and secure sufficient capital resources for product, research and development efforts.

<u>Sales and Backlog</u>

In fiscal year 2008, the Company had two customers representing 78% of total net sales. These consisted of sales of radio encryptors to one customer for deployment in Afghanistan amounting to 51% of sales and fees generated by our engineering services efforts for one customer representing 27% of sales. In fiscal year 2007, the Company had two customers representing 59% of total net sales. These consisted of sales of radio encryptors to one customer for deployment in Afghanistan amounting to 43% of sales and fees generated by our engineering services efforts for one customer representing 16% of sales.

The Company sells directly to customers, original equipment manufacturers and value-added resellers, using its in-house sales force as well as domestic and international representatives, consultants and distributors. International sales are made primarily through our main office. We seldom have long-term contractual relationships with our customers and, therefore, generally have no assurance of a continuing relationship within a given market.

Orders for our products are usually placed by customers on an as-needed basis and we typically ship products within 30 to 120 days of receipt of a customer's firm purchase order. Our backlog consists of all orders received where the anticipated shipping date is within 12 months. Because of the possibility of customer changes in delivery schedules or cancellation of orders, our backlog as of any particular date may not be indicative of sales in any future period. Our backlog as of September 27, 2008 and September 29, 2007 was approximately $7,146,000 and $3,626,000, respectively.

The Company expects that sales to relatively few customers will continue to account for a high percentage of the Company's revenues in any accounting period in the foreseeable future. A reduction in orders from any such customer, or the cancellation of any significant order and failure to replace such order with orders from other customers, would have a material adverse effect on the Company's financial condition and results of operations.

Regulatory Matters

As a party to a number of contracts with the U.S. government and its agencies, the Company must comply with extensive regulations with respect to bid proposals and billing practices. Should the U.S. government or its agencies conclude that the Company has not adhered to federal regulations, any contracts to which the Company is a party could be canceled and the Company could be prohibited from bidding on future contracts. Such a prohibition would have a material adverse effect on the Company.

All payments to the Company for work performed on contracts with agencies of the U.S. government are subject to adjustment upon audit by the U.S. Defense Contract Audit Agency, the General Accountability Office, and other agencies. The Company could be required to return any payments received from U.S. government agencies if it is found to have violated federal regulations. In addition, U.S. government contracts may be canceled at any time by the government with limited or no notice or penalty. Contract awards are also subject to funding approval from the U.S. government, which involves political, budgetary and other considerations over which the Company has no control.

The Company's security products are subject to export restrictions administered by the U.S. Department of Commerce and Department of State, which license the export of encryption products, subject to certain technical restrictions. In addition, U.S. export laws prohibit the export of encryption products to a number of hostile countries. Although to date the Company has been able to secure necessary U.S. government export licenses, there can be no assurance that the Company will continue to be able to secure such licenses in a timely manner in the future, or at all.

The U.S. government controls, through a licensing process, the distribution of encryption technology and the sale of encryption products. The procedure for obtaining the applicable license from either the Department of Commerce or the Department of State (depending on the U.S. government's determination of jurisdiction) is well documented. The Company submits a license request application, which contains information pertaining to: the type of equipment being sold; detailed technical description (if required); the buyer; the end-user and use; quantity; and destination location. The appropriate departments of the U.S. government review the application and a licensing decision is provided to the Company. Pursuant to the receipt of the license, the Company may ship the product.

Many of TCC's products can be sold under existing "blanket" licenses which have been obtained through a variant of the licensing process that approves products for sale to certain classes of customers (e.g. financial institutions, civilian government entities, commercial users). The Company has obtained "blanket" licenses for its secure telephone and office system products and its family of network encryptors. Licenses for sales of certain other products and/or to certain end users must be submitted for specific approval as described above. Although the U.S. government retains the right and ability to restrict product exports, the Company does not believe that U.S. government licensing will become more restrictive or an impediment to its business. The trend, since the mid-nineties, has been for the U.S. government to reduce the restrictions on the foreign sale of cryptographic equipment. This trend is driven by the U.S. government's recognition of the technology available from foreign sources and the need to allow U.S. corporations to compete in foreign markets. However, should the regulations become more restrictive, it would have a negative impact on the Company's international business, which impact could be material.

Manufacturing

TCC has several manufacturing subcontractors and suppliers that provide outside processing of electronic circuit boards, fabrication of metal components, and supply of electronic components. For the majority of purchased materials and services, TCC has multiple suppliers that are able to deliver materials and services under short-term delivery purchase orders. Payment is typically made after delivery, based upon standard credit arrangements. For a small minority of parts, there are limited sources of supply. In such cases, TCC monitors source availability and usually stocks for anticipated long-term requirements to assure manufacturing continuity. Notwithstanding the Company's efforts to maintain material supplies, shortages can and do develop, necessitating delays in production, significant engineering development effort to find alternative solutions and, if production cannot be maintained, the discontinuation of the affected product design.

The Company subcontracts a large portion of its manufacturing operations. Many of the components used in the Company's products are standard components available from more than one supplier. The Company has, or believes that it could develop without significant delay, alternative sources for almost all materials and components used in the manufacture of its products. The Company's internal manufacturing process consists primarily of adding critical components, final assembly, quality control, testing and system burn-in. Delivery time varies depending on the products and options ordered.

Technological Expertise

The Company's technological expertise and experience, including certain proprietary rights which it has developed and maintains as trade secrets, are crucial to the conduct of the Company's business. Management is of the opinion that, while patent protection is desirable with respect to certain of its products, none of the Company's patents are material to the conduct of its business. Eight patents have been issued to the Company. The Company also has a number of registered and unregistered trademarks for various products, none of which are material to the conduct of TCC's business.

TCC has an on-going technology license for communications protocol software used in the CipherONE family of Network Security System products. The license is royalty-based and runs without a specified termination date. The cost effect of this license is immaterial.

TCC has been designing and producing secure, cryptography-based communications systems for over 40 years, during which time the Company has developed many technology techniques and practices. This expertise and experience is in the areas of cryptographic algorithm design and implementation, key distribution and management systems, cryptographic processors, voice and fax encryption and electronic hardware design. TCC relies on its internal technical expertise and experience, which TCC considers to be proprietary. These proprietary technologies are owned by TCC, are under TCC's control, and have been documented consistent with standard engineering practices. It is estimated that the majority of sales during the past two years and during the next two years will be of products that are based upon TCC-proprietary designs.

Such technological experience and expertise are important as they enable an efficient design and development process. Loss of this experience and expertise would have an adverse impact on the Company. However, TCC's practices governing the internal documentation of design data mitigate some of the risk associated with the loss of personnel who are skilled in the core competencies described above.

With the exception of the technology license referred to above, TCC has no material third party rights upon which the Company relies. Sales of the products associated with this license have not been and are not anticipated to be significant to the Company's revenues.

Research and Development

Research and development efforts are undertaken by the Company primarily on its own initiative. In order to compete successfully, the Company must attract and retain qualified personnel, improve existing products and develop new products. No assurances can be given that the Company will be able to hire and train such technical management and sales personnel or successfully improve and develop its products. During the years ended September 27, 2008 and September 29, 2007, the Company spent \$942,000 and \$891,000, respectively, on product development.

In fiscal 2009, the Company expects to increase its investment in internal product development. Our plan is to evaluate several technical options for enhancing the radio encryption product line, which may include cryptography modifications, hardware and software changes and partnering with radio manufacturers to incorporate imbedded solutions. The products comprising the CT8000 secure wireless product line will likely continue to evolve and respond to new customer requirements. It is also expected that CiperTalk Secure Voice encryption and CipherSMS Secure Text Messaging will be applied to additional mobile platforms and that customer-specific features will be developed. Depending on customer demand, TCC may also proceed with the development of variants of its DSD72A-SP Military Bulk Encryptor, which would address higher speeds and additional interfaces. On-going research and development in support of product improvements and application variants also is expected to continue. Should the Company choose to embark on a major development program in addition to its traditional research and development activities, engineering staff will have to be added. The Company has sufficient physical resources to support the added staff and believes that adequate technical resources exist in the Boston area to meet potential needs; however we may need financial resources, in addition to cash from operations, to fund a major new development program.

Other than those stated above, there are no plans for significant internal product development in fiscal 2009.

Foreign Operations

The Company is dependent upon its foreign sales. Although foreign sales were more profitable than domestic sales during fiscal years 2008 and 2007 because the mix of products sold abroad included more products with higher profit margins, this does not represent a predictable trend. Sales to foreign markets have been and will continue to be affected by, among other things, the stability of foreign governments, economic conditions, export and other governmental regulations, and changes in technology. The Company attempts to minimize the financial risks normally associated with foreign sales by utilizing letters of credit confirmed by U.S. banks and by using foreign credit insurance. Foreign sales contracts are usually denominated in U.S. dollars.

The Company utilizes the services of sales representatives, consultants and distributors in connection with foreign sales. Typically, representatives are paid commissions and consultants are paid fixed amounts on a stipulated schedule in return for services rendered. Distributors are granted discounted pricing.

The export from the United States of many of the Company’s products may require the issuance of a license by the Department of State under the Arms Export Control Act of 1976, as amended, or by the Department of Commerce under the Export Administration Act as kept in force by the International Emergency Economic Powers Act of 1977, as amended. The licensing process is discussed in more detail under the “Regulatory Matters” section above.

In fiscal years 2008 and 2007, sales to international customers accounted for approximately 14% and 18%, respectively, of our net sales. In fiscal 2008 a significant portion of domestic sales (59%) were made to a domestic radio manufacturer who shipped our radio encryption products overseas for use in Afghanistan. Based on our historical results we expect that international sales will continue to account for a significant portion of our revenues for the foreseeable future. As a result, we are subject to the risks of doing business internationally, including:

- changes in regulatory requirements,
- domestic and foreign government policies, including requirements to expend a portion of program funds locally and governmental industrial cooperation requirements,
- fluctuations in foreign currency exchange rates,
- delays in placing orders,
- the complexity and necessity of using foreign representatives, consultants and distributors,
- the uncertainty of the ability of foreign customers to finance purchases,
- uncertainties and restrictions concerning the availability of funding credit or guarantees,
- imposition of tariffs or embargoes, export controls and other trade restrictions,
- the difficulty of managing and operating an enterprise spanning several countries,
- compliance with a variety of foreign laws, as well as U.S. laws affecting the activities of U.S. companies abroad, and
- economic and geopolitical developments and conditions, including international hostilities, acts of terrorism and governmental reactions, inflation, trade relationships and military and political alliances.

While these factors and their impact are difficult to predict, any one or more of these factors could adversely affect our operations in the future.

We also may not be successful in obtaining the necessary licenses to conduct operations abroad, and the U.S. government may prevent proposed sales to foreign governments.

Employees

As of September 27, 2008, the Company employed 27 full-time persons and two part-time employees, as well as several part-time consultants. The Company believes that its relationships with its employees is good.

Item 1A. **RISK FACTORS**

You should carefully consider the following risk factors that affect our business. Such risk factors could cause our actual results to differ materially from those that are expressed or implied by forward-looking statements contained herein. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks occur, our business, financial condition or results of operations could be materially and adversely affected. You should also consider the other information included in this Annual Report on Form 10-K for the fiscal year ended September 27, 2008 and subsequent quarterly reports filed with the SEC.

Our quarterly operating results may fluctuate and our future revenues and profitability are uncertain.

We have experienced significant fluctuations in our quarterly operating results during the last five years and anticipate continued substantial fluctuations in our future operating results. A number of factors have contributed to these quarterly fluctuations including, but not limited to:

- introduction and market acceptance of new products and product enhancements by us and our competitors;
- budgeting cycles of customers, including the U.S. government;
- timing and execution of individual contracts;
- competitive conditions in the information security industry;
- changes in general economic conditions; and
- shortfall of revenues in relation to expectations that formed the basis for the calculation of fixed expenses.

Our future success will depend on our ability to respond to rapid technological changes in the markets in which we compete.

The markets for TCC's products and services are characterized by rapid technological developments, changing customer technological requirements and preferences, frequent new product introductions, enhancements and modifications and evolving industry standards. Our success will depend in large part on our ability to correctly identify emerging technological trends, enhance capabilities, and develop and manufacture new technologies and products quickly, in a cost-effective manner, and at competitive prices. The development of new and enhanced products is a complex and costly process. We may need to make substantial capital expenditures and incur significant research and development costs to develop and introduce such new products and enhancements. Our choices for developing technologies may prove incorrect if customers do not adopt the products we develop or if the technologies ultimately prove to be technically or commercially unviable. Development schedules also may be adversely affected as the result of the discovery of performance problems. If we fail to timely develop and introduce competitive new technologies, our business, financial condition and results of operations would be adversely affected.

Existing or new competitors may develop competing or superior technologies.

The industry in which the Company competes is highly competitive, and the Company has several domestic and foreign competitors. Many of these competitors have substantially greater financial, technical, sales and marketing, distribution and other resources, greater name recognition and longer standing relationships with customers. Competitors with greater financial resources can be more aggressive in marketing campaigns, can survive sustained price reductions in order to gain market share, and can devote greater resources to support existing products and develop new competing products. Any period of sustained price reductions for our products would have a material adverse effect on the Company's financial condition and results of operations. TCC may not be able to compete successfully in the future and competitive pressures may result in price reductions, loss of market share or otherwise have a material adverse effect on the Company's financial condition and results of operations. It is also possible that competing products will emerge that may be superior in quality and performance and/or less expensive than those of the Company, or that similar technologies may render TCC's products obsolete or uncompetitive and prevent the Company from achieving or sustaining profitable operations.

The operating performance of our products is critical to our business and reputation.

The sale and use of our products entail a risk of product failure, product liability or other claims. Occasionally, some of our products have quality issues resulting from the design or manufacture of the product or the software used in the product. Often these issues are discovered prior to shipment and may result in shipping delays or even cancellation of orders by customers. Other times problems are discovered after the products have shipped, requiring us to resolve issues in a manner that is timely and least disruptive to our customers. Such pre-shipment and post-shipment problems have ramifications for TCC, including cancellation of orders, product returns, increased costs associated with product repair or replacement, and a negative impact on our goodwill and reputation.

Once our products are in use, any product failure, including software or hardware failure, which causes a breach of security with respect to our customer's confidential communications could have a material adverse effect on TCC. There is no guarantee of product performance or that our products are adequate to protect against all security breaches. While we attempt to mitigate such risks by maintaining insurance and including warranty disclaimers and liability limitation clauses in our agreements with customers, such mitigation devices may not protect us against liability in all instances. If our products failed for any reason, our clients could experience data loss, financial loss, personal and property losses, harm to reputation, and significant business interruption. Such events may expose us to substantial liability, increased regulation and/or penalties, as well as loss of customer business and a diminished reputation. Any product liability claims and related litigation would likely be time-consuming and expensive, may not be adequately covered by insurance coverage, and may delay or terminate research and development efforts, regulatory approvals and commercialization activities.

If our products and services do not interoperate with our end-users' products, orders could be delayed or cancelled, which could significantly reduce our revenues.

Our products are designed to interface with our end-users' existing products, each of which has different specifications and utilizes multiple protocol standards. Many of our end-users' systems contain multiple generations of products that have been added over time as these systems have grown and evolved. Our products and services must interoperate with all of these products and services as well as with future products and services that might be added to meet our end-users' requirements. If our products do not interface with those within our end-users' products and systems, orders for our products could be delayed or cancelled, which could significantly reduce our revenues.

Government regulation and legal uncertainties could harm our business.

As a party to a number of contracts with the U.S. government and its agencies, the Company must comply with extensive regulations with respect to bid proposals and billing practices. Should the U.S. government or its agencies conclude that the Company has not adhered to federal regulations, any contracts to which the Company is a party could be canceled and the Company could be prohibited from bidding on future contracts. Moreover, payments to the Company for work performed on contracts with agencies of the U.S. government are subject to audit and adjustment. The Company could be required to return any payments received from U.S. government agencies if it is found to have violated federal regulations. In addition, U.S. government contracts may be canceled at any time by the government with limited or no notice or penalty. Contract awards are also subject to funding approval from the U.S. government, which involves political, budgetary and other considerations over which the Company has no control.

The Company's security products are subject to export restrictions administered by the U.S. Department of Commerce and Department of State, which license the export of encryption products, subject to certain technical restrictions. In addition, U.S. export laws prohibit the export of encryption products to a number of hostile countries and some end-users. Although to date the Company has been able to secure necessary U.S. government export licenses, there can be no assurance that the Company will continue to be able to secure such licenses in a timely manner in the future, or at all. Delays in obtaining necessary approvals could be costly in terms of lost sales opportunities and compliance costs. Should export restrictions and regulations become more restrictive, or should new laws be enacted, it could have a negative impact on the Company's international business, which impact could be material.

Contracts with the U.S. government may not be fully funded at inception and are subject to termination.

A portion of our revenues has historically been generated under agreements with the U.S. government. Any changes or delays in the budget of the U.S. government, and in particular defense spending, could affect our business, and funding levels are difficult to predict with any certainty. Moreover, certain multi-year contracts are conditioned on the continuing availability of appropriations. However, funds are typically appropriated on a fiscal-year basis, even though contract performance may extend over many years, making future sales and revenues under multi-year contracts uncertain. Changes in appropriations and budgets as well as economic conditions generally in subsequent years may impact the funding for these contracts. In addition, changes in funding and other factors may lead to the termination of such contracts. The U.S. government typically has the right to terminate agreements for convenience with little or no penalty. Adverse changes in funding and the termination of government contracts could have a material adverse impact on the Company's financial condition and results of operations.

Our international operations expose us to additional risks.

The Company is dependent upon its foreign sales and we expect that international sales will continue to account for a significant portion of our revenues for the foreseeable future. As a result, we are subject to the risks of doing business internationally, including imposition of tariffs or embargoes, export controls, trade barriers and trade disputes, regulations related to customs and export/import matters, fluctuations in foreign economies and currency exchange rates, longer payment cycles and difficulties in collecting accounts receivable, the complexity and necessity of using foreign representatives, consultants and distributors, tax uncertainties and unanticipated tax costs due to foreign taxing regimes, the difficulty of managing and operating an enterprise spanning several countries, including difficulties in maintaining effective communications with employees and customers due to distance, language and cultural barriers, the uncertainty of protection for intellectual property rights and differing legal systems generally, compliance with a variety of laws and economic and geopolitical developments and conditions, including international hostilities, armed conflicts, acts of terrorism and governmental reactions, inflation, trade relationships and military and political alliances.

We also may not be successful in obtaining the necessary licenses to conduct operations abroad, including the export of many of the Company's products, and the U.S. government may prevent proposed sales to foreign governments. Export restrictions, compliance with which imposes additional burdens on the Company, may further provide a competitive advantage to foreign competitors facing less stringent controls on their products and services.

Finally, an increasing focus of our business is in emerging markets, including South America and Southwest Asia. In many of these emerging markets, we may be faced with risks that are more significant than if we were to do business in other countries, including undeveloped legal systems, unstable governments and economies, and potential governmental actions affecting the flow of goods and currency.

If the protection of our intellectual property is inadequate, our competitors may gain access to our technologies.

The Company's technological expertise and experience, including certain proprietary rights that it has developed and maintains as trade secrets, are crucial to the conduct of the Company's business and its ability to compete in the marketplace. Such technological expertise and experience are important as they enable an efficient design and development process. Loss of this experience and expertise would have an adverse impact on the Company. To protect our proprietary information, we rely primarily on a combination of internal procedures, contractual provisions, and patent, copyright, trademark and trade secret laws. Such internal procedures and contractual provisions may not prove sufficient to maintain the confidentiality and proprietary nature of such information and may not provide meaningful protection in the event of any unauthorized use or disclosure. Trade secret and copyright laws afford only limited protection. Current and potential patents and trademarks may not provide us with any competitive advantage and patents and trademarks must be enforced and maintained to provide protection, which may prove costly and time-consuming.

Despite our efforts to safeguard and maintain our proprietary rights, we may not be successful in doing so or the steps taken by us may be inadequate to deter unauthorized parties from misappropriating our technologies or prevent them from obtaining and using our proprietary information, products and technologies. Moreover, our competitors may independently develop similar technologies or design around patents issued to us.

Other parties may have patent rights relating to the same subject matter covered by our products or technologies, enabling them to prevent us from operating without obtaining a license and paying royalties. Third parties also may challenge our patents or proprietary rights or claim we are infringing on their rights. Any claims of infringement or misappropriation, with or without merit, would likely be time-consuming, result in costly litigation and diversion of resources, and cause delays in the development and commercialization of our products. We may be required to expend significant resources to develop non-infringing intellectual property, pay royalties or obtain licenses to the intellectual property that is the subject of such litigation. Royalties may be costly and licenses, if required, may not be available on terms acceptable to us, the absence of which could seriously harm our business.

In addition, the laws and enforcement mechanisms of some foreign countries may not offer the same level of protection as do the laws of the United States. Legal protections of our rights may be ineffective in such countries, and technologies developed in such countries may not be protected in jurisdictions where protection is ordinarily available. Our inability to protect our intellectual property both in the United States and abroad would have a material adverse effect on our financial condition and results of operations.

The Company relies on a small number of customers for a large percentage of its revenues.

We will be successful only if a significant number of customers adopt our secure communications products. Historically the Company has had a small number of customers representing a large percentage of its total sales. Although the Company endeavors to expand its customer base, we expect that sales to relatively few customers will continue to account for a high percentage of our revenues in any given period for the foreseeable future. This reliance makes us particularly susceptible to factors affecting those customers. If such customers' business declines and as a result our sales to such customers decline without corresponding sales orders from other customers, our financial condition and results of operations could be adversely affected. It is difficult to predict the rate at which customers will use our products, even in the case of repeat customers, and we do not typically have long-term contractual arrangements.

We may not be able to maintain effective product distribution channels.

We rely on both an in-house sales force as well as domestic and international representatives, consultants and distributors for the sale and distribution of our products. Our sales and marketing organization may be unable to successfully compete against more extensive and well-funded operations of certain of our competitors. In addition, we must manage sales and marketing personnel in numerous countries around the world with the concomitant difficulties in maintaining effective communications due to distance, language and cultural barriers. Further, certain of our distributors may carry competing products lines, which may negatively impact our sales revenues.

We rely on single or limited sources for the manufacture and supply of certain product components.

For a small percentage of parts, we rely upon a single or a limited number of manufacturers and suppliers. Moreover, because we depend on third party manufacturers and suppliers, we do not directly control product delivery schedules or product quality. In addition, we cannot assure you that we will be able to maintain satisfactory contractual relations with our manufacturers and suppliers. A significant delay in delivering products to our customers, whether from unforeseen events such as natural disasters or otherwise, could have a material adverse effect on our results of operations and financial condition. If we lose any of our manufacturers or suppliers, we expect that it would take from three to six months for a new manufacturer or supplier to begin full-scale production of one of our products. The delay and expense associated with qualifying a new manufacturer or supplier and commencing production could result in a material loss of revenue and reduced operating margins and harm our relationships with customers. While we have not experienced any significant supply problems or problems with the quality of the manufacturing process of our suppliers and there have been no materially late deliveries of components or parts to date, it is possible that in the future we may encounter problems in the manufacturing process or shortages in parts, components or other elements vital to the manufacture, production and sale of our products.

The loss of existing key management and technical personnel or the inability to attract new hires could have a detrimental effect on the Company.

Our success depends on identifying, hiring, training, and retaining qualified professionals. Competition for qualified employees in our industry is intense and we expect this to remain so for the foreseeable future. If we were unable to attract and hire a sufficient number of employees, or if a significant number of our current employees or any of our senior managers resign, we may be unable to complete or maintain existing projects or bid for new projects of similar scope and revenue. The Company's success is particularly dependent on the retention of existing management and technical personnel, including Carl H. Guild, Jr., the Company's President and Chief Executive Officer. Although the Company has entered into an employment agreement with Mr. Guild, the loss or unavailability of his services could impede our ability to effectively manage our operations.

We may need to expand our operations and we may not effectively manage any future growth.

As of December 12, 2008, we employed 28 full-time and two part-time people as well as several part-time consultants. In the event our products and services obtain greater market acceptance, we may be required to expand our management team and hire and train additional technical and skilled personnel. We may need to scale up our operations in order to service our customers, which may strain our resources, and we may be unable to manage our growth effectively. If our systems, procedures, and controls are inadequate to support our operations, growth could be delayed or halted, and we could lose our opportunity to gain significant market share. In order to achieve and manage growth effectively, we must continue to improve and expand our operational and financial management capabilities. Any inability to manage growth effectively could have a material adverse effect on our business, results of operations, and financial condition.

Item 1B. **UNRESOLVED STAFF COMMENTS**

Not applicable.

Item 2. **PROPERTIES**

In April 2007, the Company entered into a new lease for its current facilities. This lease is for 22,800 square feet located at 100 Domino Drive, Concord, MA. The Company has been a tenant in this space since 1983 and believes its condition is good. This is the Company's only facility and houses all manufacturing, research and development, and corporate operations. The term of the lease is for five years through March 31, 2012 at an annual rate of $159,000. In addition the lease contains options to extend the lease for two and one half years through September 30, 2014 and another two and one half years through March 31, 2017, at an annual rate of $171,000. Rent expense for the years ended September 27, 2008 and September 29, 2007 was $159,000 and $154,000, respectively.

Item 3. **LEGAL PROCEEDINGS**

There are no current legal proceedings as to which TCC is a party.

Item 4. **SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

There were no matters submitted to security holders for a vote during the fourth quarter of the Company's 2008 fiscal year.

PART II

Item 5. **MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The Company's Common Stock, par value $0.10 per share, is traded on the Over-The-Counter Bulletin Board, under the symbol "TCCO.OB". The following table presents low and high bid information for the time periods specified. The over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions. The NASDAQ Stock Market, Inc. has furnished the over-the-counter market quotations.

		Price	
Title of Class	**Quarter Ending**	**Low**	**High**
Common Stock,			
$.10 par value	9/27/2008	$ 4.51	$ 6.40
	6/28/2008	5.00	7.30
	3/29/2008	4.40	7.49
	12/29/2007	4.05	5.95
	9/29/2007	$ 4.00	$ 6.30
	6/30/2007	2.95	5.60
	3/31/2007	3.00	4.25
	12/30/2006	2.71	3.30

The Company has paid no cash dividends in the past and has no plans to pay cash dividends in the foreseeable future. In addition, pursuant to the loan agreement entered into on November 5, 2004 with Bank of America, the Company is prohibited from paying dividends.

As of December 12, 2008, there were approximately 800 record holders of our Common Stock.

On December 12, 2008, the closing price of the Common Stock was $3.98.

Equity Compensation Plan Information

The following table presents information about the Technical Communications Corporation 2005 Non-Statutory Stock Option Plan, the Technical Communications Corporation 2001 Stock Option Plan and the Technical Communications Corporation 1991 Stock Option Plan (which plan has expired but under which there are still options outstanding) as of the fiscal year ended September 27, 2008. For more information on these plans, see the discussion of the Company's stock option plans and stock-based compensation plans included in Note 2 to the Company's financial statements at and as of September 27, 2008, included herewith.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
Equity compensation plans approved by stockholders	447,534(1)	$2.54	-
Equity compensation plans not approved by stockholders	133,500(2)	$4.54	16,500
Total	581,034	$3.05	16,500

(1) Of the 447,534 options outstanding as of September 27, 2008, 441,994 were exercisable as of such date at an average exercise price of $2.53 per share.

(2) Of the 133,500 options outstanding as of September 27, 2008, 73,400 were exercisable as of such date at an average exercise price of $4.24 per share.

During 1995 the Company established the Technical Communications Corporation 1995 Employees' Stock Purchase Plan (the "Purchase Plan"), which was available to all employees who had at least one year of continuous employment with TCC, worked more than 20 hours per week or more than five months per year, and whose ownership did not exceed 5% as a result of participation in the Purchase Plan. The plan allowed employees to purchase, through the grant of options, Common Stock of the Company at a discounted price through payroll withholdings. The purchase price was set at 85% of the lesser of the market value of the Company's Common Stock as of the grant date or the exercise date. For executive officers, the purchase price was set at the average of the market value of the Company's Common Stock as of the grant date and the exercise date. Market value was defined as, as of a particular date, the last sale price of our Common Stock if quoted on an exchange or, if not so quoted, the average of bid and asked prices for the Common Stock last quoted by NASDAQ in the over-the-counter market. The Purchase Plan had 100,000 shares authorized for distribution of which 44,268 were still available for issuance as of September 30, 2006. The Purchase Plan expired on September 30, 2006 and there is no current intention to renew such plan.

Sales of Unregistered Securities and Repurchases by Issuer and Affiliated Purchasers

There were no sales by the Company of unregistered shares of the Company's Common Stock during the 2008 fiscal year or repurchases of such stock by or on behalf of the Company or any affiliated purchaser during the fourth fiscal quarter of the 2008 fiscal year.

Item 6. SELECTED FINANCIAL DATA

Not applicable.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the Company's audited consolidated financial statements and notes thereto appearing elsewhere herein.

Forward-Looking Statements

The following discussion may contain statements that are not purely historical. Such statements contained herein or as may otherwise be incorporated by reference herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include but are not limited to statements regarding anticipated operating results, future earnings, and the ability to achieve growth and profitability. Such forward-looking statements involve known and unknown risks, uncertainties and other 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 rates; and the Company's ability to secure adequate capital resources. Such risks, uncertainties and other factors could cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. For a more detailed discussion of the risks facing the Company, see the Company's filings with the Securities and Exchange Commission, including this Form 10-K for the fiscal year ended September 27, 2008 and the "Risk Factors" section included herein.

Overview

TCC designs, manufactures, markets and sells communications security equipment that utilizes various methods of encryption to protect the information being transmitted. Encryption is a technique for rendering information unintelligible, which information can then be reconstituted if the recipient possesses the right decryption "key". The Company manufactures several standard secure communications products and also provides custom-designed, special-purpose secure communications products for both domestic and international customers. The Company's products consist primarily of voice, data and facsimile encryptors. Revenue is generated primarily from the sale of these products, which have traditionally been to foreign governments. However, we have also sold these products to commercial entities and U.S. government agencies. We also generate revenues from contract engineering services performed for certain government agencies, both domestic and foreign.

Critical Accounting Policies and Significant Judgments and Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, receivable reserves, inventory reserves, income taxes and stock-based compensation. Management bases its estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. By their nature estimates are subject to an inherent degree of uncertainty. Actual results may differ from these estimates under different assumptions or conditions and such differences may be material.

The accounting policies that management believes are most critical to aid in fully understanding and evaluating our reported financial results include those listed below. For a more detailed discussion, see Note 2 in the Notes to Consolidated Financial Statements included herewith.

Revenue Recognition

We recognize revenue from product sales in accordance with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition," as updated by Staff Accounting Bulletin No. 104. Product revenue is recognized when there is persuasive evidence of an arrangement, the fee is fixed or determinable, delivery of the product to the customer has occurred and we have determined that collection of the fee is probable. Title to the product generally passes upon shipment of the product, as the products are shipped FOB shipping point, except for certain foreign shipments. If the product requires installation to be performed by TCC, all revenue related to the product is deferred and recognized upon completion of the installation. We provide for a warranty reserve at the time the product revenue is recognized.

We perform funded research and development and technology development for commercial companies and government agencies under both cost reimbursement and fixed-price contracts. Cost reimbursement contracts provide for the reimbursement of allowable costs and, in some situations, the payment of a fee. These contracts may contain incentive clauses providing for increases or decreases in the fee depending on how costs compare with a budget. Revenue from reimbursement contracts is recognized as services are performed. On fixed-price contracts that are expected to exceed one year in duration, revenue is recognized pursuant to the percentage of completion method based upon the proportion of costs incurred to the total estimated costs for the contract. In each type of contract, we receive periodic progress payments or payments upon reaching interim milestones, and retain the rights to the intellectual property developed in government contracts. All payments to TCC for work performed on contracts with agencies of the U.S. government are subject to audit and adjustment by the Defense Contract Audit Agency. Adjustments are recognized in the period made. When the current estimates of total contract revenue and contract costs for product development contracts indicate a loss, a provision for the entire loss on the contract is recorded. Any losses incurred in performing funded research and development projects are recognized as funded research and development expenses.

Cost of product revenue includes material, labor and overhead. Costs incurred in connection with funded research and development and other revenue arrangements are included in cost of sales.

Inventory

We value our inventory at the lower of actual cost to purchase and/or manufacture or the current estimated market value (based on the estimated selling prices, less the cost to sell) of the inventory. We periodically review inventory quantities on hand and record a provision for excess and/or obsolete inventory based primarily on our estimated forecast of product demand, as well as historical usage. Due to the custom and specific nature of certain of our products, demand and usage for products and materials can fluctuate significantly. A significant decrease in demand for our products could result in a short-term increase in the cost of inventory purchases and an increase of excess inventory quantities on hand. In addition, our industry is characterized by rapid technological change, frequent new product development and rapid product obsolescence, any of which could result in an increase in the amount of obsolete inventory quantities on hand. Therefore, although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand or technological developments could have a significant negative impact on the value of our inventory and would reduce our reported operating results.

Accounts Receivable

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. The estimated allowance for uncollectible amounts is based primarily on a specific analysis of accounts in the receivable portfolio and historical write-off experience. While management believes the allowance to be adequate, if the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, which would reduce net income.

Accounting for Income Taxes

The preparation of our consolidated financial statements requires us to estimate our income taxes in each of the jurisdictions in which we operate, including those outside the United States, which may subject the Company to certain risks that ordinarily would not be expected in the United States. The income tax accounting process involves estimating our actual current exposure together with assessing temporary differences resulting from differing treatments of items, such as deferred revenue, for tax and accounting purposes. These differences result in the recognition of deferred tax assets and liabilities. We must then record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against deferred tax assets. We have recorded a valuation allowance against our deferred tax assets of $3.0 million as of September 27, 2008, due to uncertainties related to our ability to utilize these assets. The valuation allowance is based on our estimates of taxable income by jurisdiction and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to adjust our valuation allowance, which could materially impact our financial position and results of operation.

Due to the nature of our current operations in foreign countries (selling products into these countries with the assistance of local representatives), the Company has not been subject to any foreign taxes in recent years. Also, it is not anticipated that we will be subject to foreign taxes in the near future.

Stock Based Compensation

Effective October 1, 2006, we adopted the provisions of the SFAS No. 123R, “Share-Based Payment” (“SFAS No. 123R”). Under SFAS No. 123R, we are required to record compensation cost for all share-based payments granted after the date of adoption based on the grant date fair value, estimated in accordance with the provisions of SFAS No. 123R, and for the unvested portion of all share-based payments previously granted that remain outstanding based on the grant date fair value, estimated in accordance with the original provisions of SFAS No. 123. We expense share-based compensation under the straight-line method.

The choice of a valuation technique, and the approach utilized to develop the underlying assumptions for that technique, involve significant judgments. These judgments reflect management’s assessment of the most accurate method of valuing the stock options we issue, based on our historical experience, knowledge of current conditions and beliefs of what could occur in the future given available information. Our judgments could change over time as additional information becomes available to us, or the facts underlying our assumptions change over time. Any change in our judgments could have a material effect on our financial statements. We believe that our estimates incorporate all relevant information and represent a reasonable approximation in light of the difficulties involved in valuing non-traded stock options.

Results of Operations

Year ended September 27, 2008 as compared to year ended September 29, 2007

Net Sales

Net sales for the years ended September 27, 2008 and September 29, 2007 were $6,852,000 and $4,920,000, respectively, an increase of $1,932,000 or 39%. Sales for fiscal 2008 consisted of $5,865,000, or 86%, from domestic sources and $987,000, or 14%, from international customers as compared to fiscal 2007, in which sales consisted of $4,018,000, or 82%, from domestic sources and $902,000, or 18%, from international customers.

Foreign sales consisted of shipments to 13 different countries during the year ended September 27, 2008 and 15 different countries during the year ended September 29, 2007. A sale is attributed to a foreign country based on the location of the contracting party. Domestic revenue may include the sale of products shipped through domestic resellers or manufacturers to international destinations. The table below summarizes our principal foreign sales by country:

	2008	2007
Columbia	$ 639,000	$ 478,000
Indonesia	-	117,000
Saudi Arabia	94,000	6,000
Sweden	-	99,000
Other	254,000	202,000
	$ 987,000	$ 902,000

Revenue for fiscal 2008 was primarily derived from the sale of our narrowband radio encryptors to a U.S. radio manufacturer amounting to $3,486,000. There were additional sales of our narrowband radio encryptors to five (two domestic and three foreign) customers amounting to $461,000. We also sold our data link encryptors to two domestic customers amounting to $157,000 during the 2008 fiscal year. Foreign sales for fiscal 2008 included a sale of our secure telephone, fax, and data encryptors to a South American customer amounting to $400,000 and a sale of our frame relay and internet protocol encryptor product line to two customers amounting to $183,000. In addition, we had billings under two programs with the U.S. government for engineering services work amounting to $1,887,000.

Revenue for fiscal 2007 was primarily derived from the sale of our narrowband radio encryptors to three domestic customers amounting to $2,674,000 and to a customer in Colombia amounting to $462,000. Additional sales during the period included a sale of our secure telephone, fax, and data encryptors to a customer in Indonesia amounting to $120,000, an order from a customer in Bahrain for our fax encryptors amounting to $71,000 and the sale of $99,000 worth of encryption equipment used in missile testing systems to a customer in Sweden. We also generated $338,000 in revenue as a result of a license agreement with a large domestic radio manufacturer. This customer also purchased $119,000 worth of integrated circuit chips during the period. In addition, we had billings under two programs with the U.S. government for engineering services work amounting to $769,000.

Gross Profit

Gross profit for fiscal year 2008 was $4,189,000, an increase of $784,000 or 23%, compared to gross profit of $3,405,000 for fiscal year 2007. Gross profit expressed as a percentage of sales was 61% in fiscal year 2008 compared to 69% in the prior year. The decrease in gross profit as a percentage of sales was primarily associated with revenue generated from the license agreement in the second quarter of fiscal 2007 with a military radio manufacturer and several other sales of higher margin products in fiscal 2007.

Operating Costs and Expenses

Selling, General and Administrative

Selling, general and administrative expenses for fiscal 2008 were $2,335,000, as compared to $1,748,000 for fiscal 2007. This increase of 34% was primarily attributable to an increase in general and administrative expenses of $198,000 and an increase in selling and marketing expenses of $389,000 during the 2008 fiscal year.

The increase in general and administrative costs during 2008 was primarily attributable to an increase in personnel-related costs of approximately $26,000 and an increase in the recognition of stock-based compensation expense of $28,000. There was also an increase in consulting and professional fees of approximately $95,000 and an increase in bad debt expense of $25,000 during the 2008 fiscal year.

The increase in selling and marketing costs was primarily attributable to an increase in third party sales and marketing activities of $304,000 and an increase in new product evaluation activities of $62,000, and a slight increase in personnel-related costs of $17,000 as compared to fiscal 2007.

Product Development

Product development costs for the year ended September 27, 2008 were $942,000, compared to $891,000 for the year ended September 29, 2007, an increase of $51,000 or 6%. This increase was primarily attributable to an increase in personnel-related costs of $299,000, an increase in the recognition of stock-based compensation expense of $18,000 and an increase in outside consulting costs of $69,000 during the year ended September 27, 2008. There was also an increase in materials utilized on internal product development projects of approximately $18,000 and an increase in employee training of approximately $10,000. These fiscal 2008 increases were partially offset by an increase in billable contract engineering work and engineering efforts for bid and proposal work and new product evaluation, which decreased product development costs by approximately $384,000, as personnel were redeployed from internal product development efforts to support these other efforts.

The Company actively sells its engineering services in support of funded research and development. The receipt of these orders is sporadic, although such programs can span over several months. In addition to these programs, the Company also invests in research and development to enhance its existing products or to develop new products, as it deems appropriate. During fiscal 2008, the level of billable engineering services work increased to $1,887,000 from $799,000 for the fiscal year ended September 29, 2007. This revenue was generated under two programs with the U.S. government.

It is anticipated that cash from operations will fund our near-term research and development and marketing activities. However, any increase in activities - either billable or new product related - will require additional resources, which we may not be able to fund through cash from operations. We believe that, in the long term, based on current billable activities and the recent improvement in business prospects, cash from operations will be sufficient to meet the development goals of the Company, although we can give no assurances. In circumstances where resources will be insufficient, the Company will look to other sources of financing including debt and/or equity investments.

Net Income

The Company generated net income of $1,061,000 for fiscal year 2008 as compared to net income of $846,000 for fiscal year 2007, a $215,000 increase in profits. This 25% increase in profitability is primarily attributable to an increase in gross profits of $784,000, offset by an increase in operating expenses of $638,000 as compared to fiscal year 2008. During fiscal year 2008, $75,000 of the prior year deferred tax valuation allowance was reversed, due to the determination by the Company that the benefits of the deferred tax asset will more likely than not be realized in future years. This amount related to prior year operating activities and was recorded as a reduction of current year income tax expense

The effects of inflation and changing costs have not had a significant impact on sales or earnings in recent years. As of September 27, 2008, none of the Company's monetary assets or liabilities was subject to foreign exchange risks. The Company usually includes an inflation factor in its pricing when negotiating multi-year contracts with customers.

Liquidity and Capital Resources

Cash and cash equivalents increased by $1,001,000, or 38%, to $3,623,000 as of September 27, 2008, from a balance of $2,622,000 at September 29, 2007. This increase was primarily attributable to cash generated from operations of $939,000 and proceeds from stock issuances of $283,000. Non-cash stock-based compensation of $146,000 and a reduction of accounts payable and other accrued expenses of $70,000 were offset by an increase in accounts receivable of $302,000, an increase in deferred tax assets of $75,000 and fixed asset additions of $221,000 during the period.

Our results during fiscal 2008 met our expectations. We were able to secure several large orders for our radio encryption products which are being deployed in Afghanistan by our customer, a domestic radio manufacturer. Approximately $3,500,000 in orders shipped to this customer during fiscal 2008. In fiscal 2007, we secured two new programs for our engineering services work amounting to $2,400,000. During the third quarter ended June 28, 2008 we received an amendment to one of these contracts adding an additional $1,200,000 in funding. These programs are billed monthly for time and materials incurred and are expected to be completed in fiscal 2009. We billed a total of $1,887,000 during 2008 under these programs.

In addition, we had previously completed the development of a major upgrade program for our customer in Egypt, which was important to the Company because it opened the door for future hardware procurements of our upgraded product line. The results of this effort were realized in April 2008 with the award of a contract from the U.S. Army, Communications and Electronics Command (CECOM) for upgrades and supplies to be shipped to Egypt amounting to $5,750,000. During the first quarter of fiscal 2009 we received an amendment to this contract for an additional $610,000 of encryption equipment. These orders are expected to ship over the next 24 months.

Backlog at September 27, 2008 amounted to $7,146,000. The orders in backlog are expected to ship during fiscal 2009 and 2010 depending on customer requirements and product availability.

The Company has a line of credit agreement with Bank of America (the "Bank"), for a line of credit not to exceed the principal amount of $600,000. The line is supported by a financing promissory note. The loan is a demand loan with interest payable at the Bank's prime rate plus 1% on all outstanding balances. The loan is secured by all assets of the Company (excluding consumer goods) and requires the Company to maintain its deposit accounts with the Bank, as well as comply with certain other covenants. The Company believes this line of credit agreement provides it with an important external source of liquidity, if necessary. There were no cash borrowings against the line during fiscal years 2008 and 2007.

Certain foreign customers require the Company to guarantee bid bonds and performance of products sold. These guaranties typically take the form of standby letters of credit. Guaranties are generally required in amounts of 5% to 10% of the purchase price and last in duration from three months to one year. At September 27, 2008 and September 29, 2007 there were no outstanding standby letters of credit. The Company secures its outstanding standby letters of credit with the line of credit facility with the Bank.

In April 2007, the Company entered into a new lease for its current facilities. This lease is for 22,800 square feet located at 100 Domino Drive, Concord, MA. The Company has been a tenant in this space since 1983. This is the Company's only facility and houses all manufacturing, research and development, and corporate operations. The term of the lease is for five years through March 31, 2012 at an annual rate of $159,000. In addition the lease contains options to extend the lease for two and one half years through September 30, 2014 and another two and one half years through March 31, 2017, at an annual rate of $171,000. Rent expense for the years ended September 27, 2008 and September 29, 2007 was $159,000 and $154,000, respectively.

The Company does not anticipate any significant capital expenditures during fiscal 2009.

In fiscal 2009, the Company expects to increase its investment in internal product development. Our plan is to evaluate several technical options for enhancing the radio encryption product line which may include cryptography modifications, hardware and software changes and partnering with radio manufacturers to incorporate imbedded solutions. The products comprising the CT8000 secure wireless product line will likely continue to evolve and respond to new customer requirements. It is also expected that CiperTalk Secure Voice encryption and CipherSMS Secure Text Messaging will be applied to additional mobile platforms and that customer-specific features will be developed. Depending on customer demand, TCC may also proceed with the development of variants of its DSD72A-SP Military Bulk Encryptor, which would address higher speeds and additional interfaces. On-going research and development in support of product improvements and application variants also is expected to continue. Should the Company choose to embark on a major development program in addition to its traditional research and development activities, engineering staff will have to be added. The Company has sufficient physical resources to support the added staff and believes that adequate technical resources exist in the Boston area to meet potential needs; however we may need financial resources, in addition to cash from operations, to fund a major new development program.

Other than those stated above, there are no plans for significant internal product development in fiscal 2009.

Based on today's product cost structure and operating expenses, we believe that current cash and accounts receivable balances along with the current backlog are sufficient to provide resources to operate the Company through the end of fiscal year 2009. As a result of our profitability during fiscal 2008 and the backlog at September 27, 2008 we are optimistic about future sales growth and other possible sources of financing, including private equity funding or future public stock offerings. However, there is no assurance that any of these goals can be achieved. Due to the uncertainty of the timing of customer orders, future results remain difficult to predict. Receiving orders and contracts in a timely manner is essential to the Company's ability to sustain operations.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurement. SFAS No. 157 initially became effective for fiscal years beginning after November 15, 2007. In November 2007, the FASB deferred the effective date of SFAS No. 157 until November 15, 2008 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company is currently reviewing the statement to determine the impact and materiality of its adoption by the Company, if any.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of Statement of Financial Accounting Standards No. 115" ("SFAS No. 159"), which permits companies to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently reviewing the statement to determine the impact and materiality of its adoption by the Company, if any.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and notes thereto listed in the accompanying index to financial statements (Item 15) are filed as part of this Annual Report on Form 10-K and are incorporated herein by reference.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. The Company's chief executive officer and chief financial officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Annual Report on Form 10-K. Based on that review and evaluation, the chief executive officer and chief financial officer have concluded that the Company's current disclosure controls and procedures, as designed and implemented, are effective to ensure that such officers are provided with information relating to the Company required to be disclosed in the reports the Company files or submits under the Exchange Act and that such information is recorded, processed, summarized and reported within the specified time periods.

Management's report on internal control over financial reporting. Our disclosure controls and procedures include components of our internal control over financial reporting. In designing and evaluating our disclosure controls and procedures management recognizes that any controls, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, with our Company have been detected.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of September 27, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework.*

A goal of the assessment was to determine whether any material weaknesses or significant deficiencies existed with respect to the Company's internal control over financial reporting. A "material weakness" is defined as a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. A "significant deficiency" is a control deficiency, or a combination of control deficiencies, that adversely affects a company's ability to initiate, authorize, record, process or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the annual or interim financial statements that is more than inconsequential will not be prevented or detected.

In the course of our assessment our management identified a control deficiency because we lacked sufficient staff to segregate accounting duties.

Based on this assessment, we believe the control deficiency resulted primarily because we have the equivalent of one and one- half persons performing all accounting-related on-site duties. As a result, we did not maintain adequate segregation of duties within our critical financial reporting applications, the related modules and financial reporting processes. This control deficiency could result in a misstatement of balance sheet and income statement accounts in our interim or annual consolidated financial statements that would not be detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

Our management is in the process of actively addressing and remediating the material weakness in internal control over financial reporting described above. During the fiscal year ending September 26, 2009, we intend to undertake actions to remediate the material weakness identified to allow for appropriate checks and reviews of internal control record-keeping and reporting.

We believe that the steps outlined above will strengthen our internal control over financial reporting and address the identified material weakness. As part of our 2009 assessment of internal control over financial reporting, our management will test and evaluate any additional controls implemented to assess whether they are operating effectively.

We intend to continue to remediate material weaknesses and enhance our internal controls but cannot guarantee that our efforts will result in remediation of our material weakness or that new issues will not be exposed in this process.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to the temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in internal control over financial reporting. There were no changes in the Company's internal control over financial reporting that occurred during its fourth quarter of fiscal 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. **OTHER INFORMATION**

Not applicable.

Part III

Item 10. **DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item 10 is incorporated herein by reference to our Definitive Proxy Statement, under the captions “Members of the Board of Directors, Nominees and Executive Officers,” “Certain Relationships and Related Person Transactions,” “Corporate Governance,” and **“**Section 16(a) Beneficial Ownership Reporting Compliance,” with respect to our 2009 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company’s 2008 fiscal year.

The Company has adopted a Code of Business Conduct and Ethics, which applies to all of its employees, officers and directors. A copy of this code can be found on the Company’s website at www.tccsecure.com.

Item 11. **EXECUTIVE COMPENSATION**

The information required by this Item 11 is incorporated herein by reference to our Definitive Proxy Statement, under the captions “Compensation” and “Compensation Discussion and Analysis” with respect to our 2009 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company’s 2008 fiscal year.

Item 12. **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item 12 is incorporated herein by reference to Part II, Item 5 herein under the caption “Equity Compensation Plan Information” and by reference to our Definitive Proxy Statement, under the caption “Security Ownership of Certain Beneficial Owners and Management,” with respect to our 2009 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company’s 2008 fiscal year.

Item 13. **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

The information required by this Item 13 is incorporated herein by reference to our Definitive Proxy Statement, under the captions “Certain Relationships and Related Person Transactions” and “Corporate Governance” with respect to our 2009 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company’s 2008 fiscal year.

Item 14. **PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item 14 is incorporated herein by reference to our Definitive Proxy Statement, under the captions “Fees,” and “Pre-Approval Policies” in Proposal II with respect to our 2009 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company’s 2008 fiscal year.

PART IV

Item 15. **EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(1) Financial Statements The following Consolidated Financial Statements, Notes thereto and Report of Independent Registered Public Accounting Firm of the Company are filed as part of Part II, Item 8 of this report:

(2) List of Exhibits

3.1 Articles of Organization of the Company (incorporated by reference to the Company's Annual Report for 2005 on Form 10-KSB, filed with the Securities and Exchange Commission on December 21, 2005)

3.2 By-laws of the Company (incorporated by reference to the Company's 8-K filed with the Securities and Exchange Commission on May 5, 1998)

4 Rights Agreement, dated as of August 6, 2004, by and between the Company and American Stock Transfer & Trust Company, as Rights Agent (incorporated by reference to the Company's 8-K filed with the Securities and Exchange Commission on August 5, 2004)

10.1+ Employment Agreement, effective November 19, 1998, with Carl H. Guild, Jr. (incorporated by reference to the Company's Annual Report for 1998 on Form 10-K, as amended, filed with the Securities and Exchange Commission on December 21, 1998)

10.2+ Employment Agreement, effective February 12, 2001, with Michael P. Malone (incorporated by reference to the Company's Form 10-QSB filed with the Securities and Exchange Commission on May 15, 2001)

10.3+ Amendment to Employment Agreement between the Company and Carl H. Guild Jr., as of November 8, 2001 (incorporated by reference to the Company's Form 10-QSB filed with the Securities and Exchange Commission on August 13, 2002)

10.4+ 1995 Employee Stock Purchase Plan (incorporated by reference to the Company's Registration Statement on Form S-8, filed with the Securities and Exchange Commission on May 23, 1996)

10.5+ 2001 Stock Option Plan (incorporated by reference to the Company's Registration Statement on Form S-8, filed with the Securities and Exchange Commission on December 28, 2001)

10.6 Standard Form Commercial Lease, dated April 4, 2007, between the Company and Batstone LLC (incorporated by reference to the Company's 8-K filed with the Securities and Exchange Commission on April 6, 2007)

10.7 Line of Credit Agreement with Letter of Credit and/or Acceptance Financing Agreement, dated November 5, 2004, between the Company and Fleet National Bank, a Bank of America Company (incorporated by reference to the Company's 8-K filed with the Securities and Exchange Commission on November 11, 2004)

(2) List of Exhibits (cont'd)

10.8	Line of Credit with Letter of Credit and/or Acceptance Financing Promissory Note, dated November 5, 2004, between the Company and Fleet National Bank, a Bank of America Company (incorporated by reference to the Company's 8-K filed with the Securities and Exchange Commission on November 11, 2004)
10.9+	2005 Non-Statutory Stock Option Plan (incorporated by reference to the Company's Form 10-QSB filed with the Securities and Exchange Commission on May 10, 2005)
10.10	Contract with US Army CECOM Acquisitions Center dated April 18, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-QSB filed with the Securities and Exchange Commission on August 13, 2008)
14	Code of Business Conduct and Ethics (incorporated by reference to the Company's Annual Report for 2003 on Form 10-KSB, filed with the Securities and Exchange Commission on December 22, 2004)
21*	List of Subsidiaries of the Company
23*	Consent of Vitale, Caturano and Company Ltd
31.1*	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32*	Certifications of Chief Executive and Chief Financial Officers pursuant to 18 U.S.C. Section 1350

Footnotes:

* Attached to this filing
\+ Denotes a management contract or compensatory plan or arrangement

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.

TECHNICAL COMMUNICATIONS CORPORATION

By: /s/ Carl H. Guild, Jr.
Carl H. Guild, Jr.
Chief Executive Officer and President
Chairman of the Board, Director

Date: December 19, 2008

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 dates indicated.

Signature	Title	Date
/s/ Carl H. Guild, Jr. Carl H. Guild, Jr.	Chief Executive Officer and President Chairman of the Board, Director (Principal Executive Officer)	December 19, 2008
/s/ Michael P. Malone Michael P. Malone	Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	December 19, 2008
/s/ Mitchell B. Briskin Mitchell B. Briskin	Director	December 19, 2008
/s/ Robert T. Lessard Robert T. Lessard	Director	December 19, 2008
/s/ Thomas E. Peoples Thomas E. Peoples	Director	December 19, 2008

Technical Communications Corporation
Consolidated Balance Sheets
September 27, 2008 and September 29, 2007

ASSETS	**2008**	**2007**
Current assets:		
Cash and cash equivalents	$ 3,622,903	$ 2,622,288
Accounts receivable - trade, less allowance of $25,000 and $35,000 at September 27, 2008 and September 29, 2007, respectively	722,261	420,527
Inventories	1,920,724	1,908,157
Deferred income taxes	75,000	-
Other current assets	105,666	96,051
Total current assets	6,446,554	5,047,023
Equipment and leasehold improvements	3,182,522	2,961,268
Less accumulated depreciation and amortization	(2,915,050)	(2,853,906)
Equipment and leasehold improvements, net	267,472	107,362
	$ 6,714,026	$ 5,154,385
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 173,070	$ 253,683
Accrued liabilities:		
Compensation and related expenses	448,179	449,111
Other	415,090	263,235
Total current liabilities	1,036,339	966,029
Stockholders' equity		
Common stock - par value $.10 per share; authorized 7,000,000 shares, issued and outstanding 1,433,767 and 1,382,767 shares at September 27, 2008 and September 29, 2007, respectively	143,377	138,277
Additional paid-in capital	1,941,020	1,517,599
Retained earnings	3,593,290	2,532,480
Total stockholders' equity	5,677,687	4,188,356
	$ 6,714,026	$ 5,154,385

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

Technical Communications Corporation
Consolidated Statements of Operations
Years Ended September 27, 2008 and September 29, 2007

	2008	2007
Net sales	$ 6,852,313	$ 4,920,004
Cost of sales	2,663,218	1,515,411
Gross profit	4,189,095	3,404,593
Operating expenses:		
Selling, general and administrative expenses	2,334,911	1,747,907
Product development costs	942,041	890,914
Total operating expenses	3,276,952	2,638,821
Operating income	912,143	765,772
Other income (expense)		
Investment income	90,047	90,487
Interest expense	-	(624)
Total other income	90,047	89,863
Income before income taxes	1,002,190	855,635
Provision (benefit) for income taxes	(58,620)	9,160
Net income	$ 1,060,810	$ 846,475
Net income per common share		
Basic	$ 0.75	$ 0.62
Diluted	$ 0.63	$ 0.55
Weighted average shares		
Basic	1,414,101	1,376,706
Diluted	1,679,531	1,534,703

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

Technical Communications Corporation
Consolidated Statements of Cash Flows
Years Ended September 27, 2008 and September 29, 2007

	2008	2007
Operating activities:		
Net income	$ 1,060,810	$ 846,475
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	61,144	34,381
Stock-based compensation	145,661	99,953
Deferred income taxes	(75,000)	-
Changes in current assets and current liabilities:		
Accounts receivable	(301,734)	(214,207)
Inventories	(12,567)	(403,544)
Other current assets	(9,615)	(3,753)
Accounts payable and accrued liabilities	70,310	438,566
Cash provided by operating activities	939,009	797,871
Investing activities:		
Additions to equipment and leasehold improvements	(221,254)	(58,350)
Cash used for investing activities	(221,254)	(58,350)
Financing activities:		
Proceeds from stock issuance	282,860	12,054
Cash provided by financing activities	282,860	12,054
Net increase in cash and cash equivalents	1,000,615	751,575
Cash and cash equivalents at beginning of year	2,622,288	1,870,713
Cash and cash equivalents at end of year	$ 3,622,903	$ 2,622,288
Supplemental disclosures:		
Interest paid	$ -	$ 624
Income taxes paid	24,000	503

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

Technical Communications Corporation
Consolidated Statements of Changes in Stockholders' Equity
Years Ended September 27, 2008 and September 29, 2007

	2008	2007
Stockholders' Equity		
Shares of common stock:		
Beginning balance	1,382,767	1,371,691
Issuance of shares to ESPP participants	-	376
Exercise of stock options	51,000	10,700
Ending balance	1,433,767	1,382,767
Common stock at par value:		
Beginning balance	$ 138,277	$ 137,169
Issuance of shares to ESPP participants	-	38
Exercise of stock options	5,100	1,070
Ending balance	143,377	138,277
Additional paid-in capital:		
Beginning balance	1,517,599	1,406,700
Issuance of shares to ESPP participants	-	1,019
Exercise of stock options	277,760	9,927
Stock-based compensation	145,661	99,953
Ending balance	1,941,020	1,517,599
Retained earnings:		
Beginning balance	2,532,480	1,686,005
Net income	1,060,810	846,475
Ending balance	3,593,290	2,532,480
Total stockholders’ equity	$ 5,677,687	$ 4,188,356

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

Notes to Consolidated Financial Statements

(1) Company Operations

Technical Communications Corporation was incorporated in Massachusetts in 1961; its subsidiary, TCC Investment Corp., was organized in that jurisdiction in 1982. The Company's business consists of only one industry segment, which is the design, development, manufacture, distribution, marketing and sale of communications security devices and systems. The secure communications solutions provided by TCC protect vital information transmitted over a wide range of data, fax and voice networks. TCC's products have been sold into over 110 countries and are in service with governments, military agencies, telecommunications carriers, financial institutions and multinational corporations.

The Company's revenues have historically included significant transactions with foreign governments, U.S. government agencies and other organizations. The Company expects this to continue. The timing of these transactions has in the past and will in the future have a significant impact on the cash flow of the Company. Delays in the timing of significant expected sales transactions would have a significant negative effect on the Company's operations. The Company has some ability to mitigate this effect through cost-cutting measures.

(2) Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, TCC Investment Corp., a Massachusetts corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States 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 other investments (including mutual funds) readily convertible into cash. Cash equivalents are stated at cost, which approximates market value.

Accounts Receivable

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. The estimated allowance for uncollectible amounts is based primarily on a specific analysis of accounts in the receivable portfolio and historical write-off experience. While management believes the allowance to be adequate, if the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, which would reduce net income.

Inventories

The Company values its inventory at the lower of actual cost to purchase and/or manufacture the inventory or the current market value (based on estimated selling prices, less the cost to sell) of the inventory. The Company periodically reviews inventory quantities on hand and records a provision for excess and/or obsolete inventory based primarily on our estimated forecast of product demand, as well as historical usage. The Company evaluates the carrying value of inventory on a quarterly basis to determine if the carrying value is recoverable at estimated selling prices. To the extent that estimated selling prices do not exceed the associated carrying values, inventory carrying values are written down. In addition, the Company makes judgments as to future demand requirements and compares those with the current or committed inventory levels. Reserves are established for inventory levels that exceed future demand. It is possible that additional reserves above those already established may be required in the future if market conditions for our products should deteriorate.

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 costs of maintenance and repairs are charged to operations as incurred; significant renewals and betterments are capitalized.

Long-lived Assets

The Company accounts for long-lived assets in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Company's only long-lived assets are equipment and leasehold improvements. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to the estimated undiscounted future cash flows expected to be generated by such asset. If the carrying amount of the asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount of such asset exceeds the fair value of the asset.

Recognition of Revenue

The Company recognizes revenue from product sales in accordance with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition," as updated by Staff Accounting Bulletin No. 104 "Revenue Recognition, corrected copy". Product revenue is recognized when there is persuasive evidence of an arrangement, the fee is fixed or determinable, delivery of the product to the customer has occurred and the Company has determined that collection of the fee is probable. Title to the product generally passes upon shipment of the product, as the products are shipped FOB shipping point, except for certain foreign shipments. If the product requires installation to be performed by TCC, all revenue related to the product is deferred and recognized upon completion of the installation. The Company provides for a warranty reserve at the time the product revenue is recognized.

The Company performs funded research and development and technology development for commercial companies and government agencies under both cost reimbursement and fixed-price contracts. Cost reimbursement contracts provide for the reimbursement of allowable costs and, in some situations, the payment of a fee. These contracts may contain incentive clauses providing for increases or decreases in the fee depending on how costs compare with a budget. Revenue from reimbursement contracts is recognized as services are performed. On fixed-price contracts that are expected to exceed one year in duration, revenue is recognized pursuant to the percentage of completion method based upon the proportion of costs incurred to the total estimated costs for the contract. In each type of contract, the Company receives periodic progress payments or payments upon reaching interim milestones. All payments to the Company for work performed on contracts with agencies of the U.S. government are subject to audit and adjustment by the Defense Contract Audit Agency. Adjustments are recognized in the period made. When the current estimates of total contract revenue and contract costs for product development contracts indicate a loss, a provision for the entire loss on the contract is recorded. Any losses incurred in performing funded research and development projects are recognized as funded research and development expenses as incurred.

Cost of product revenue includes material, labor and overhead. Costs incurred in connection with funded research and development and other revenue arrangements are included in cost of sales.

Share-Based Compensation

Effective October 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" and related interpretations ("SFAS No. 123R") using the modified prospective method and accordingly has not restated prior period results. SFAS No. 123R establishes the method for accounting for equity instruments issued in exchange for employee services. Under SFAS No. 123R, share-based compensation cost is measured at the grant date based on the calculated fair value of the award. The expense is recognized over the employee's requisite service period, generally the vesting period of the award. SFAS No. 123R also requires the related excess tax benefit received upon exercise of stock options, if any, to be reflected in the statement of cash flows as a financing activity rather than an operating activity.

Upon adoption of SFAS No. 123R, in accordance with Staff Accounting Bulletin No. 107, "Share-based Payment", the Company selected the Black-Scholes option pricing model as the most appropriate method for determining the estimated fair value for stock awards. The Black-Scholes method of valuation requires several assumptions: (1) the expected term of the stock award, (2) the expected future stock price volatility over the expected term and (3) risk-free interest rate. The expected term represents the expected period of time the Company believes the options will be outstanding based on historical information. Estimates of expected future stock price volatility are based on the historic volatility of the Company's Common Stock and the risk free interest rate is based on the U.S. Treasury Note rate. The Company utilizes a forfeiture rate based on an analysis of its actual experience. The forfeiture rate is not material to the calculation of share-based compensation. The fair value of options at date of grant was estimated with the following assumptions:

	September 27, 2008	September 29, 2007
Assumptions:		
Option life	5 years	5 years
Risk-free interest rate	3.21%	4.54%
Stock volatility	81%	128%
Dividend yield	-0-	-0-

There were 41,000 options granted during the year ended September 27, 2008. The following table summarizes share-based compensation costs included in the Company's consolidated statements of operations for the years ended September 27, 2008 and September 29, 2007:

	2008	2007
Cost of sales	$ 6,809	$ 7,118
Selling, general and administrative	89,869	61,397
Product development	48,983	31,438
Total share-based compensation expense before taxes	$ 145,661	$ 99,953

As of September 27, 2008, there was $227,293 of unrecognized compensation cost related to options granted. The unrecognized compensation will be recognized over a period of approximately five years.

Notes to Consolidated Financial Statements (continued)

The Company had the following stock option plans outstanding as of September 27, 2008: the Technical Communications Corporation 1991 Stock Option Plan, the 2001 Stock Option Plan and the 2005 Non-Statutory Stock Option Plan. There are an aggregate of 850,000 shares authorized under these plans, of which 581,034 were outstanding at September 27, 2008. Vesting periods are at the discretion of the Board of Directors and typically range between one and five years. Options under these plans are granted with an exercise price equal to fair market value at time of grant and have a term of five or ten years from the date of grant. As of September 27, 2008, there were no shares available for new option grants under the of 1991 Stock Option Plan or the 2001 Stock Option Plan, and there were 16,500 shares available for grant under the 2005 Non-Statutory Stock Option Plan.

The following tables summarize stock option activity during fiscal years 2007 and 2008:

	Options Outstanding		
	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life
Outstanding at October 1, 2006	627,234	$ 3.29	
Grants	16,500		
Exercises	(10,700)		
Cancellations	(21,000)		
Outstanding at September 29, 2007	612,034	$ 3.12	4.55 years
Grants	41,000		
Exercises	(51,000)		
Cancellations	(21,000)		
Outstanding at September 27, 2008	581,034	$ 3.05	4.46 years

Information related to the stock options outstanding as of September 27, 2008 is as follows:

Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Exercisable Number of Shares	Exercisable Weighted-Average Exercise Price
$0.01 - $1.00	160,334	4.05	$ 0.96	161,334	$ 0.96
$1.01 - $2.00	1,200	3.30	1.27	1,200	1.27
$2.01 - $3.00	68,200	4.36	2.56	55,320	2.51
$3.01 - $4.00	302,800	3.98	3.73	256,000	3.74
$4.01 - $5.00	3,500	4.71	4.71	22,000	4.57
$5.01 - $10.00	45,000	9.36	6.62	50,000	7.28
	581,034	4.46	3.05	545,854	2.83

The aggregate intrinsic value of the Company's "in-the-money" outstanding and exercisable options as of September 27, 2008 was $1,532,355. The intrinsic value of the options exercised during the year ended September 27, 2008 was $50,990. Nonvested common stock options are subject to the risk of forfeiture until the fulfillment of specified conditions.

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 product revenue is recognized based in part 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 instruments for which it is practicable to estimate that value:

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.

Earnings per Share ("EPS")

In accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS No. 128"), 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, stock options that are dilutive (those that reduce earnings per share) are 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's 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 fiscal year 2008 ended on September 27, 2008 and included 52 weeks. The fiscal year 2007 ended on September 29, 2007 and included 52 weeks.

Comprehensive Income

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," requires disclosure of all components of comprehensive income on an annual basis. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owners sources.

The Company's comprehensive income for the years ended September 27, 2008 and September 29, 2007 was equal to its net income for the same periods.

Operating Segments

The Company reports on operating segments in accordance with Statement of Financial Accounting Standards No. 131, "Disclosure About Segments of an Enterprise and Related Information" ("SFAS No. 131"). SFAS No. 131 established standards for public companies to report information about operating segments and geographic distribution of sales in financial statements. The Company currently has only one operating segment, which is the design, development, manufacture, distribution, marketing and sale of communications security devices and systems.

Newly Issued Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurement. SFAS No. 157 initially became effective for fiscal years beginning after November 15, 2007. In November 2007, the FASB deferred the effective date of SFAS No. 157 until November 15, 2008 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company is currently reviewing the statement to determine the impact and materiality of its adoption by the Company, if any.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of Statement of Financial Accounting Standards No. 115" ("SFAS No. 159"), which permits companies to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently reviewing the statement to determine the impact and materiality of its adoption by the Company, if any.

(3) Income Per Share

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

	September 27, 2008	September 29, 2007
Net Income	$ 1,060,810	$ 846,475
Average Shares Outstanding - Basic	1,414,101	1,376,706
Dilutive effect of stock options	265,430	157,997
Weighted Average Shares - Diluted	1,679,531	1,534,703
Basic Income Per Share	$ 0.75	$ 0.62
Diluted Income Per Share	$ 0.63	$ 0.55

Outstanding potentially dilutive stock options, which were not included in the above calculations for the respective fiscal years because they were anti-dilutive, were as follows: 41,000 in fiscal year 2008 and 267,000 in fiscal year 2007.

(4) Inventories

Inventories consist of the following:

	September 27, 2008	September 29, 2007
Finished goods	$ 77,444	$ 408,995
Work in process	589,700	478,883
Raw materials and supplies	1,253,580	1,020,279
Total inventories	$ 1,920,724	$ 1,908,157

(5) Equipment and Leasehold Improvements

Equipment and leasehold improvements consist of the following:

	September 27, 2008	September 29, 2007	Estimated Useful Life
Engineering and manufacturing equipment	$ 1,416,678	$ 1,351,066	3-8 years
Demonstration equipment	635,932	634,081	3 years
Furniture and fixtures	654,711	539,779	3-8 years
Leasehold improvements	475,201	436,342	Lesser of useful life or term of lease
Total equipment and leasehold improvements	3,182,522	2,961,268	
Less accumulated depreciation and amortization	(2,915,050)	(2,853,906)	
Equipment and leasehold improvements, net	$ 267,472	$ 107,362	

(6) Other Accrued Liabilities

	September 27, 2008	September 29, 2007
Product warranty costs	$ 61,708	$ 49,121
Professional service fees	37,514	41,734
Annual report and investor relations fees	19,526	18,347
Customer support agreements and commissions	50,158	-
Customer deposits	246,184	137,890
Income taxes	-	7,977
Other	-	8,166
Total other accrued liabilities	$ 415,090	$ 263,235

(7) Leases

In April 2007, the Company entered into a new lease for its current facilities. This lease is for 22,800 square feet located at 100 Domino Drive, Concord, MA. The Company has been a tenant in this space since 1983. This is the Company’s only facility and houses all manufacturing, research and development, and corporate operations. The term of the lease is for five years through March 31, 2012 at an annual rate of $159,000. In addition the lease contains options to extend the lease for two and one half years through September 30, 2014 and another two and one half years through March 31, 2017, at an annual rate of $171,000. Rent expense for the years ended September 27, 2008 and September 29, 2007 was $159,000 and $154,000, respectively.

(8) Guarantees

The Company's products generally carry a standard 15 month warranty. The Company sets aside a reserve based on anticipated warranty claims at the time product revenue is recognized. Factors that affect the Company's product warranty liability include the number of installed units, the anticipated cost of warranty repairs and historical and anticipated rates of warranty claims.

The following table reflects changes in the Company's accrued warranty account:

	September 27, 2008	September 29, 2007
Beginning Balance	$ 49,121	$ 48,865
Plus: accruals related to new sales	49,433	40,974
Less: payments and adjustments to prior period accruals	(36,846)	(40,718)
Ending Balance	$ 61,708	$ 49,121

(9) Income Taxes

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

	September 27, 2008	September 29, 2007
Current:		
Federal	$ 8,275	$ 7,201
State	8,105	1,959
Total current taxes	16,380	9,160
Deferred:		
Federal	(75,000)	-
State	-	-
Total deferred taxes	(75,000)	-
Total provision (benefit)	$ (58,620)	$ 9,160

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

	September 27, 2008	September 29, 2007
Tax provision at U.S. statutory rate	$ 340,745	$ 290,916
State income tax provision, net of federal benefit	5,349	1,293
Tax credits	-	(43,128)
Other	(394)	1,231
Release of valuation allowance	(75,000)	-
Decrease in valuation allowance	(329,320)	(241,152)
Total (benefit) provision	$ (58,620)	$ 9,160

Deferred income taxes consist of the following:

	September 27, 2008	September 29, 2007
NOL Carryforward	$ 1,489,057	$ 1,827,693
Inventory differences	1,121,516	1,116,209
Goodwill	34,241	54,784
Warranty accruals	24,850	19,781
Payroll related accruals	14,308	60,468
Tax credits	169,916	279,715
Other	197,064	104,596
Total	3,050,951	3,463,246
Less: valuation allowance	(2,975,951)	(3,463,246)
Total	$ 75,000	$ -

During fiscal 2008, $75,000 of the prior year deferred tax valuation allowance was reversed, due to the determination by the Company that the benefits of the deferred tax asset will more likely than not be realized in future years. The prior year valuation allowance was established by prior year operating activities and was recorded as a reduction of current year income tax expense.

The valuation allowance relates to uncertainty with respect to the Company's ability to realize its deferred tax assets. The change in the valuation allowance was $487,295 and $276,104 in fiscal years 2008 and 2007, respectively.

As of September 27, 2008, the Company had available tax loss carryforwards for federal income tax purposes of approximately $4,380,000, expiring through 2026.

Due to the nature of our current operations in foreign countries (selling products into these countries with the assistance of local representatives), the Company has not been subject to any foreign taxes in recent years. Also, it is not anticipated that the Company will be subject to foreign taxes in the near future.

(10) Employee Benefit Plans

The Company has a qualified, contributory, 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 years 2008 or 2007. 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 $29,632 and $25,706 in fiscal years 2008 and 2007, 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. Under the plan, bonuses totaling $110,000 were accrued for executives at September 27, 2008 and $163,000 at September 29, 2007.

(11) Commitments and contingencies

The Company has a line of credit agreement with Bank of America (the "Bank"), for a line of credit not to exceed the principal amount of $600,000. The line is supported by a financing promissory note. The loan is a demand loan with interest payable at the Bank's prime rate plus 1% on all outstanding balances. The loan is secured by all assets of the Company (excluding consumer goods) and requires the Company to maintain its deposit accounts with the Bank, as well as comply with certain other covenants. The Company believes this line of credit agreement provides it with an important external source of liquidity, if necessary. There were no cash borrowings against the line during fiscal years 2008 and 2007.

The Company did not have any open standby letters of credit at September 27, 2008 or September 29, 2007.

The Company maintains its cash and cash equivalents in bank deposit accounts and money market mutual funds that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

(12) Major Customers and Export Sales

In fiscal year 2008, the Company had two customers representing 78% (51% and 27%) of total net sales and at September 27, 2008 had two customers representing 95% (54% and 41%) of accounts receivable. In fiscal year 2007, the Company had two customers representing 59% (43% and 16%) of total net sales and at September 29, 2007 had two customers representing 95% (51% and 44%) of accounts receivable.

A breakdown of net sales is as follows:

	September 27, 2008	September 29, 2007
Domestic	$ 5,864,789	$ 4,018,368
Foreign	987,524	901,636
Total Sales	$ 6,852,313	$ 4,920,004

A summary of foreign sales, as a percentage of total foreign revenue by geographic area, is as follows:

	September 27, 2008	September 29, 2007
North America, excluding the U.S.	0.8%	-
Central and South America	64.7%	53.7%
Europe	9.6%	20.4%
Mid-East and Africa	19.5%	12.3%
Far East	5.4%	13.6%

The Company sold products to 13 different countries during the year ended September 27, 2008 and 15 different countries during the year ended September 29, 2007. A sale is attributed to a foreign country based on the location of the contracting party. Domestic revenue may include the sale of products shipped through domestic resellers or manufacturers to international destinations. The table below summarizes our foreign revenues by country as a percentage of total foreign revenue.

	September 27, 2008	September 29, 2007
Colombia	64.7%	53.0%
Saudi Arabia	9.6%	0.7%
Indonesia	-	12.9%
Sweden	-	10.9%
Other	25.7%	22.5%

(13) Shareholder Rights Plan

The Company has adopted a Shareholder Rights Plan and declared a dividend distribution of one common stock purchase right for each outstanding share of Common Stock of the Company, payable to stockholders of record at the close of business on August 13, 2004, and for each share of Common Stock issued thereafter. Until the rights become exercisable, they will trade automatically with the Company’s Common Stock and separate rights certificates will not be issued. The rights will become exercisable only in the event, with certain exceptions, that a person or group of affiliated or associated persons acquires 15% or more of the Company’s voting stock, or a person or group of affiliated or associated persons commences a tender or exchange offer which, if successfully consummated, would result in such person or group owning 15% or more of the Company’s voting stock.

Each right, once exercisable, will entitle the holder (other than an acquiring person or group) to buy one share of the Company’s Common Stock at a price of $25 per share, subject to certain adjustments. In addition, upon the occurrence of specified events, holders of the rights (other than rights owned by an acquiring person or group) would be entitled to purchase either the Company’s Common Stock or shares in an “acquiring entity” at approximately half of market value. Further, at any time after a person or group acquires 15% or more (but less than 50%) of the Company’s outstanding voting stock, subject to certain exceptions, the Board of Directors may, at its option, exchange part or all of the rights (other than rights held by an acquiring person or group) for shares of the Company’s Common Stock having a fair market value on the date of such acquisition equal to the excess of (i) the fair market value of Common Stock issuable upon exercise of the rights over (ii) the exercise price of the rights.

The Company generally will be entitled to redeem the rights at $.001 per right at any time prior to the close of business on the tenth business day after there has been a public announcement of the beneficial ownership by any person or group of 15% or more of the Company’s voting stock, subject to certain exceptions. The rights will expire on August 5, 2014 unless earlier redeemed.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
Technical Communications Corporation:

We have audited the accompanying consolidated balance sheets of Technical Communications Corporation and subsidiaries as of September 27, 2008 and September 29, 2007 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audits included consideration of internal controls over financial 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 such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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 consolidated financial position of Technical Communications Corporation and subsidiaries at September 27, 2008 and September 29, 2007 and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Vitale, Caturano & Company, LTD.
VITALE, CATURANO & COMPANY, LTD.

Boston, Massachusetts
December 19, 2008