



**TECHNICAL COMMUNICATION CORPORATION**

**100 Domino Drive  
Concord, Massachusetts 01742**

**Annual Meeting of Stockholders  
February 8, 2010**

# TECHNICAL COMMUNICATIONS CORPORATION

## Notice of Annual Meeting of Stockholders To Be Held February 8, 2010

To Our Stockholders:

NOTICE IS HEREBY GIVEN that the 2010 Annual Meeting of Stockholders (the "Meeting") of Technical Communications Corporation, a Massachusetts corporation (the "Company"), will be held at the offices of the Company, 100 Domino Drive, Concord, Massachusetts 01742, at 10:00 a.m. local time on Monday, February 8, 2010, to:

1. Elect one Class I Director to serve on the Board of Directors for a term of three years expiring at the 2013 Annual Meeting of Stockholders;
2. Ratify the appointment of Caturano and Company, P.C. as the independent registered public accounting firm of the Company for the fiscal year ending September 25, 2010; and
3. Consider and act upon such other business and matters as may properly come before the Meeting or any adjournments thereof.

The Board of Directors knows of no other matters to be presented at the Meeting.

Only stockholders of record of the Company at the close of business on December 11, 2009 are entitled to notice of and to vote at the Meeting or any adjournments thereof.

All stockholders are cordially invited to attend the Meeting.

Whether or not you expect to attend the Meeting, please complete, sign, date and return the enclosed proxy card in the envelope provided at your earliest convenience. If you return your proxy, you may nevertheless attend the Meeting and vote your shares in person.

A copy of the Company's Annual Report to Stockholders for the fiscal year ended September 26, 2009, which contains financial statements and other information of interest to stockholders, accompanies this Notice and the attached Proxy Statement.

*By Order of the Board of Directors,*

David A. White, Secretary

Concord, Massachusetts  
January 8, 2010

***It is important that your shares be represented at the Meeting. Whether or not you plan to attend the Meeting, please promptly complete, sign, date and mail the enclosed proxy card in the envelope provided, which requires no postage if mailed in the United States.***

**Important Notice Regarding the Availability of Proxy Materials  
for the Annual Shareholder Meeting to be Held on February 8, 2010**

This Proxy Statement and related materials are available at the Company's website at [www.tccsecure.com/investors](http://www.tccsecure.com/investors).

This Proxy Statement relates to the Company's 2010 Annual Meeting of Stockholders to be held on February 8, 2010 at 10:00 a.m. (local time) at the Company's offices located at 100 Domino Drive, Concord, Massachusetts 01742.

The matters to be voted upon at such meeting are:

- (1) the election of one Class I Director to serve on the Board of Directors for a term of three years expiring at the 2013 Annual Meeting of Stockholders, and
- (2) the ratification of Caturano and Company, P.C. as the Company's independent registered public accounting firm for the fiscal year ending September 25, 2010.

The Board of Directors of the Company recommends a vote "FOR" each of Proposals 1 and 2 above.

Stockholders will also consider and act upon such other business and matters as may properly come before such meeting or any adjournments thereof.

Only stockholders of record at the close of business on December 11, 2009 are entitled to notice of and to vote at the meeting and any adjournments thereof.

Materials that will be available electronically at the website identified above include:

- The Notice of Annual Meeting of Stockholders;
- This Proxy Statement;
- The form of proxy card; and
- The Company's Annual Report to Stockholders for the fiscal year ended September 26, 2009.

If you wish to attend the meeting in person and need directions, please contact TCC Investor Relations at (978) 287-5100.

Instructions on how to complete, sign, date and return the proxy card are provided thereon, as well as a stockholder's control/identification number(s).

**TECHNICAL COMMUNICATIONS CORPORATION**

100 Domino Drive  
Concord, MA 01742

**PROXY STATEMENT  
for the  
2010 Annual Meeting of Stockholders**

**February 8, 2010**

This Proxy Statement is being furnished in connection with the solicitation of proxies by the Board of Directors of Technical Communications Corporation, a Massachusetts corporation (the "Company"), for use at the Company's 2010 Annual Meeting of Stockholders and any adjournments thereof (the "Meeting"), to be held at the offices of the Company, 100 Domino Drive, Concord, Massachusetts 01742, at 10:00 a.m. local time on Monday, February 8, 2010.

It is expected that the Notice of Meeting, this Proxy Statement and the accompanying proxy card, and an Annual Report to Stockholders for the fiscal year ended September 26, 2009 containing financial statements and other information of interest to stockholders, will be mailed to stockholders on or about January 8, 2010.

**SHARES OUTSTANDING AND VOTING PROCEDURES**

**Record Date and Outstanding Shares**

Only record holders of shares of the Company's Common Stock, par value \$0.10 per share, as of the close of business on December 11, 2009 (the "Record Date") are entitled to notice of and to vote at the Meeting.

As of the Record Date, there were 1,451,967 shares of the Company's Common Stock outstanding and entitled to vote. The shares of Common Stock are the only voting securities of the Company. Stockholders are entitled to cast one vote for each share held of record.

**Proxies**

If the enclosed proxy card is properly marked, signed, and returned in time to be voted at the Meeting, and is not subsequently revoked, the shares represented will be voted in accordance with the instructions marked thereon. **SIGNED PROXIES RETURNED TO THE COMPANY AND NOT MARKED TO THE CONTRARY WILL BE VOTED IN FAVOR OF EACH OF THE PROPOSALS SET FORTH IN THE PROXY.**

Any stockholder may revoke a proxy at any time prior to its exercise by signing and delivering a later-dated proxy or a written notice of revocation to the Secretary of the Company. Stockholders attending the Meeting may also revoke their proxies by voting in person at the Meeting. Attendance at the Meeting will not itself be deemed to revoke a proxy unless a stockholder gives affirmative notice at the Meeting that such stockholder intends to revoke the proxy and vote in person.

## **Quorum and Approval**

The presence in person or by proxy of the holders of a majority in interest of the shares of Common Stock issued and outstanding on the Record Date and entitled to vote is required to constitute a quorum at the Meeting. The stockholders entitled to vote that are present in person or by proxy at the Meeting may adjourn the Meeting without additional notice unless a new record date is or must be fixed. At any adjourned Meeting at which a quorum is present, any business may be transacted that might have been transacted at the Meeting as originally scheduled.

Abstentions and broker non-votes will count in determining whether a quorum is present at the Meeting and any adjourned Meeting. A broker non-vote occurs if the broker or other nominee who holds shares represented by a proxy has not received instructions with respect to a particular proposal and does not have discretionary authority with respect to such proposal. As a result of recent rule changes, most brokers no longer have discretionary authority to vote for directors, including in uncontested elections.

The affirmative vote of a plurality of the votes cast at the Meeting by the shares entitled to vote thereon is required to elect a director. The affirmative vote of the holders of a majority of the shares of Common Stock voting in person or by proxy at the Meeting and entitled to vote shall be required for the ratification of the selection of the independent registered public accounting firm. With respect to both proposals, abstentions and broker non-votes will not be included in the totals, and will have no effect on the outcome of the vote.

## **Other Matters**

The Board of Directors knows of no matters to be presented for consideration at the Meeting other than as set forth in this Proxy Statement. If any other matter should be presented at the Meeting upon which a vote may be properly taken, shares represented by all proxies received by the Company will be voted with respect thereto in accordance with the judgment of the persons named as proxies.

No director, executive officer or nominee for director, nor any associate of any of the foregoing, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon at the Meeting (other than elections to office).

## **PROPOSAL I. ELECTION OF DIRECTORS**

The business corporation statute of Massachusetts requires, unless a company opts out, that the terms of directors of public companies be staggered by dividing the number of directors into three groups, as nearly equal in number as possible, with the number of directors subject to such requirement being fixed by a vote of the board. The Company's Board of Directors currently consists of four directors. Pursuant to the statute and the Company's By-laws, the members of the Company's Board of Directors are divided into three classes, designated Class I, Class II and Class III, each serving staggered three-year terms. The term of the Class I Director expires at the Meeting; the term of the Class II Director expires at the 2011 Annual Meeting of Stockholders; and the term of the Class III Directors expires at the 2012 Annual Meeting of Stockholders.

Directors elected by the stockholders at an annual meeting to succeed those whose terms expire are of the same class as the directors they succeed and are elected for a term to expire at the third annual meeting of stockholders after their election and until their successors are duly elected and qualified. Vacancies in the Board, including a vacancy resulting from an enlargement of the Board of Directors, shall be filled by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum. Any director so elected holds office for the remainder of the full term of the class of directors in which the vacancy occurred or the new directorship was created and until the director's successor shall have been elected and qualified.

### **Nominees for Directors**

One director is to be elected at the Meeting to fill the term of the Class I director that expires at the Meeting. The Board of Directors, as recommended by its Compensation, Nominating and Governance Committee, has nominated Mitchell B. Briskin for election as the Company's Class I Director. Mr. Briskin is currently and has been a director of the Company since 1998 and has consented to being named in this Proxy Statement and to serve if elected. If elected, the nominee will hold office until the 2013 Annual Meeting of Stockholders and until his successor is duly elected and qualified. The Board of Directors knows of no reason why such nominee should be unable or unwilling to serve, but, if such should be the case, proxies may be voted for the election of some other person or persons or for fixing the number of directors at a lesser number.

The affirmative vote of a plurality of the votes cast at the Meeting by the shares entitled to vote thereon is required to elect a director. Thus, abstentions, broker non-votes and votes withheld will not be included in the totals and will have no effect on the outcome of the vote.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR"  
THE ELECTION OF THE NOMINEE.**

## Members of the Board of Directors, Nominees and Executive Officers

The following table sets forth the name and address of each director, nominee and executive officer of the Company, the year each current director first became a director, and the age and positions currently held by each such individual with the Company. The following table is as of December 11, 2009.

<u>Name and Address</u> <sup>(1)</sup>	<u>Year First Became a Director</u>	<u>Age</u>	<u>Positions and Offices with the Company</u>
Mitchell B. Briskin	1998	50	Class I Director
Robert T. Lessard	1997	69	Class II Director
Carl H. Guild, Jr.	1997	65	Class III Director, Chairman of the Board, Chief Executive Officer and President
Thomas E. Peoples	1998	61	Class III Director
<u>Non-Director Officers</u>			
Michael P. Malone	--	50	Chief Financial Officer, Treasurer and Assistant Secretary

- (1) The address of Messrs. Briskin, Lessard, Guild, Peoples and Malone is c/o Technical Communications Corporation, 100 Domino Drive, Concord, Massachusetts 01742.

### *Directors and Nominees*

**Mitchell B. Briskin.** Mr. Briskin is a Managing Director at Stonebridge Associates, LLC, an investment bank, where he has worked since 1999. Formerly, Mr. Briskin was a Principal at Concord Investment Partners, a private equity investment group, from 1997 to 1999. From 1996 to 1997, Mr. Briskin attended Harvard Business School. From 1990 to 1995, Mr. Briskin was General Manager at General Chemical Corporation; previously, he was a lawyer with Patterson, Belknap, Webb & Tyler LLP in New York, New York.

**Robert T. Lessard.** Mr. Lessard was employed in a variety of management positions from 1966 through 1995 at the U.S. National Security Agency, Department of Defense. During his final two years at the NSA, Mr. Lessard was the Group Chief in the Operations Directorate responsible for communications and cryptographic technology. Since his retirement in 1995, he has represented the Director of the NSA on several special projects.

**Carl H. Guild, Jr.** Mr. Guild has been President and Chief Executive Officer of the Company since 1998 and Chairman of the Board of Directors since 2001. He was also Vice-Chairman of the Board from 1998 to 2001 and Chairman in 1998, and was an independent consultant to the Company from 1997 to 1998. From 1993 to 1997, he was a Senior Vice President with Raytheon Engineers and Constructors, Inc., a former unit of Raytheon Company. Mr. Guild serves as President and Chief Executive Officer of the Company pursuant to an Employment Agreement (as amended) with the Company, which agreement is summarized under "Employment Agreements" in the *Compensation* section below.

**Thomas E. Peoples.** Mr. Peoples is Vice President and Managing Director of The Spectrum Group, a Washington, DC area-based consulting firm with which he has been affiliated

since 2004, and also currently serves as Managing Director of Executive Counselors, LLC, a consulting company he established in Virginia in 2005. Between 2001 and 2004, Mr. Peoples was retired. From 1999 to 2001, Mr. Peoples was the Senior Vice President for International and Washington Operations of Gencorp, Inc., a publicly-held manufacturer of automotive, polymer, aerospace, and defense products. From 1992 to 1999, Mr. Peoples was a Vice President of Aerojet, a privately-held aerospace and defense contractor. Prior to 1992, Mr. Peoples served as Manager of Business Development for Smart Munitions Programs at Raytheon Company. He is also a member of The Gerson Lehman Council of Advisors in New York and a former Board member and Treasurer of the National Guard Youth Foundation. Mr. Peoples was also an appointed member of the U.S. Department of Defense Science Board from 2000 to 2002.

### *Officers*

**Michael P. Malone.** Mr. Malone, Chief Financial Officer, Treasurer and Assistant Secretary, joined the Company in 1998 as Director of Finance and Treasurer and became Chief Financial Officer in 2000. From 1997 to 1998, he was the Controller at Vasca, Inc., a privately-held medical device company. Prior to 1997, Mr. Malone was with ZOLL Medical Corporation, a publicly-traded medical device company, for five years as its Controller and Treasurer. Mr. Malone and the Company are parties to an Employment Agreement effective February 12, 2001, which agreement is summarized under “Employment Agreements” in the *Compensation* section below.

### **Corporate Governance**

The Board of Directors is currently composed of four members, each of whom, with the exception of Mr. Guild, the Board has determined is an “independent” director as that term is defined in the rules and regulations of the Nasdaq Stock Market (“Nasdaq”), including Rule 5605, and Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Company does not utilize any other definition or criteria for determining the independence of a director or nominee, and no other transactions, relationships, or other arrangements exist to the Board’s knowledge or were considered by the Board in determining any director’s or nominee’s independence.

The Board of Directors held four meetings during the fiscal year ended September 26, 2009 and acted by written consent in lieu of a meeting once. Each director attended at least 75% of the aggregate of (a) the total number of meetings of the Board of Directors he was eligible to attend, and (b) the total number of meetings of all committees of the Board of Directors on which he served that were held during fiscal year 2009. The Board of Directors currently has two committees, the Audit Committee and the Compensation, Nominating and Governance Committee, each as described below.

### *Audit Committee*

The Audit Committee of the Board, of which Mr. Briskin is the Chairman and sole current member, held four meetings during fiscal year 2009. The Audit Committee’s primary function is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing the financial reports and other financial information of the Company, reviewing the Company’s system of internal controls regarding finance and accounting and the Company’s auditing, accounting and financial reporting processes, serving as an independent and objective party to monitor the Company’s financial reporting process and internal control system, reviewing and appraising the audit efforts of the Company’s independent registered public accounting firm, and providing an open avenue of communication among the independent accountants, financial and senior management, and the Board of Directors.



The Audit Committee acts pursuant to an Audit Committee Charter, a copy of which is posted on the Company's website at <http://www.tccsecure.com/investors>. The Audit Committee's charter requires that the committee review and update the charter periodically as conditions dictate. In August 2009, the Audit Committee's charter was reviewed and its contents reaffirmed.

The Board of Directors has determined that Mr. Briskin satisfies the definition of "audit committee financial expert" as promulgated by the Securities and Exchange Commission (the "Commission") by virtue of his educational and work experience as described above. Mr. Briskin is also independent under Nasdaq's listing standards for directors and Audit Committee members under Rules 5605(b) and (c).

#### *Compensation, Nominating and Governance Committee*

The Company's Compensation, Nominating and Governance Committee (the "Governance Committee") consists of Messrs. Lessard (Chairman), Briskin and Peoples, and held four meetings during the 2009 fiscal year. As noted above, the Board has determined that each of these individuals satisfies applicable independence requirements for directors as well as members of such committee under Rules 5605(d) and (e).

The primary function of the Governance Committee is to assist the Board of Directors in discharging its responsibilities with respect to the Company's compensation and benefit programs, the organization and membership of the Board, and corporate governance matters. The Governance Committee's goal is to assure that the composition, practices and operation of the Board contribute to value creation and effective representation of the Company's stockholders, and to play a leadership role in shaping the Company's corporate governance.

The Governance Committee acts pursuant to the Compensation, Nominating and Governance Committee Charter, a copy of which is posted on the Company's website at <http://www.tccsecure.com/investors>. The Governance Committee's charter requires that the committee review and reassess the adequacy of the charter annually and recommend any proposed changes to the Board for approval. In August 2009, the Governance Committee's charter was reviewed and its contents reaffirmed. The Governance Committee must also annually evaluate its own performance.

In August 2004, the Board approved policies and procedures for the Governance Committee with respect to the nomination of candidates to the Board and any committees thereof. These policies and procedures are available on the Company's website at <http://www.tccsecure.com/investors> and are summarized below, and have not been changed since adoption.

#### *Nomination Policies and Procedures*

The Governance Committee will accept for consideration any candidate properly recommended by a stockholder; acceptance of a recommendation for consideration does not imply the committee will nominate or recommend for nomination the proposed candidate.

Stockholders who wish to nominate qualified candidates to serve as directors must notify the Company in writing, by notice delivered to the attention of the Secretary of the Company at the address of the Company's executive offices as set forth in the Company's periodic reports as filed with the Commission, of a proposed nominee. Submissions may be by mail, courier or personal delivery. E-mail submissions will not be considered. In order to ensure meaningful consideration of such candidates, notice must be received not later than 120 calendar days prior to the first anniversary of the date of the proxy statement for the prior year's annual meeting of stockholders.

The notice must set forth as to each proposed nominee:

- the nominee's name, age, business address and, if known, residence address,
- his or her principal occupation or employment and business experience,
- the number of shares of stock of the Company, if any, which are beneficially owned by such nominee, and
- any other information concerning the nominee that must be disclosed as to nominees in proxy solicitations pursuant to applicable law, including but not limited to any arrangements or agreements regarding the proposed candidate's nomination, all relationships between the proposed nominee and the recommending stockholder and the Company, and all transactions between such parties.

The notice must also set forth with respect to the stockholder giving the notice the name and address, as they appear on the Company's books, of such stockholder, the number of shares of the Company that are owned beneficially or of record by such stockholder and the time period such shares have been held.

Submissions received through this process will be forwarded to the Governance Committee for review. Only those submissions that comply with these procedures and those nominees who satisfy the qualifications determined by the Governance Committee for directors of the Company will be considered.

When considering candidates, the Governance Committee strives to achieve a balance of knowledge, experience and accomplishment such that the Company's Board reflects a diversity of talent, age, skill, expertise and perspective. While there are no set minimum requirements, a candidate should:

- be intelligent, thoughtful and analytical,
- possess superior business-related knowledge, skills and experience,
- reflect the highest integrity, ethics and character, and value such qualities in others,
- have excelled in both academic and professional settings,
- demonstrate achievement in his or her chosen field,
- be free of actual or potential conflicts of interest,
- be familiar with regulatory and governance matters,
- have the ability to devote sufficient time to the business and affairs of the Company, and
- demonstrate the capacity and desire to represent, fairly and equally, the best interests of the Company's stockholders as a whole.

In addition to the above criteria (which may be modified from time to time), the Governance Committee may consider such other factors as it deems in the best interests of the Company and its stockholders, including a candidate's independence, financial sophistication and special competencies.

The Governance Committee identifies potential candidates through referrals and recommendations, including by incumbent directors, management and stockholders, as well as through business and other organizational networks. The Governance Committee may retain and compensate third parties, including executive search firms, to identify or evaluate, or assist in identifying or evaluating, potential director nominees.

Current members of the Board with the requisite skills and experience are considered for

re-nomination, balancing the value of the member's continuity of service and familiarity with the Company with that of obtaining a new perspective, and considering each individual's contributions, performance and level of participation, the current composition of the Board, and the Company's needs. If any existing members do not want to continue in service or if it is decided not to re-nominate a director, new candidates are identified in accordance with those skills, experience and characteristics deemed necessary for new nominees, and are evaluated based on the qualifications set forth above. In every case, the Governance Committee meets (in person or telephonically) to discuss each candidate, and may require personal interviews before final approval. Once a slate is selected, the Governance Committee presents it to the full Board.

The Governance Committee does not currently, and does not intend in the future, to differentiate between or alter the manner in which it evaluates candidates based on the constituency (including stockholders) that proposed the candidate.

For a description of the Governance Committee's role in evaluating and establishing compensation programs, policies and levels for the Company, see the *Compensation Discussion and Analysis* and *Compensation* sections below.

### **Stockholder Communications and Director Attendance at Annual Stockholder Meetings**

The Board welcomes communications from stockholders and has adopted a procedure for receiving and addressing such communications. Stockholders may send written communications to the entire Board or individual directors, addressing them to Technical Communications Corporation, 100 Domino Drive, Concord, MA 01742, Attention: Chief Financial Officer. All such communications will be forwarded to the full Board of Directors or to any individual director or directors to whom the communication is directed unless the communication is clearly junk mail or a mass mailing, a business solicitation, advertisement or job inquiry, or is unduly hostile, threatening, illegal, or similarly inappropriate, in which case the Company has the authority to discard the communication or take appropriate legal action regarding the communication.

Recognizing that director attendance at the Company's annual meetings of stockholders can provide stockholders with an opportunity to communicate with members of the Board of Directors, it is the policy of the Board of Directors to strongly encourage, but not require, the members of the Board to attend such meetings. All four of the directors attended the 2009 Annual Meeting of Stockholders.

The Company's policies regarding stockholder communications and director attendance (which may be modified from time to time) can be found on the Company's website at <http://www.tccsecure.com/investors>.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires the Company's officers, directors, and persons who beneficially own more than 10% of a registered class of the Company's equity securities to file reports of ownership and changes in ownership with the Commission. Officers, directors and greater-than-10% stockholders are required by regulation to furnish the Company with copies of all Section 16(a) reports they file.

Based solely on the Company's review of the copies of such reports and any amendments thereto furnished to the Company during and with respect to the Company's 2009 fiscal year, or written representations from certain reporting persons that they were not required to file, the Company believes that during fiscal year 2009, its executive officers, directors, and greater-than-10% stockholders complied with all applicable Section 16(a) filing requirements.

## **Certain Relationships and Related Person Transactions; Legal Proceedings**

David A. White, the Company's Secretary, is a member of a law firm that provides legal services to the Company. Fees paid to Mr. White's law firm were approximately \$55,000 for fiscal year 2009 and approximately \$75,000 for fiscal year 2008. There were no other transactions during fiscal years 2009 or 2008, and there are no currently proposed transactions, to which the Company was or is to be a participant and in which any related person had or will have a direct or indirect material interest. There are no family relationships among the directors, executive officers or any nominee therefor, and to the Company's knowledge no arrangements or understandings exist between any director or nominee and any other person pursuant to which such director or nominee was or is to be selected.

There are no material proceedings to which a director, executive officer or nominee is a party adverse to the Company or its subsidiary or has a material interest adverse to the Company or its subsidiary, nor to the Company's knowledge are there any proceedings or events material to an evaluation of the ability or integrity of the Company's directors, nominees or executive officers.

## **Code of Ethics**

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 <http://www.tccsecure.com/investors>.

## **REPORT OF THE AUDIT COMMITTEE**

The following is the report of the Audit Committee with respect to the Company's audited financial statements for the fiscal year ended September 26, 2009.

The Audit Committee has reviewed and discussed the fiscal year 2009 audited financial statements with management of the Company. The Audit Committee has discussed with the Company's independent registered public accounting firm, Caturano and Company, P.C., the matters required to be discussed by Statement on Auditing Standards No. 61 (as amended) as adopted by the Public Company Accounting Oversight Board; received and reviewed the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence; and discussed with the independent registered public accounting firm its independence and any relationships that may impact its objectivity and independence.

Based upon the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements for the fiscal year ended September 26, 2009 be included in the Company's Annual Report on Form 10-K for filing with the Securities and Exchange Commission. Mr. Briskin is the Chairman and sole member of the Audit Committee, and is independent under the rules of the Nasdaq Stock Market.

*Audit Committee*  
Mitchell B. Briskin

## COMPENSATION DISCUSSION AND ANALYSIS

As noted above, one role of the Governance Committee of the Board of Directors, comprised solely of non-employee, “independent” directors, is to assist the Board with discharging its responsibilities relating to the compensation of TCC’s employees, officers and directors, and the development and administration of the Company’s compensation and benefit programs.

The Governance Committee operates under a written charter, which was recently reviewed and reaffirmed by the full Board of Directors, available at <http://www.tccsecure.com/investors>. As set forth in the charter, the committee’s authority and responsibilities with respect to compensation include:

- *For executives*, to assist with the development of an executive compensation program supportive of the achievement of the Company’s strategic goals and objectives, to review and approve the goals and objectives relevant to the compensation of the Chief Executive Officer of the Company, including an annual evaluation of the CEO’s performance and the establishment of the CEO’s compensation and other material terms of employment, and to review and approve senior management team member compensation;
- *For directors*, to annually evaluate the appropriate level and form of compensation for members of the Board and its committees, and to recommend changes to the Board when appropriate; and
- *For employees generally*, to monitor and review all general compensation strategies and programs, including equity incentives and benefit programs.

The following discussion provides information about the Company’s compensation plans and programs generally, as well as compensation awarded to, earned by or paid to our “named executive officers” pursuant to applicable Commission rules and regulations. For additional information, please see the *Compensation* section that follows this discussion and analysis.

### **Compensation Philosophy and Objectives**

The philosophy underlying the Company’s compensation plans is to provide compensation that rewards both individual and organizational performance and align such compensation with shareholder interests. The Company aims to make executive compensation sensitive to Company performance, which is defined in terms of revenue growth and profitability. Compensation also must be competitive, thereby enabling the Company to attract, retain and motivate highly-qualified individuals who contribute to the Company’s success, and reflective of the Company’s financial position.

### **Procedure**

Compensation decisions are made annually and are tied to the Company’s fiscal year-end. For each employee, a performance evaluation is conducted by his or her supervisor, the results of which are shared with the employee. The evaluation encompasses a review of the employee’s individual performance over the course of the fiscal year, and includes recognition of the achievement by TCC of its strategic objectives and priorities. Compensation decisions for non-officer employees are made after the results of the performance evaluations have been considered and an informal analysis is completed that considers the goals of market competitiveness and enhancement of shareholder value. No upward adjustment is made to an employee’s compensation if the individual’s performance does not merit, or if the Company’s financial condition and

performance do not support, an adjustment.

The Governance Committee does not make individual compensation decisions for non-officer employees. Rather, our Chief Executive Officer sets compensation levels and presents the aggregate information to the Governance Committee for its information. Bonuses are typically paid in December, and salary increases are effective October 1 and paid retroactively before the end of the calendar year.

Compensation packages for our named executive officers are analyzed and discussed individually by the Governance Committee, and decisions are made once the Governance Committee has obtained all of the information it deems necessary. Information that is considered in making named executive officer compensation decisions includes information provided to the Governance Committee via presentations made to the committee by the named executive officers themselves. Such presentations include highlights of achievements and milestones met by the officers in the fiscal year and the results of each individual's performance self-evaluation. The Governance Committee also considers the Company's financial condition and performance.

The accounting and tax treatment of compensation decisions generally have not been material factors in determining the amount and type of compensation given to executive officers, other than to balance the potential cost to the Company with the benefit or value to the executive. The tax and accounting treatment of different compensation arrangements may play a greater role in the decision-making process in the future. The effects on Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") also may be considered.

The Governance Committee has not to date employed any compensation consultants to assist it with compensation decisions, although it is authorized by its charter to do so and reserves the right to engage such consultants when and if deemed necessary or advisable. The Governance Committee also has the authority to form, and delegate any of its responsibilities to, subcommittees as it deems appropriate, although to date it has not done so.

### **Compensation Components**

The components of compensation provided to named executive officers (as well as non-officer employees) typically include base salary, annual discretionary bonuses and equity incentives. In prior years, Company executives were provided only limited or no bonus compensation, annual salary increases and equity grants, in each case due to the Company's financial performance. Positive business results and prospects in the last few years have, however, enabled the Company to award bonuses to its named executive officers for fiscal years 2009 and 2008, as discussed herein.

The Company also has in place retirement and change of control arrangements with its two named executive officers, who also participate in the group benefits offered to all employees, such as medical and life insurance.

#### *Base Salary*

Base salary levels for the Company's named executive officers are based on an informal review of compensation for competitive positions in the market and reflect job responsibilities and skills, level of experience, individual performance, judgments as to past and future contributions to the Company, and the Company's compensation budget. Specific weight is not given to any particular factor when establishing base salaries, although most weight is typically given for individual performance. The Company's practice has been to review base salaries at the fiscal year-end as noted above, although in unusual cases salaries may be reviewed more frequently if circumstances dictate.

### *Annual Bonuses*

Bonuses, when paid, are designed to tie awards to individual performance and motivate and reward employees for their contributions to the Company. A number of factors are considered in determining whether annual incentive awards should be paid, most importantly the achievement by the Company of specified financial objectives and the achievement by the employees of individual objectives. Recognition of individual performance and accomplishment is based on a subjective analysis of each individual's performance; recognition of Company performance is based on an evaluation of specified measures of corporate performance.

The Company has an Executive Bonus Program for the benefit of key management employees, which traditionally has included only TCC's Chief Executive Officer and Chief Financial Officer, and an informal bonus program for all other employees. For named executive officers, an initial plan is set and approved by the Board of Directors at the beginning of the year and bonus awards are determined out of such plan at year-end based on Company and individual performance. For non-officer employees, the budget is established at year-end based on the Company's financial performance during the year, and individual awards are determined through a consultative process involving an employee's supervisor and our Chief Executive Officer.

Under the Executive Bonus Program for 2009, the percentage of bonus opportunity and performance milestones were as follows for both named executive officers:

- up to 15% of the bonus opportunity was tied to a backlog milestone, defined as increasing backlog to a value of \$8.5 million or greater during the 2009 fiscal year;
- up to 15% of the bonus opportunity was tied to the preparation of a strategic investment plan (5%), identifying potential investment banks or business development consultants (5%) and identifying potential investment opportunities (5%) during the 2009 fiscal year; and
- up to 40% of the bonus opportunity was tied to a profit (net income) milestone, defined as achieving net income of at least \$1,200,000 for the 2009 fiscal year.

For Mr. Guild, our Chief Executive Officer, the remaining 30% of his bonus opportunity was tied to the number of customers who entered into purchase contracts with the Company having a specified minimum contract value. For Mr. Malone, our Chief Financial Officer, 30% of his bonus opportunity was based on his achievement of additional responsibilities outlined by Mr. Malone and evaluated by Mr. Guild and the Governance Committee.

### *Equity Incentives*

As with base salary and bonus determinations, equity compensation awards are determined on an informal, annual basis. An important objective of this component of compensation is to strengthen the relationship between the long-term value of the Company's stock price and the potential financial gain for employees, as well as retention of personnel. Historically the Company has awarded employee stock options, which provide recipients the opportunity to purchase shares of our Common Stock at a fixed price, and become valuable only if the trading price of the Common Stock increases. The recipient is therefore motivated to remain with the Company until the options vest and motivated to improve individual performance in support of improved Company performance.

In selecting employees eligible to receive equity compensation grants (whether at the initial hire date or through periodic grants) and determining the size of such grants, a variety of factors are considered, including the job and responsibility level of the employee and past, current

and prospective services rendered, or to be rendered, to the Company by the employee. Determination of the employees eligible to receive awards and the size of such awards is based on a subjective analysis by the Governance Committee of each individual's position within the Company, his or her performance and his or her growth potential and that of the Company.

The Company administers three plans that provide for the grant of equity incentive compensation to officers, directors and employees. The Technical Communications Corporation 2005 Non-Statutory Stock Option Plan, as amended (the "2005 Plan"), was adopted by the Board of Directors in May 2005 and permits the grant of non-statutory stock options to purchase up to 200,000 shares of Common Stock to employees, directors and consultants. The stated purpose of the 2005 Plan is to promote the success and interests of the Company and its stockholders by permitting and encouraging employees, directors and consultants of the Company to obtain a proprietary interest in the Company or its subsidiaries through the grant of non-statutory options to purchase shares of the Company. Determinations as to recipients of awards, option term, vesting period and exercise price are made by the Governance Committee in its discretion. As of December 11, 2009, the Company had issued a total of 156,500 options pursuant to the 2005 Plan and 43,500 shares were still available for awards. If an option expires, terminates or becomes unexercisable for any reason without being exercised in full, the unpurchased shares become available for future grant under the 2005 Plan, as do any shares that are retained or withheld by the Company upon exercise of an option in order to satisfy the exercise price for such option or any withholding taxes due with respect to such exercise.

Under the Technical Communications Corporation 2001 Stock Option Plan, as amended (the "2001 Plan"), the Company may grant non-qualified and incentive stock options to its employees, officers, directors and consultants to purchase up to 350,000 shares of Common Stock. The stated purpose of the 2001 Plan is to attract and retain the best available personnel for positions of substantial responsibility, provide additional incentive to recipients, and promote the success of the Company's business. According to the 2001 Plan, the exercise price of each incentive option must equal or exceed the market price of the Company's stock on the date of grant, but may be set at any price for non-qualified options. The maximum term for any option granted under the 2001 Plan is ten years; vesting periods are at the Board's discretion and typically range between one and five years. As of December 11, 2009, no shares remained available for awards under the 2001 Plan, although shares may become available for grants as options expire or become unexercisable for any reason without being exercised in full.

Stock option awards are still outstanding under the Technical Communications Corporation 1991 Stock Option Plan, as amended (the "1991 Plan"), although such plan expired in 2001 and no new awards can be made thereunder. The 1991 Plan provided for the issuance of up to 350,000 shares of Common Stock upon exercise of incentive and non-statutory options granted to employees, consultants and directors of the Company. The stated purpose of the 1991 Plan was the same as stated above for the 2001 Plan. The terms of options granted were set by the Board, up to a maximum of 10 years for incentive stock options. The Board also determined the exercise price of options granted under the 1991 Plan, subject to certain restrictions, including the requirement that incentive stock options be granted at 100% of the fair market value on the date of grant.

As of December 11, 2009, there were an aggregate of 900,000 shares authorized under these plans, of which 492,700 were outstanding and 43,500 were available for grant.

In addition to its stock option plans, the Company established the Technical Communications Corporation 1995 Employee 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 of a particular date, as 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 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.

#### *Retirement, Severance, Change in Control and Similar Compensation*

The Company does not offer or have in place any formal retirement, severance or similar compensation programs (other than its 401(k) plan). Rather, the Company individually negotiates with those employees for whom retirement, severance or similar compensation is deemed necessary.

#### Carl H. Guild, Jr.

Pursuant to his employment agreement, upon termination of his employment without "cause" by the Company or upon his death or disability, Mr. Guild is entitled to receive severance pay in an amount equal to the greater of six months' base salary at the then-current level or the balance of the term of the agreement, less applicable taxes and other required withholdings and amounts owed to the Company, and including all health and other benefits to which he had been entitled while employed by the Company at the Company's expense for at least six months. If the Company determines not to renew Mr. Guild's employment agreement, he is entitled to an amount equal to six months' base salary at the then-current level, less applicable taxes and other required withholdings and amounts owed to the Company, and the continuation of all health and other benefits to which he had been entitled while employed by the Company at the Company's expense for at least six months.

"Cause" is defined as Mr. Guild's failure or refusal to perform the services specified in his employment agreement or to carry out any lawful directions of the Board; conviction of a felony; fraud or embezzlement involving the assets of the Company, its customers, suppliers or affiliates; gross negligence or willful misconduct; or breach of any term of his employment agreement.

Mr. Guild may terminate his employment agreement upon prior written notice to the Company. Upon his voluntary termination, he is entitled to severance pay – defined as his base salary at the then-current level, less applicable taxes and other required withholdings and amounts owed to the Company – equal to six months if the termination date is on the renewal date of the agreement or the lesser of six months or the balance of the term of the agreement if the termination date is before such renewal date.

In the event of a change in control of the Company where Mr. Guild resigns or is terminated without cause by the Company within 24 months after such an event, any unvested options held shall automatically vest and become immediately exercisable. In addition, Mr. Guild would be entitled to receive severance pay in an amount equal to 24 months' base salary at the then-current level, less applicable taxes and other withholdings and amounts due and plus all accrued and unpaid expenses and vacation time. In the event that any payment to be received pursuant to such change in control or the value of any acceleration right in any Company stock options held in connection with the change in control of the Company would be subject to an excise tax pursuant to Section 4999 of the Code, whether in whole or in part as a result of being an

“excess parachute payment” within the meaning of such terms in Section 280G(b) of the Code, the amount payable will be increased (grossed up) to cover the excise tax liability due under Section 4999 of the Code, if otherwise permitted under the Code.

“Change in control” is defined as the occurrence of any one of the following: (a) any person or entity, including a “group” as defined in Section 13(d) of the Exchange Act (other than the Company, a wholly-owned subsidiary of the Company, or any employee benefit plan of the Company or its subsidiaries), becoming the beneficial owner of the Company’s securities having 51% or more of the combined voting power of the then-outstanding securities of the Company that may be cast for the election of directors of the Company; or (b) as the result of, or in connection with, any cash tender or exchange offer, merger or other business combination, sale of assets or contested election or any combination of the foregoing transactions, less than a majority of the combined voting power of the then-outstanding securities of the Company or any successor corporation or entity entitled to vote generally in the election of directors of the Company or such other corporation or entity after such transaction, are held in the aggregate by holders of the Company’s securities entitled to vote generally in the election of directors of the Company immediately prior to such transaction; or (c) the approval of the stockholders of the Company of a plan of liquidation.

Michael P. Malone

Under Mr. Malone’s employment agreement, the Company has the right, upon written notice, to terminate his employment (a) immediately at any time for “cause” or (b) at any time without “cause”. Cause is defined as his failure or refusal to perform the services specified in his employment agreement or to carry out any lawful directions of the Board; conviction of a felony; fraud or embezzlement involving the assets of the Company, its customers, suppliers or affiliates; gross negligence or willful misconduct; inability for a continuous period of at least 180 days in the aggregate during any 360-day period to perform his duties due to a physical or mental disability incapable of reasonable accommodation under applicable law; or breach of any term of his employment agreement.

Upon termination of employment without cause by the Company, Mr. Malone is entitled to receive severance pay in an amount equal to the greater of six months’ base salary at the then-current level or his base salary for the balance of the term of the agreement. If the Company determines not to renew Mr. Malone’s employment agreement, he is guaranteed, at the Company’s option, at will employment for six months or severance pay in an amount equal to six months’ base salary at the then-current level. In either case, such amounts shall be less applicable taxes and other required withholdings and amounts owed to the Company, plus all accrued but unpaid expenses and vacation time.

In the event of a change in control of the Company where Mr. Malone resigns or is terminated without cause by the Company within six months after such an event, any unvested options held shall automatically vest and become immediately exercisable. In addition, Mr. Malone would be entitled to receive severance pay in an amount equal to six months’ base salary at the then-current level, less applicable taxes and other withholdings and amounts due and plus all accrued and unpaid expenses and vacation time. In the event that any payment to be received pursuant to such change in control or the value of any acceleration right in any Company stock options held in connection with the change in control of the Company would be subject to an excise tax pursuant to Section 4999 of the Code, whether in whole or in part as a result of being an “excess parachute payment” within the meaning of such terms in Section 280G(b) of the Code, the amount payable to Mr. Malone will be increased (grossed up) to cover the excise tax liability due under Section 4999 of the Code, if otherwise permitted under the Code. “Change in control” in Mr. Malone’s employment agreement has the same definition as that found in Mr. Guild’s agreement, provided above.

No other employees receive or are entitled to receive any retirement, severance or similar compensation.

#### *Perquisites and Other Benefits*

The Company generally does not provide its officers with these types of benefits. Messrs. Guild and Malone have life insurance policies for which the Company pays the premium, and the Company also typically matches up to a certain percentage of their contributions to the Company's 401(k) plan. Both of these benefits are generally available to all Company employees, subject to certain limitations and restrictions. Messrs. Guild and Malone, like other employees, also are entitled to participate in TCC's employee benefit plans offering group disability insurance, group medical and hospitalization plans, and pension and profit-sharing plans.

#### **Chief Executive Officer Compensation**

Mr. Guild has been President and Chief Executive Officer of the Company since 1998 and Chairman of the Board of Directors since 2001. His base salary for fiscal year 2009 was set at \$270,000, effective November 6, 2008. Mr. Guild's annual base salary was \$246,000 for fiscal years 2008 and 2007.

Mr. Guild received a \$33,750 annual performance bonus for fiscal year 2009. This bonus was fully accrued but unpaid as of the Company's 2009 fiscal year-end, September 26, 2009, but was paid to Mr. Guild as of December 31, 2009. Mr. Guild received a \$80,000 annual performance bonus for fiscal year 2008. This bonus was fully accrued but unpaid as of the Company's 2008 fiscal year-end, September 27, 2008, but was paid to Mr. Guild as of December 31, 2008.

In fiscal 2009, the Board awarded Mr. Guild an option to purchase 3,500 shares of Common Stock for his service as a director. These non-qualified options were granted on February 9, 2009 under the 2005 Plan at an exercise price of \$4.90 per share with a term of 10 years, and vested immediately. Mr. Guild was granted options to purchase 3,500 shares in fiscal years 2008 and 2,500 shares in fiscal year 2007 for his service as a director. See "Director Compensation" below for more information regarding these option grants.

See "Retirement, Severance, Change in Control and Similar Compensation" above for a discussion of the severance payments payable to Mr. Guild under the terms of his employment agreement (as amended).

#### **Chief Financial Officer Compensation**

Mr. Malone has been Chief Financial Officer of the Company since 2000 and Treasurer since 1998. His base salary for fiscal year 2009 was set at \$150,000. Mr. Malone's annual base salary was \$135,000 for fiscal year 2008, which increased to \$150,000 on May 5, 2008.

Mr. Malone received a \$15,750 annual performance bonus for fiscal year 2009. This bonus was fully accrued but unpaid as of the Company's 2009 fiscal year-end, September 26, 2009, but was paid to Mr. Malone as of December 31, 2009. Mr. Malone received a \$30,000 annual performance bonus for fiscal year 2008. This bonus was fully accrued but unpaid as of the Company's 2008 fiscal year-end, September 27, 2008, but was paid to Mr. Malone as of December 31, 2008.

See "Retirement, Severance, Change in Control and Similar Compensation" above for a discussion of the severance payments payable to Mr. Malone under the terms of his employment agreement.

## Tax Considerations

Section 162(m) of the Code generally disallows a tax deduction to public companies for compensation over \$1,000,000 paid to certain employees, generally the Chief Executive Officer and the four other most highly compensated executive officers. Qualifying performance-based compensation is not subject to the deduction limit if certain requirements are met. In fiscal 2009, no compensation paid by the Company was nondeductible as a result of the \$1,000,000 limitation. Furthermore, the Board of Directors believes that, given the general range of salaries and bonuses for executive officers of the Company, the \$1,000,000 threshold of Section 162(m) will not be reached by any executive officer of the Company in the foreseeable future. Accordingly, the Board has not formulated a policy to address non-qualifying compensation.

## COMPENSATION

### Named Executive Officers

The following tables set forth all plan and non-plan compensation awarded to, earned by or paid to the Chief Executive Officer and Chief Financial Officer of the Company, who were the only “named executive officers” of the Company during its 2009 fiscal year, for all services rendered by such officers to the Company and its subsidiaries in all capacities for the periods presented.

### Summary Compensation Table

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u> (\$)	<u>Bonus</u> (\$)	<u>Option Awards</u> (\$)	<u>All Other Compensation</u> (\$)	<u>Total</u> (\$)
<b>Carl H. Guild, Jr.</b> President, Chief Executive Officer and Chairman	2009	\$268,377	\$33,750 (1)	\$11,068 (2)	\$4,271 (3)	\$317,466
	2008	\$246,006	\$80,000 (1)	\$19,207 (4)	\$4,227 (3)	\$349,440
<b>Michael P. Malone</b> Chief Financial Officer, Treasurer and Asst. Secretary	2009	\$150,010	\$15,750 (5)	--	\$3,456 (6)	\$169,216
	2008	\$140,166	\$30,000 (5)	--	\$3,557 (6)	\$173,723

- (1) The bonus amount of \$33,750 for fiscal 2009 was accrued but unpaid at September 26, 2009, and paid as of December 31, 2009. The bonus amount of \$80,000 for fiscal 2008 was accrued but unpaid at September 27, 2008, and paid as of December 31, 2008.
- (2) Amount represents the award on February 9, 2009 of a non-qualified option to purchase 3,500 shares of Common Stock at \$4.90 per share, which vested in full on that date. Such award was made to Mr. Guild for his service as a director of the Company. The dollar amount presented represents the aggregate fair value of the award on the date of grant. The fair value of the option was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in fiscal 2009: dividend yield of zero, expected volatility of 80%, risk-free interest rate of 1.79%, and expected life of five years.
- (3) Includes the Company’s 25% match on the first 6% of Mr. Guild’s fiscal year 401(k)

- contribution. Also includes life insurance premiums paid by the Company of \$558 and \$852 for each of fiscal years 2009 and 2008, respectively.
- (4) Amount represents the award on February 11, 2008 of a non-qualified option to purchase 3,500 shares of Common Stock at \$7.40 per share, which vested in full on that date. Such award was made to Mr. Guild for his service as a director of the Company. The dollar amount presented represents the aggregate fair value of the award on the date of grant. The fair value of the option was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in fiscal 2008: dividend yield of zero, expected volatility of 97%, risk-free interest rate of 2.71%, and expected life of five years.
  - (5) The bonus amount of \$15,750 for fiscal 2009 was accrued but unpaid at September 26, 2009, and paid as of December 31, 2009. The bonus amount of \$30,000 for fiscal 2008 was accrued but unpaid at September 27, 2008, and paid as of December 31, 2008.
  - (6) Includes the Company's 25% match on the first 6% of Mr. Malone's fiscal year 401(k) contribution. Also includes life insurance premiums paid by the Company of \$756 and \$852 for each of fiscal years 2009 and 2008, respectively.

For information on equity incentive awards granted to our named executive officers, see the disclosure below. For more information on compensation generally and information on severance and change of control rights, see the *Compensation Discussion and Analysis* section above.

### **Employment Agreements**

#### *Carl H. Guild, Jr.*

The Company entered into an employment agreement with Carl H. Guild, Jr., its President and Chief Executive Officer, effective as of November 19, 1998 and amended November 8, 2001. The original term of the agreement expired September 30, 2000; the agreement renews automatically thereafter for successive periods of one year unless earlier terminated or not renewed. Mr. Guild's agreement contains provisions specifying his annual compensation, subject to an annual merit review by the Board of Directors. The agreement also provides for performance awards to be paid at the discretion of the Company's Board of Directors, based on an assessment of exceptional performance. Mr. Guild's base salary was increased to \$270,000 in November 2008 from \$246,000 and he received performance awards in the amount of \$33,750 for fiscal 2009 and \$80,000 for fiscal 2008.

For a discussion of Mr. Guild's right to severance and change in control payments, see "Retirement, Severance, Change in Control and Similar Compensation" in the *Compensation Discussion and Analysis* section above. For information on stock options granted to Mr. Guild, see "Outstanding Equity Awards at Fiscal Year-End" below.

#### *Michael P. Malone*

The Company entered into an employment agreement with Michael P. Malone, its Chief Financial Officer, effective as of February 12, 2001. The original term of the agreement was 12 months, and the agreement renews automatically for successive periods of one year unless earlier terminated or not renewed. Mr. Malone's agreement contains provisions specifying his annual base salary, subject to an annual merit review by the Board of Directors. The agreement also provides for performance awards to be paid at the discretion of the Company's Board of Directors, based on an exceptional performance assessment. Mr. Malone's base salary was \$150,000 for fiscal years 2009 and 2008 and he received performance awards in the amount of \$15,750 for

fiscal 2009 and \$30,000 for fiscal 2008.

For a discussion of Mr. Malone’s right to severance and change in control payments, see “Retirement, Severance, Change in Control and Similar Compensation” in the *Compensation Discussion and Analysis* section above. For information on stock options granted to Mr. Malone, see “Outstanding Equity Awards at Fiscal Year-End” below.

### **Outstanding Equity Awards at Fiscal Year-End**

The following table sets forth certain information regarding unexercised options, unvested stock awards, and equity incentive plan awards for our named executive officers outstanding as of the end of the Company’s 2009 fiscal year, which date was September 26, 2009.

<u>Name</u>	<u>Option Awards</u>				
	<u>Number of Securities Underlying Unexercised Options (#) Exercisable</u>	<u>Number of Securities Underlying Unexercised Options (#) Unexercisable</u>	<u>Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)</u>	<u>Option Exercise Price (\$)</u>	<u>Option Expiration Date</u>
Carl H. Guild, Jr.	25,000 (1)	--	--	2.03	11/13/10
	37,500 (2)	--	--	0.90	11/08/11
	60,000 (3)	--	--	0.99	05/12/13
	87,362 (4)	--	--	3.55	02/09/14
	2,500 (5)	--	--	3.00	05/05/15
	2,500 (5)	--	--	3.90	02/13/16
	2,500 (5)	--	--	4.00	02/12/17
	3,500 (5)	--	--	7.40	02/11/18
	3,500 (5)	--	--	4.90	02/09/19
	<u>224,362</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Michael P. Malone	10,000 (1)	--	--	2.03	11/13/10
	22,500 (6)	--	--	0.90	11/08/11
	30,000 (3)	--	--	0.99	05/12/13
	34,938 (7)	--	--	3.55	02/09/14
	10,000 (8)	--	--	3.00	11/10/15
<b>Total</b>	<u>107,438</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>

- (1) Grants on November 13, 2000 under the 1991 Plan; options have 10 year term and were fully vested as of November 13, 2003.
- (2) Grant on November 8, 2001 under the 2001 Plan; options have 10 year term and were fully vested as of November 8, 2003.
- (3) Grants on May 12, 2003 under the 2001 Plan; options have 10 year term and were fully vested as of May 12, 2005.
- (4) Original grant made on February 9, 2004 under the 2001 Plan of an option to purchase 100,000 shares. The option was cancelled on February 7, 2005 with respect to 12,638 shares when stockholders failed at the 2005 annual stockholders meeting to approve an amendment to the 2001 Plan to increase the number of shares authorized under such plan by 100,000 shares. Options have 10 year term and were fully vested as of

- February 9, 2006.
- (5) Grants made on May 5, 2005, February 13, 2006, February 12, 2007, February 11, 2008 and February 9, 2009 under the 2005 Plan in consideration for Mr. Guild's service as a director. All option grants made to directors in 2005 and thereafter have a term of 10 years and vest immediately, except for the grant on February 12, 2007, which vested on October 1, 2007.
  - (6) Grant on November 8, 2001 under the 2001 Plan; options have a 10 year term and were fully vested as of November 8, 2004.
  - (7) Original grant made on February 9, 2004 under the 2001 Plan of an option to purchase 40,000 shares. The option was cancelled on February 7, 2005 with respect to 5,062 shares when stockholders failed at the 2005 annual stockholders meeting to approve an amendment to the 2001 Plan to increase the number of shares authorized under such plan by 100,000 shares. Options have 10 year term and were fully vested as of February 9, 2006.
  - (8) Grant on November 10, 2005 under the 2005 Plan; options have 10 year term and were fully vested as of November 10, 2008.

#### *Equity Incentive Plans*

The Company administers three plans that provide for the grant of equity incentive compensation to officers, directors and employees: the Technical Communications Corporation 2005 Non-Statutory Stock Option Plan, 2001 Stock Option Plan and 1991 Stock Option Plan. At December 11, 2009, there were an aggregate of 900,000 shares authorized under these plans, of which 492,700 were outstanding. Generally, these plans provide for the grant of equity awards to employees, officers, directors and consultants of the Company, in each case in amounts, at prices and subject to such restrictions and limitations as determined by the Board of Directors. For more information about each plan, see "Equity Incentives" in the *Compensation Discussion and Analysis* section above. The goal of the Company's equity incentive awards is to promote the success and interests of the Company and its stockholders by permitting and encouraging recipients to obtain a proprietary interest in the Company or its subsidiaries through the grant and exercise of such awards, and motivating such recipients to remain with the Company and work towards its success.

#### *Grants in Fiscal 2009*

On February 9, 2009, the Board of Directors granted to each of the members of the Company's Board of Directors options under the 2005 Plan to purchase 3,500 shares of Common Stock, for an aggregate 14,000 shares. These non-qualified stock options, which are exercisable at \$4.90 per share, vested immediately. The options have a term of ten years. Such grants were the only grants of stock options made to officers and directors of the Company during the 2009 fiscal year.

#### **Retirement, Severance and Similar Compensation**

No retirement, severance or similar compensation was paid to any employee during the 2009 fiscal year. For a description of the amounts that may be payable to our named executive officers, please see "Retirement, Severance, Change in Control and Similar Compensation" above in the *Compensation Discussion and Analysis* section. The Company also provides to all employees a 401(k) tax qualified plan.

#### **Compensation of Directors**

The following table sets forth all compensation of the Company's directors for the fiscal

year ended September 26, 2009. Mr. Guild, our President, CEO and Chairman of the Board of Directors, did not receive any compensation for his services as a director during the 2009 fiscal year other than the option grant discussed above.

<u>Name</u>	<u>Fees Earned or Paid in Cash</u> (\$)	<u>Option Awards</u> (\$)	<u>All Other Compensation</u> (\$)	<u>Total</u> (\$)
Mitchell B. Briskin	\$16,100 (1)	\$11,068 (2)(3)	-	\$27,168
Robert T. Lessard	\$10,500 (1)	\$11,068 (2)(3)	-	\$21,568
Thomas E. Peoples	\$10,500 (1)	\$11,068 (2)(3)	-	\$21,568

- (1) Includes quarterly stipend and fees paid for Board of Directors and committee meetings attended during the fiscal year. For Mr. Briskin, also includes quarterly stipend received for serving as Chairman of the Audit Committee.
- (2) Amount represents the award of 3,500 non-qualified stock options, which vested immediately. The dollar amount presented represents the aggregate fair value of the award on the date of grant. The fair value of the option was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in fiscal 2009: dividend yield of zero, expected volatility of 80%, risk-free interest rate of 1.79%, and expected life of five years.
- (3) Messrs. Briskin and Lessard each had 14,500 options outstanding at the 2009 fiscal year-end, all of which were fully vested and exercisable. Mr. Peoples had 12,000 options outstanding at the 2009 fiscal year-end, all of which were fully vested and exercisable.

At the August 2007 Board of Directors meeting, the Board approved a change to the fees they are paid. Effective October 1, 2007 the quarterly stipend was increased to \$1,000 and the Board meeting fee was increased to \$1,500 per meeting attended. Members of the Audit Committee were paid \$1,000 for each Audit Committee meeting attended in person, and the Audit Committee Chairman received a quarterly stipend of \$400 in addition to the stipend he received as a director of the Company. Members of the Governance Committee received \$500 for each meeting attended in person and held other than in connection with a regularly scheduled meeting of the Board of Directors.

Commencing in 2008, in connection with each annual meeting of stockholders, directors are granted options to purchase 3,500 shares of Common Stock at an exercise price equal to the closing price of the Common Stock on the date of such meeting. Stock options granted to directors are considered non-qualified and vest immediately. Each grant expires ten years after the date of grant, except that if a director ceases to be a director, the option terminates at the earlier of 10 years from the date of grant or three years from the last day as a director. At the May 2008 Board of Directors meeting, the Board approved a one-time bonus award of \$10,000 for each outside director in recognition of the fact that each had served for at least 10 years as a director of the Company, provided that they continue to serve as directors until the end of the 2008 fiscal year. These awards were paid in November 2008.

TCC reimburses members of the Board of Directors for their reasonable out-of-pocket expenses incurred in attending Board and committee meetings. The Company believes that members of the Board of Directors received compensation commensurate with their responsibilities to the Company and appropriate for a company of TCC's size and revenues.



## **PROPOSAL II. RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has selected the firm of Caturano and Company, P.C., independent certified public accountants, to serve as the Company's independent registered public accounting firm for the fiscal year ending September 25, 2010. Caturano and Company, P.C. acted as the Company's independent registered public accounting firm for the 2009 fiscal year.

It is expected that a member of Caturano and Company, P.C. will be present at the Meeting and will be available to respond to appropriate questions and make a statement if they so desire.

### **Fees**

*Audit Fees.* The aggregate fees billed by Caturano and Company, P.C. for professional services rendered for the audit of the Company's annual financial statements for fiscal years 2009 and 2008, and the reviews of the financial statements included within the Company's quarterly reports during fiscal years 2009 and 2008, were approximately \$21,630 (of total audit fees for fiscal 2009 of \$56,650, the remainder of which will be billed in fiscal year 2010) and \$54,590, respectively.

*Audit-Related Fees.* No fees were billed by Caturano and Company, P.C. for assurance and related services that were reasonably related to the performance of its audit or review of the Company's financial statements for fiscal years 2009 and 2008.

*Tax Fees.* The aggregate fees billed by Caturano and Company, P.C. for professional services rendered for tax compliance, tax advice and tax planning for the Company for each of fiscal years 2009 and 2008 were approximately \$8,000 (of total fees for fiscal 2009 of \$12,360, the remainder of which will be billed in fiscal year 2010) and \$15,250, respectively. These amounts represent those billed for tax return preparation and tax advice for the Company and its subsidiary.

*All Other Fees.* No fees were billed by Caturano and Company, P.C. for products and services provided other than those otherwise described above for fiscal years 2009 and 2008.

### **Pre-Approval Policies**

It is the policy of the Audit Committee to pre-approve the audit and permissible non-audit services performed by the Company's independent registered public accounting firm in order to ensure that the provision of such services does not impair such firm's independence, in appearance or fact. In fiscal year 2009, the Audit Committee pre-approved all such services performed by Caturano and Company, P.C.

### **Ratification**

Stockholder ratification of the appointment of the Company's independent registered public accounting firm is not required by the Company's By-laws or otherwise, but is being done as a matter of good corporate governance. If stockholders fail to ratify the selection, the Audit Committee will reconsider this selection. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent registered public accounting

firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

The affirmative vote of the holders of a majority of the shares of Common Stock voting in person or by proxy at the Meeting and entitled to vote shall be required for the ratification of the selection of the independent registered public accounting firm. Thus, abstentions and broker non-votes will not be included in the totals, and will have no effect on the outcome of the vote.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE RATIFICATION  
OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL  
YEAR 2010.**

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS  
AND MANAGEMENT**

The following table shows, as of December 11, 2009, the beneficial ownership of Common Stock of the Company (including directors' qualifying shares) by (i) any person or group who is known to the Company to be the beneficial owner of more than 5% of the Company's Common Stock, (ii) each of the current directors and nominees, (iii) each of the named executive officers, and (iv) all current directors and executive officers of the Company as a group. As of December 11, 2009, there were 1,451,967 shares of Common Stock outstanding.

<b><u>Name and Address of Beneficial Owner<sup>(1)</sup></u></b>	<b><u>Amount and Nature of Beneficial Ownership<sup>(1)</sup></u></b>	<b><u>Percent of Class</u></b>
Mitchell B. Briskin	23,027(2)	1.6%
Carl H. Guild, Jr.	297,959(3)	17.8%
Robert T. Lessard	24,696(2)	1.7%
Thomas E. Peoples	21,890(4)	1.5%
Michael P. Malone	109,940(5)	7.1%
<b>All current directors and executive officers as a group (5 persons)</b>	477,512(6)	26.2%

(1) Unless otherwise indicated, each of the persons named in the table has sole voting and investment power with respect to the shares set forth opposite such person's name. With respect to each person or group, percentages are calculated based on the number of shares beneficially owned, including shares that may be acquired by such person or group, within 60 days of December 11, 2009, upon the exercise of stock options or other purchase rights, but not the exercise of options or warrants held by any other person. The address of Messrs. Briskin, Guild, Lessard, Peoples and Malone is c/o Technical Communications Corporation, 100 Domino Drive, Concord, Massachusetts 01742.

(2) Includes an aggregate of 14,500 shares issuable upon the exercise of stock options.

(3) Includes an aggregate of 224,362 shares issuable upon the exercise of stock options. Includes 73,597 shares held jointly by Mr. Guild and his wife.

(4) Includes an aggregate of 12,000 shares issuable upon the exercise of stock options.

(5) Includes an aggregate of 107,438 shares issuable upon the exercise of stock options.

(6) Includes an aggregate of 372,800 shares issuable upon the exercise of stock options.

**Change in Control**

The Company knows of no arrangements that may result or have resulted in a change in control of the Company.

## **ADDITIONAL INFORMATION**

### **Other Matters**

The Board of Directors of the Company is not aware of any matter, other than those described above, that may come before the Meeting. However, if any other matters are properly presented to the Meeting for action, it is intended that the persons named in the enclosed proxy card will vote on such matters in accordance with their best judgment.

### **Stockholder Proposals for 2011 Annual Meeting**

Proposals of stockholders for inclusion in the Proxy Statement and form of proxy for the Company's 2011 Annual Meeting of Stockholders must be received by the Company at its principal executive offices no later than September 10, 2010, and must comply with the applicable requirements of federal securities laws. Stockholder proposals received outside this process will be considered untimely if the Company is not provided written notice thereof at least 45 days prior to the first anniversary of the date of mailing of this year's proxy materials, as set forth on the first page of this Proxy Statement, or November 24, 2010. In order to curtail controversy as to the date on which the Company received a proposal, it is suggested that proponents submit their proposals by certified mail, return receipt requested.

### **Expenses and Solicitations**

The cost of the solicitation of proxies will be borne by the Company. Proxies will be solicited principally through the mail. Further solicitation of proxies from some stockholders may be personally made by directors, officers and regular employees of the Company, by telephone, facsimile or special letter. No additional compensation, except for reimbursement of reasonable out-of-pocket expenses, will be paid for any such further solicitation. In addition, the Company may request banks, brokers, custodians, nominees, and fiduciaries to forward copies of the Company's proxy materials to those persons for whom they hold shares to request instructions for voting the proxies. The Company will reimburse any such persons for their reasonable out-of-pocket costs.

### **Householding**

Certain stockholders who share the same address may receive only one copy of this Proxy Statement and the 2009 Annual Report to Stockholders in accordance with a notice delivered from such stockholders' bank, broker or other holder of record, unless the applicable bank, broker or other holder of record received contrary instructions. This practice, known as "householding," is designed to reduce printing and postage costs. If you own your shares through a bank, broker or other holder of record and wish to either stop or begin householding, you may do so, or you may request a separate copy of this Proxy Statement or the Annual Report, either by contacting your bank, broker or other holder of record at the telephone number or address provided in the above referenced notice, or by contacting TCC via telephone at (978) 287-5100 or in writing at Technical Communications Corporation, 100 Domino Drive, Concord, Massachusetts, 01742, Attention: Investor Relations. If you request to begin or stop householding, you should provide your name, the name of your broker, bank or other record holder, and your account information.

### **Annual Report of Form 10-K**

The Company will provide, upon written request and without charge to each stockholder entitled to vote at the Meeting, a copy of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission for the fiscal year ended September 26, 2009. A request for copies of such report should be addressed to the Company at 100 Domino Drive, Concord, Massachusetts 01742, Attention: Investor Relations.

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 26, 2009

( ) 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, \$0.10 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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO  (not required)

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). YES  NO

Based on the closing price as of March 28, 2009, the aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant was approximately \$6,333,626.

The number of shares of the registrant's Common Stock, par value \$ 0.10 per share, outstanding as of December 11, 2009 was 1,451,967.

Portions of the Company's Definitive Proxy Statement to be delivered to shareholders in connection with the Company's 2010 Annual Meeting of Shareholders to be held February 8, 2010 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 26, 2009

### Table of Contents

#### Part I

Item 1.	Business	1
Item 1A.	Risk Factors	9
Item 1B.	Unresolved Staff Comments	13
Item 2.	Properties	13
Item 3.	Legal Proceedings	13
Item 4.	Submission of Matters to a Vote of Security Holders	13

#### Part II

Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	14
Item 6.	Selected Financial Data	15
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	21
Item 8.	Financial Statements and Supplementary Data	21
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	21
Item 9A.	Controls and Procedures	21
Item 9B.	Other Information	22

#### Part III

Item 10.	Directors, Executive Officers and Corporate Governance	23
Item 11.	Executive Compensation	23
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	23
Item 13.	Certain Relationships and Related Transactions and Director Independence	23
Item 14.	Principal Accountant Fees and Services	23

#### Part IV

Item 15.	Exhibits and Financial Statement Schedules	24
----------	--	----

<b>Signatures</b>		26
-------------------	--	----

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 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 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 sustain 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 U.S. 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.



## 2009 Highlights and Recent Events

Fiscal 2009 continued to produce positive financial results with improvement in revenues and maintenance of strong profitability. TCC secured significant sales in several product areas: military network security, HF and VHF radio encryptors, IP security for private satellite-based systems, and secure telephony systems. Several of the major 2009 projects were expansions of the TCC installed encryption base in Egypt, Colombia, and Afghanistan. TCC also made progress in establishing new international projects in Mexico and Saudi Arabia and continued to expand its technology base through its development of new derivative products to meet specific customer applications

Revenues in fiscal 2009 increased to \$7,752,000, a 13% increase over fiscal 2008 revenues, and we produced a profit of \$943,000 for the period. These results are largely due to continuing strong sales of encryption products for foreign military networks and radio applications. TCC's backlog at the end of the year was \$7,778,000, a 9% increase from the fiscal 2008 year-end position. Orders received subsequent to the end of the 2009 fiscal year have increased the backlog as of mid-December 2009 to approximately \$9.4 million. We believe this backlog provides a solid opportunity for revenue generation in 2010 and 2011. For the fiscal year ended September 26, 2009, the Company reported revenues of \$7,752,000 as compared to \$6,852,000 for the previous year. Income for fiscal year 2009 was \$943,000 or \$0.65 per share, as compared to a net income of \$1,061,000 or \$0.75 per share in fiscal 2008.

During fiscal 2009, TCC delivered over \$2.1 million of network encryptors to the Government of Egypt under a Foreign Military Sales or "FMS" contract received in April 2008. This equipment is from our DSD72A-SP product line of high performance encryptors used world-wide in tactical and strategic networks requiring strong encryption security and high reliability. The equipment delivered to Egypt in 2009 will provide logistics support as well as expand the fielded systems. TCC expects that additional equipment ordered under this contract will be delivered in fiscal 2010. 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. Accordingly, TCC continues to develop new DSD72A-SP equipment which allows customers to use new radios, multiplexers and switches. Under the final stages of development testing is a new multi-interface system which will give users the capability of matching a single encryptor to a multiple interface radio. TCC maintains a strong record of being supportive of its customers' requirements and providing unique customized solutions to maintain a high security level as transmission systems change.

In fiscal 2009, TCC also continued to deliver significant quantities of the DSP9000 Universal Radio Encryption System to Afghanistan for use 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 of mating 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. Also in 2009, TCC delivered DSP9000 systems under FMS cases for the shipboard communications systems used in offshore and inland patrol craft for a variety of countries. The rugged design of the DSP9000 system and its integration flexibility offer an ideal solution for many policing applications on land, water and air.

Satellite-based communications often require unique encryption solutions in order to accommodate the variety of equipment being integrated. TCC specializes in providing such unique solutions and in fiscal 2009 provided a major system upgrade to a Mideast customer. The upgrade included a conversion of existing crypto processors and a major upgrade of the customer's existing key and device management system.

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 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 industrial and military applications.

TCC's other product lines - secure telephony, custom network encryption and military data encryption - are all performing as expected 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 and Services

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 product line primarily consists 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. During 2009 we introduced a new keyboard/PDA secure wireless phone and a new desktop encryptor for this product line. The market for this product continues to develop modestly and we expect it will take the greater part of fiscal 2010 before this product line generates consistent revenue.

Although we believe our Network Security Systems products are competitive, the demand for the products comprising 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.

The Company also provides customization to its products upon a customer request. In addition the Company actively sells its engineering services in support of funded research and development. These services are typically billed to a customer on a time and materials basis and can run for several months to several years depending on the scope of the project. Revenue from these services has steadily increased over the past four years.

### **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 to 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 CipherTalk® 8000 and CipherSMS® secure wireless products are designed to provide encrypted mobile communications anywhere in the world. With multi-band radio interface, these products operate in the North American, Latin American, and European regions, as well as the Asian and Australian regions. Integrated on leading mobile device platforms, they contain the latest in mobile productivity functionality as well as standard cell phone operation. The CipherTalk-8000 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.

### **Competition**

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.

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

### Sales and Backlog

In fiscal year 2009, the Company had three customers representing 76% of total net sales. These consisted of fees generated by our engineering services efforts representing 33% of sales and sales under a contract with U.S. Army, Communications and Electronics Command ("CECOM") for bulk encryptors representing 28% of sales. Also, we had sales of radio encryptors to one customer for deployment in Afghanistan representing 15% of sales. 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.

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 26, 2009 and September 27, 2008 was approximately \$7,778,000 and \$7,146,000, 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 for 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 U.S. Government 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. TCC believes 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 marginal cost 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 26, 2009 and September 27, 2008, the Company spent \$1,889,000 and \$942,000, respectively, on product development.

In fiscal 2010, the Company expects to maintain its investment in internal product development at 2009 levels. 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 2010.

## Foreign Operations

The Company is dependent upon its foreign sales. Although foreign sales were more profitable than domestic sales during fiscal years 2009 and 2008 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 2009 and 2008, sales directly to international customers accounted for approximately 7% and 14%, respectively, of our net sales. In fiscal 2009 and 2008 a significant portion of domestic sales (59% and 15%, respectively) were made to a domestic radio manufacturer that shipped our radio encryption products overseas for use in Afghanistan. In addition, we began shipments representing 28% of sales under a contract with the U.S. Army CECOM of products delivered to the Government of Egypt. 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 or other end-users.

## Employees

As of September 26, 2009, the Company employed 32 full-time persons and two part-time employees, as well as several full and 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 26, 2009 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, 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, 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 or certain international end-users. 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 developed 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 a limited number of 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 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 may not 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 and 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 11, 2009, we employed 32 full-time and two part-time people as well as several full-time and 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 each of the years ended September 26, 2009 and September 27, 2008 was \$159,000.

Item 3. **LEGAL PROCEEDINGS**

There are no current legal proceedings as to which TCC or its subsidiary 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 2009 fiscal year.

PART II

Item 5. **MARKET FOR REGISTRANT'S 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.

<u>Title of Class</u>	<u>Quarter Ending</u>	<u>Price</u>	
		<u>Low</u>	<u>High</u>
Common Stock, \$0.10 par value	9/26/2009	\$ 3.70	\$ 5.25
	6/27/2009	3.75	5.00
	3/28/2009	3.00	5.57
	12/27/2008	3.35	5.60
	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

The Company has paid no cash dividends in the past on any class of its common equity. 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 11, 2009, there were approximately 670 record holders of our Common Stock.

On December 11, 2009, the closing price of the Common Stock was \$3.80.

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 26, 2009. 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 as of and for the year ended September 26, 2009, included herewith.

<u>Plan category</u>	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 . . . . .	336,200(1)	\$2.18	-
Equity compensation plans not approved by stockholders . . . . .	156,500(2)	\$4.61	43,500
Total . . . . .	492,700	\$3.05	43,500

(1) Of the 336,200 options outstanding as of September 26, 2009, 334,200 were exercisable as of such date at an average exercise price of \$2.17 per share.

(2) Of the 156,500 options outstanding as of September 26, 2009, 103,300 were exercisable as of such date at an average exercise price of \$4.38 per share.

## Sales of Unregistered Securities and Repurchases by the Issuer and Affiliated Purchasers

There were no sales by the Company of unregistered shares of the Company's common stock during the 2009 fiscal year and no repurchases of TCC stock by or on behalf of the Company or any affiliated purchaser during the fourth fiscal quarter of the 2009 fiscal year.

During fiscal 2009 the Company's Chief Executive Officer and other directors exercised stock options for an aggregate 106,500 shares and subsequently tendered back to TCC 90,402 of those shares in payment of the exercise price of the options and associated withholding taxes. The tendered shares were immediately retired by the Company.

### 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 26, 2009 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**

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 we 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 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 in 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 \$2.5 million as of September 26, 2009, 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**

We record compensation cost for all share-based payments granted based on the grant date fair value. We expense share-based compensation over the employee's requisite service period, generally the vesting period of the award.

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. Any change in our judgments could have a material effect on our financial statements. We believe that our estimates incorporate all relevant information available at the time made and represent a reasonable approximation in light of the difficulties involved in valuing non-traded stock options.

## **Results of Operations**

*Year ended September 26, 2009 as compared to year ended September 27, 2008*

### **Net Sales**

Net sales for the years ended September 26, 2009 and September 27, 2008 were \$7,752,000 and \$6,852,000, respectively, an increase of \$900,000 or 13%. Sales for fiscal 2009 consisted of \$7,227,000, or 93%, from domestic sources and \$525,000, or 7%, from international customers as compared to fiscal 2008,



in which sales consisted of \$5,865,000, or 86%, from domestic sources and \$987,000, or 14%, from international customers.

Foreign sales consisted of shipments to 12 different countries during the year ended September 26, 2009 and 13 different countries during the year ended September 27, 2008. 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:

	<u>2009</u>	<u>2008</u>
Saudi Arabia	\$ 276,000	\$ 94,000
Columbia	32,000	639,000
Mexico	82,000	-
Thailand	96,000	53,000
Other	<u>39,000</u>	<u>201,000</u>
	<u>\$ 525,000</u>	<u>\$ 987,000</u>

Revenue for fiscal 2009 was derived from the sale of the Company's narrowband radio encryptors to a U.S. radio manufacturer amounting to \$1,133,000 and additional sales to two domestic customers amounting to \$175,000. Billings under programs for engineering services work amounting to \$3,271,000 also were recognized during the period. In addition, we began shipping products under a contract with CECOM amounting to \$2,159,000 during fiscal 2009. We also sold our data link encryptors to one domestic customer and one foreign customer amounting to \$198,000 and generated \$269,000 in royalty revenue under an existing license and royalty agreement with a large domestic radio manufacturer.

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 products 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.

## **Gross Profit**

Gross profit for fiscal year 2009 was \$4,846,000, an increase of \$657,000 or 16%, compared to gross profit of \$4,189,000 for fiscal year 2008. Gross profit expressed as a percentage of sales was 63% in fiscal year 2009 compared to 61% in the prior year. The increase in gross profit as a percentage of sales was primarily associated with revenue generated from the sale of higher margin products in fiscal 2009.

## **Operating Costs and Expenses**

### *Selling, General and Administrative*

Selling, general and administrative expenses for fiscal 2009 were \$2,534,000, as compared to \$2,335,000 for fiscal 2008. This increase of 9% was attributable to an increase in general and administrative expenses of \$65,000 and an increase in selling and marketing expenses of \$134,000 during the 2009 fiscal year.

The increase in general and administrative costs during 2009 was primarily attributable to an increase in bad debt expense of \$218,000 related to a South American distributor experiencing financial difficulty. This increase was offset by a decrease in personnel-related costs of approximately \$72,000 and a decrease in consulting and professional fees of approximately \$79,000 during the 2009 fiscal year.

The increase in selling and marketing costs was primarily attributable to increases in personnel-related costs of \$68,000, consulting costs of \$147,000, engineering sales support activities of \$50,000, new product evaluation activities of \$47,000 and travel costs of \$35,000. These increases were partially offset by a decrease in bid and proposal activity of \$221,000.

## *Product Development*

Product development costs for the year ended September 26, 2009 were \$1,889,000, compared to \$942,000 for the year ended September 27, 2008, an increase of \$947,000 or 101%. This increase was primarily attributable to an increase in personnel-related costs of \$523,000 and an increase in outside consulting costs of \$473,000 during the year ended September 26, 2009. There was also an increase in materials utilized on internal product development projects of approximately \$35,000 and an increase in recruiting costs of approximately \$28,000. These increases were the result of planned development efforts undertaken this year. These efforts, which will meet current and future customers' requirements, include new network interface options and a new automated test system designed to work with new and existing products. In addition there was an increase in billable engineering services work performed and an increase in bid and proposal and product evaluation work, which decreased product development costs by approximately \$105,000, 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 invests in research and development to enhance its existing products or to develop new products, as it deems appropriate. There was \$3,271,000 of billable engineering services revenue generated during fiscal 2009 and \$1,887,000 generated during fiscal 2008.

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 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 \$943,000 for fiscal year 2009 as compared to net income of \$1,061,000 for fiscal year 2008, an \$118,000 decrease. This 11% decrease in income is primarily attributable to a substantial increase in internal product development costs.

During fiscal 2009, \$491,000 of the deferred tax valuation allowance, related primarily to net operating loss carryforwards, was reversed. This future realization of the Company's deferred tax assets depends upon the availability of sufficient future taxable income. The Company determined that the benefits of these assets will more likely than not be utilized against taxable income through fiscal 2010.

The effects of inflation and changing costs have not had a significant impact on sales or earnings in recent years. As of September 26, 2009, 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 \$1,796,000, or 50%, to \$5,418,000 as of September 26, 2009, from a balance of \$3,623,000 at September 27, 2008. This increase was primarily attributable to cash generated from operations of \$1,985,000, which includes net income of \$943,000 and cash from customer deposits of \$1,714,000, and was offset by an increase in inventory of \$494,000 and an increase in deferred tax assets of \$491,000. Fixed asset additions of \$192,000 during the period also offset the increases.

Our results during fiscal 2009 met our expectations. We are currently performing under engineering services programs valued at \$4.78 million. These programs are billed monthly for time and materials incurred and are expected to be completed in fiscal 2010. We billed \$3,271,000 during 2009 under these programs. In addition, in April 2008 we were awarded a contract from the U.S. Army, CECOM for upgrades and supplies to be shipped to Egypt amounting to \$5.75 million, with a subsequent amendment

adding an additional \$610,000 of funding. We began shipping products under this contract during the fiscal quarter ended December 27, 2008, and shipped an aggregate \$2,159,000 during fiscal 2009. We expect to continue shipping under this contract over the next 15 months.

Backlog at September 26, 2009 amounted to \$7,778,000. The orders in backlog are expected to ship during fiscal 2010 and 2011 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 2009 and 2008.

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 26, 2009 and September 27, 2008 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 each of the years ended September 26, 2009 and September 27, 2008 was \$159,000.

The Company does not anticipate any significant capital expenditures during fiscal 2010.

In fiscal 2010, the Company expects to maintain its investment in internal product development at fiscal 2009 levels. 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 2010.

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 2010. As a result of our profitability during the past three fiscal years and the backlog at September 26, 2009, 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 May 2009, the Financial Accounting Standards Board (“FASB”) issued a pronouncement on subsequent event accounting. The pronouncement identifies the following: the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements; and the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. The pronouncement was effective for the Company’s second quarter of fiscal 2009, and there was no effect as a result of its adoption by TCC.

In June 2009, the FASB issued guidance on the FASB Accounting Standards Codification and the hierarchy of generally accepted accounting principles. The FASB Accounting Standards Codification, referred to as the Codification, is the single source of authoritative nongovernmental generally accepted accounting principles in the United States. The Codification was effective for interim and annual periods ending after September 15, 2009. The adoption of the Codification had no impact on the Company’s financial position or results of operations.

### **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 annual report on internal control over financial reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) promulgated under the Exchange Act. 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 26, 2009. 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 its assessment this year, management identified a control deficiency that was also identified during its assessment for the fiscal year ended September 27, 2008. During the course of the fiscal 2008 evaluation, and again during the evaluation for the 2009 fiscal year, management determined that the Company lacked sufficient staff to segregate accounting duties. Management believes this control deficiency is primarily the result of the Company employing, due to its limited size, the equivalent of only one and one-half persons performing all accounting-related on-site duties. As a result, TCC does not maintain adequate segregation of duties within its 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 constituted a material weakness, and that the Company’s internal control over financial reporting was not effective, as of September 26, 2009.

Management has discussed the material weakness and related corrective actions with the Audit Committee and Board of Directors of the Company and TCC’s independent registered public accounting firm. As part of our 2010 assessment of internal control over financial reporting, our management will test and evaluate additional controls implemented, if any, to assess whether they are operating effectively. Our goal is to take all actions possible given our financial condition to remediate any 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 the process. In designing and evaluating our internal control over financial reporting, 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 the Company will be detected.

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 2009 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 2010 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 2009 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](http://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 2010 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 2009 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 2010 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 2009 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 2010 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 2009 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 2010 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 2009 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:

	<u>Page</u>
Consolidated Balance Sheets as of September 26, 2009 and September 27, 2008	27
Consolidated Statements of Operations for the Years Ended September 26, 2009 and September 27, 2008	28
Consolidated Statements of Cash Flows for the Years Ended September 26, 2009 and September 27, 2008	29
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended September 26, 2009 and September 27, 2008	30
Notes to Consolidated Financial Statements	31-41
Report of Independent Registered Public Accounting Firm	42

(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<sup>+</sup> 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<sup>+</sup> 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<sup>+</sup> 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<sup>+</sup> 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<sup>+</sup> 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)
- 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)

(2) List of Exhibits (cont'd)

- 10.9<sup>+</sup> 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 Caturano and Company, P.C.
- 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 18, 2009

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Carl H. Guild, Jr.</u> Carl H. Guild, Jr.	Chief Executive Officer and President Chairman of the Board, Director (Principal Executive Officer)	December 18, 2009
<u>/s/ Michael P. Malone</u> Michael P. Malone	Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	December 18, 2009
<u>/s/ Mitchell B. Briskin</u> Mitchell B. Briskin	Director	December 18, 2009
<u>/s/ Robert T. Lessard</u> Robert T. Lessard	Director	December 18, 2009
<u>/s/ Thomas E. Peoples</u> Thomas E. Peoples	Director	December 18, 2009

**Technical Communications Corporation**  
**Consolidated Balance Sheets**  
**September 26, 2009 and September 27, 2008**

<b>ASSETS</b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Current assets:		
Cash and cash equivalents	\$ 5,418,419	\$ 3,622,903
Accounts receivable - trade, less allowance of \$233,000 and \$25,000 at September 26, 2009 and September 27, 2008, respectively	402,841	722,261
Inventories	2,415,054	1,920,724
Deferred income taxes	566,294	75,000
Other current assets	180,161	105,666
Total current assets	<u>8,982,769</u>	<u>6,446,554</u>
Equipment and leasehold improvements	3,369,214	3,182,522
Less accumulated depreciation and amortization	(3,029,707)	(2,915,050)
Equipment and leasehold improvements, net	<u>339,507</u>	<u>267,472</u>
	<u>\$ 9,322,276</u>	<u>\$ 6,714,026</u>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 250,129	\$ 173,070
Accrued liabilities:		
Compensation and related expenses	280,651	448,179
Customer deposits	1,964,262	246,184
Other	114,576	168,906
Total current liabilities	<u>2,609,618</u>	<u>1,036,339</u>
Stockholders' equity		
Common stock - par value \$0.10 per share; authorized 7,000,000 shares, issued and outstanding 1,452,199 and 1,433,767 shares at September 26, 2009 and September 27, 2008, respectively	145,220	143,377
Additional paid-in capital	2,031,340	1,941,020
Retained earnings	4,536,098	3,593,290
Total stockholders' equity	<u>6,712,658</u>	<u>5,677,687</u>
	<u>\$ 9,322,276</u>	<u>\$ 6,714,026</u>

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

**Technical Communications Corporation**  
**Consolidated Statements of Operations**  
**Years Ended September 26, 2009 and September 27, 2008**

	<u>2009</u>	<u>2008</u>
Net sales	\$ 7,751,858	\$ 6,852,313
Cost of sales	2,906,110	2,663,218
Gross profit	<u>4,845,748</u>	<u>4,189,095</u>
Operating expenses:		
Selling, general and administrative	2,533,658	2,334,911
Product development	1,888,953	942,041
Total operating expenses	<u>4,422,611</u>	<u>3,276,952</u>
Operating income	423,137	912,143
Other income (expense)		
Investment income	39,762	90,047
Income before income taxes	462,899	1,002,190
Provision (benefit) for income taxes	<u>(479,909)</u>	<u>(58,620)</u>
Net income	<u>\$ 942,808</u>	<u>\$ 1,060,810</u>
Net income per common share		
Basic	\$ 0.65	\$ 0.75
Diluted	\$ 0.58	\$ 0.63
Weighted average shares		
Basic	1,444,427	1,414,101
Diluted	1,632,883	1,679,531

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

**Technical Communications Corporation**  
**Consolidated Statements of Cash Flows**  
**Years Ended September 26, 2009 and September 27, 2008**

	<u>2009</u>	<u>2008</u>
<b>Operating activities:</b>		
Net income	\$ 942,808	\$ 1,060,810
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	119,530	61,144
Bad debt expense	207,748	-
Stock-based compensation	116,363	145,661
Deferred income taxes	(491,294)	(75,000)
Changes in current assets and current liabilities:		
Accounts receivable	111,672	(301,734)
Inventories	(494,330)	(12,567)
Other current assets	(74,495)	(9,615)
Customer deposits	1,713,788	112,584
Accounts payable and accrued liabilities	(167,020)	(42,274)
Cash provided by operating activities	1,984,770	939,009
<b>Investing activities:</b>		
Additions to equipment and leasehold improvements	(191,565)	(221,254)
Cash used for investing activities	(191,565)	(221,254)
<b>Financing activities:</b>		
Proceeds from stock issuance	2,311	282,860
Cash provided by financing activities	2,311	282,860
Net increase in cash and cash equivalents	1,795,516	1,000,615
Cash and cash equivalents at beginning of year	3,622,903	2,622,288
Cash and cash equivalents at end of year	\$ 5,418,419	\$ 3,622,903
<b>Supplemental disclosures:</b>		
Interest paid	\$ -	\$ -
Income taxes paid	18,795	24,000

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 26, 2009 and September 27, 2008**

	<u>2009</u>	<u>2008</u>
<b>Stockholders' Equity</b>		
Shares of common stock:		
Beginning balance	1,433,767	1,382,767
Exercise of stock options	2,334	51,000
Cashless exercise of stock options	16,098	-
Ending balance	<u>1,452,199</u>	<u>1,433,767</u>
Common stock at par value:		
Beginning balance	\$ 143,377	\$ 138,277
Exercise of stock options	1,843	5,100
Ending balance	<u>145,220</u>	<u>143,377</u>
Additional paid-in capital:		
Beginning balance	1,941,020	1,517,599
Exercise of stock options	3,687	277,760
Cashless exercise of stock options	(29,730)	-
Stock-based compensation	116,363	145,661
Ending balance	<u>2,031,340</u>	<u>1,941,020</u>
Retained earnings:		
Beginning balance	3,593,290	2,532,480
Net income	942,808	1,060,810
Ending balance	<u>4,536,098</u>	<u>3,593,290</u>
Total stockholders' equity	<u>\$ 6,712,658</u>	<u>\$ 5,677,687</u>

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

We follow accounting standards set by the Financial Accounting Standards Board, commonly referred to as the FASB. The FASB sets generally accepted accounting principles (GAAP) that we follow to ensure we consistently report our financial condition, results of operations, and cash flows. References to GAAP issued by the FASB in these footnotes are to the *FASB Accounting Standards Codification*<sup>™</sup> sometimes referred to as the Codification or ASC. The FASB finalized the Codification effective for periods ending on or after September 15, 2009.

#### *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 periods. 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.

## Notes to Consolidated Financial Statements (continued)

### *Inventories*

The Company values its inventory at the lower of actual cost to purchase and/or manufacture or the current estimated 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'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 product revenue 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. If the current estimates of total contract revenue and contract costs for product development contracts indicate a loss, a provision for

## Notes to Consolidated Financial Statements (continued)

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

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. The related excess tax benefit received upon exercise of stock options, if any, are reflected in the Company's statement of cash flows as a financing activity rather than an operating activity. These amounts were immaterial for the years ended September 26, 2009 and September 27, 2008.

The Company selected the Black-Scholes option pricing model as the method for determining the estimated fair value for its 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:

	<u>September 26, 2009</u>	<u>September 27, 2008</u>
<u>Assumptions:</u>		
Option life	5 years	5 years
Risk-free interest rate	1.8 % to 2.8%	2.71% to 3.8%
Stock volatility	77% to 80%	81% to 110%
Dividend yield	-0-	-0-

There were 25,500 options granted during the year ended September 26, 2009 and 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 26, 2009 and September 27, 2008:

	<u>2009</u>	<u>2008</u>
Cost of sales	\$ 6,700	\$ 6,809
Selling, general and administrative	51,319	89,869
Product development	<u>58,344</u>	<u>48,983</u>
Total share-based compensation expense before taxes	<u>\$ 116,363</u>	<u>\$ 145,661</u>

As of September 26, 2009, there was \$188,731 of unrecognized compensation cost related to options granted. The unrecognized compensation cost will be recognized as the option grants vest. The weighted average period over which the compensation cost is expected to be recognized is 3.21 years.

The Company had the following stock option plans outstanding as of September 26, 2009: the Technical Communications Corporation 1991 Stock Option Plan, the 2001 Stock Option Plan and the 2005 Non-Statutory Stock Option Plan. There were an aggregate of 900,000 shares originally authorized under these plans, of which 492,700 were outstanding at September 26, 2009. 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 26, 2009, there were no



## Notes to Consolidated Financial Statements (continued)

shares available for new option grants under the 1991 Stock Option Plan or the 2001 Stock Option Plan, and there were 43,500 shares available for grant under the 2005 Non-Statutory Stock Option Plan. During fiscal 2009 the Company's Chief Executive Officer and other directors exercised stock options for an aggregate 106,500 shares and subsequently tendered back to TCC 90,402 of those shares in payment of the exercise price of the options and associated withholding taxes. The tendered shares were immediately retired by the Company.

The following tables summarize stock option activity during fiscal years 2008 and 2009:

	<u>Options Outstanding</u>		
	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Contractual Life</u>
<b>Outstanding at September 29, 2007</b>	612,034	\$ 3.12	4.55 years
Grants	41,000	6.77	
Exercises	(51,000)	5.55	
Cancellations	<u>(21,000)</u>	6.44	
<b>Outstanding at September 27, 2008</b>	<u>581,034</u>	\$ 3.05	4.46 years
Grants	25,500	4.80	
Exercises	(108,834)	3.88	
Cancellations	<u>(5,000)</u>	4.00	
<b>Outstanding at September 26, 2009</b>	<u>492,700</u>	\$ 2.95	4.72 years

Information related to the stock options vested or expected to vest as of September 26, 2009 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	158,000	3.05	\$ 0.96	158,000	\$ 0.96
\$1.01 - \$2.00	1,200	2.31	1.27	1,200	1.27
\$2.01 - \$3.00	65,700	3.28	2.54	63,100	2.52
\$3.01 - \$4.00	193,800	5.14	3.59	177,600	3.60
\$4.01 - \$5.00	29,000	8.69	4.79	16,600	4.86
\$5.01 - \$10.00	<u>45,000</u>	8.37	6.62	<u>21,000</u>	6.98
	<u>492,700</u>	4.72	2.95	<u>437,500</u>	2.69

The aggregate intrinsic value of the Company's "in-the-money" outstanding and exercisable options as of September 26, 2009 was \$783,813. The intrinsic value of the options exercised during the year ended September 26, 2009 was \$267,266. Nonvested common stock options are subject to the risk of forfeiture until the fulfillment of specified conditions.

### *Income Taxes*

The Company accounts for income taxes using the asset/liability method. 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. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

In June 2006, the FASB issued a new standard related to uncertain tax positions effective for the Company for fiscal 2008. This standard provides detailed guidance for the financial statement

## Notes to Consolidated Financial Statements (continued)

recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements. Uncertain tax positions must meet a recognition threshold of more-likely-than-not in order for those tax positions to be recognized in the financial statements. For fiscal years 2009 and 2008, the Company had no uncertain tax positions or unrecognized tax benefits. The Company expects no material changes to unrecognized tax positions within the next twelve months.

The Company's policy is to record estimated interest and penalties related to the underpayment of income taxes as a component of its income tax provision. As of September 26, 2009 and September 27, 2008, the Company had no accrued interest or tax penalties recorded.

### *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 Company adopted the provisions of new guidance in the area of *Fair Value Measurements and Disclosures*, effective for fiscal year 2009. This guidance defines fair value, establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value, as required by the guidance, must maximize the use of observable inputs and minimize the use of unobservable inputs.

The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The Company's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy. The adoption of this new guidance had no impact on TCC's financial position or results of operations.

### *Earnings per Share (EPS)*

The Company presents both a "basic" and a "diluted" EPS. Basic EPS is 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 2009 ended on September 26, 2009 and included 52 weeks. The fiscal year 2008 ended on September 27, 2008 and included 52 weeks.

### *Comprehensive Income*

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 26, 2009 and September 27, 2008 was equal to its net income for those periods.

## Notes to Consolidated Financial Statements (continued)

### *Operating Segments*

The Company reports on operating segments in accordance 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 May 2009, the Financial Accounting Standards Board (“FASB”) issued a pronouncement on subsequent event accounting. The pronouncement identifies the following: the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements; and the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. The pronouncement was effective for the Company’s second quarter of fiscal 2009, and there was no effect as a result of its adoption by TCC.

In June 2009, the FASB issued guidance on the FASB Accounting Standards Codification and the hierarchy of generally accepted accounting principles. The FASB Accounting Standards Codification, referred to as the Codification, is the single source of authoritative nongovernmental generally accepted accounting principles in the United States. The Codification was effective for interim and annual periods ending after September 15, 2009. The adoption of the Codification had no impact on the Company’s financial position or results of operations.

### (3) Income Per Share

Basic and diluted EPS were calculated as follows:

	<b>September 26, <u>2009</u></b>	<b>September 27, <u>2008</u></b>
Net Income	\$ <u>942,808</u>	\$ <u>1,060,810</u>
Weighted Average Shares Outstanding - Basic	1,444,427	1,414,101
Dilutive effect of stock options	<u>188,456</u>	<u>265,430</u>
Weighted Average Shares Outstanding - Diluted	<u>1,632,883</u>	<u>1,679,531</u>
Basic Net Income Per Share	\$ 0.65	\$ 0.75
Diluted Net Income Per Share	\$ 0.58	\$ 0.63

Outstanding potentially dilutive stock options, which were not included in the above calculations for the respective fiscal years because their effect would have been anti-dilutive, were as follows: 70,000 in fiscal year 2009 and 41,000 in fiscal year 2008.

### (4) Inventories

Inventories consist of the following:

	<b>September 26, <u>2009</u></b>	<b>September 27, <u>2008</u></b>
Finished goods	\$ 5,829	\$ 77,444
Work in process	511,514	589,700
Raw materials and supplies	<u>1,897,711</u>	<u>1,253,580</u>
Total inventories	<u>\$ 2,415,054</u>	<u>\$ 1,920,724</u>

## Notes to Consolidated Financial Statements (continued)

### (5) Equipment and Leasehold Improvements

Equipment and leasehold improvements consist of the following:

	<b>September 26, <u>2009</u></b>	<b>September 27, <u>2008</u></b>	<b><u>Estimated Useful Life</u></b>
Engineering and manufacturing equipment	\$ 1,477,156	\$ 1,416,678	3-8 years
Demonstration equipment	665,916	635,932	3 years
Furniture and fixtures	741,846	654,711	3-8 years
Leasehold improvements	<u>484,296</u>	<u>475,201</u>	Lesser of useful life or term of lease
Total equipment and leasehold improvements	3,369,214	3,182,522	
Less accumulated depreciation and amortization	<u>(3,029,707)</u>	<u>(2,915,050)</u>	
Equipment and leasehold improvements, net	<u>\$ 339,507</u>	<u>\$ 267,472</u>	

Depreciation expense was \$119,530 and \$61,144 for the fiscal years ended September 26, 2009 and September 27, 2008, respectively.

### (6) Other Accrued Liabilities

	<b>September 26, <u>2009</u></b>	<b>September 27, <u>2008</u></b>
Product warranty costs	\$ 46,675	\$ 61,708
Professional service fees	49,229	37,514
Annual report and investor relations fees	13,638	19,526
Customer support agreements and commissions	<u>5,034</u>	<u>50,158</u>
Total other accrued liabilities	<u>\$ 114,576</u>	<u>\$ 168,906</u>

### (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 each of the years ended September 26, 2009 and September 27, 2008 was \$159,000.

## Notes to Consolidated Financial Statements (continued)

### (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:

	<b>September 26, 2009</b>	<b>September 27, 2008</b>
Beginning Balance	\$ 61,708	\$ 49,121
Plus: accruals related to new sales	39,852	49,433
Less: payments and adjustments to prior period accruals	<u>(54,885)</u>	<u>(36,846)</u>
Ending Balance	<u>\$ 46,675</u>	<u>\$ 61,708</u>

### (9) Income Taxes

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

	<b>September 26, 2009</b>	<b>September 27, 2008</b>
Current:		
Federal	\$ 3,264	\$ 8,275
State	<u>8,121</u>	<u>8,105</u>
Total current taxes	<u>11,385</u>	<u>16,380</u>
Deferred:		
Federal	(491,294)	(75,000)
State	<u>-</u>	<u>-</u>
Total deferred taxes	<u>(491,294)</u>	<u>(75,000)</u>
Total (benefit) provision	<u>\$ (479,909)</u>	<u>\$ (58,620)</u>

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:

	<b>September 26, 2009</b>	<b>September 27, 2008</b>
Tax provision at U.S. statutory rate	\$ 157,386	\$ 340,745
State income tax provision, net of federal benefit	5,360	5,349
Other	4,062	(394)
Valuation allowance	<u>(646,717)</u>	<u>(404,320)</u>
Total (benefit) provision	<u>\$ (479,909)</u>	<u>\$ (58,620)</u>

## Notes to Consolidated Financial Statements (continued)

Deferred income taxes consist of the following:

	<b>September 26, <u>2009</u></b>	<b>September 27, <u>2008</u></b>
NOL carryforward	\$ 1,285,289	\$ 1,489,057
Inventory differences	1,135,742	1,121,516
Goodwill	13,699	34,241
Warranty accruals	18,796	24,850
Payroll related accruals	12,111	14,308
Tax credits	384,553	169,916
Other	<u>259,064</u>	<u>197,064</u>
Total	3,109,254	3,050,951
Less: valuation allowance	<u>(2,542,960)</u>	<u>(2,975,951)</u>
 Total	 <u>\$ 566,294</u>	 <u>\$ 75,000</u>

During fiscal 2009, \$491,294 of the deferred tax valuation allowance, related primarily to net operating loss carryforwards, 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 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 \$432,991 and \$487,295 in fiscal years 2009 and 2008, respectively, and related primarily to the reversal of the valuation allowance and the utilization of net operating loss carryforwards against taxable income.

As of September 26, 2009, the Company had available tax loss carryforwards for federal income tax purposes of approximately \$3,780,000, expiring through 2026. In addition, the Company had available research credits for federal income tax purposes of approximately \$262,000, expiring through 2029.

Due to the nature of the Company's 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.

The Company files income tax returns in the U.S. federal jurisdiction and in the state of Massachusetts. For U.S. federal and state tax purposes, the tax years 2005 through 2008 remain open to examination. In addition, the amount of the Company's federal and state net operating loss carryforwards may be subject to examination and adjustment.

### **(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 2009 or 2008. However, the Board of Directors approved a corporate match of \$0.25 per \$1.00 of the first 6% of each participant's contributions to the plan. The Company's matching contributions were \$39,386 and \$29,632 in fiscal years 2009 and 2008, 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 \$49,500 were accrued for executives at September 26, 2009 and \$110,000 at September 27, 2008.

## Notes to Consolidated Financial Statements (continued)

### (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 2009 and 2008.

The Company did not have any open standby letters of credit at September 26, 2009 or September 27, 2008.

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 its cash and cash equivalents.

### (12) Major Customers and Export Sales

In fiscal year 2009, the Company had three customers representing 76% (33%, 28% and 15%) of total net sales and at September 26, 2009 had two customers representing 87% (48% and 39%) of accounts receivable. 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.

A breakdown of net sales is as follows:

	<b>September 26, 2009</b>	<b>September 27, 2008</b>
Domestic	\$ 7,226,969	\$ 5,864,789
Foreign	<u>524,889</u>	<u>987,524</u>
Total Sales	<u>\$ 7,751,858</u>	<u>\$ 6,852,313</u>

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

	<b>September 26, 2009</b>	<b>September 27, 2008</b>
North America, excluding the U.S.	15.6%	0.8%
Central and South America	7.2%	64.7%
Europe	3.1%	9.6%
Mid-East and Africa	55.2%	19.5%
Far East	18.9%	5.4%

The Company sold products to 12 different countries during the year ended September 26, 2009 and 13 different countries during the year ended September 27, 2008. 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.

	<b>September 26, 2009</b>	<b>September 27, 2008</b>
Colombia	6.0%	64.7%
Saudi Arabia	52.6%	9.6%
Thailand	18.3%	5.3%
Mexico	15.6%	-
Other	7.5%	20.4%

## Notes to Consolidated Financial Statements (continued)

### (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.

### (14) Subsequent Events

The Company has evaluated subsequent events through December 18, 2009, the date which the consolidated financial statements were available to be issued.



**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 26, 2009 and September 27, 2008 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 26, 2009 and September 27, 2008 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/ Caturano and Company, P.C.  
CATURANO AND COMPANY, P.C.

Boston, Massachusetts  
December 18, 2009

**CORPORATE INFORMATION  
AS OF DECEMBER 2009**

**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**

Caturano and Company, P.C.  
Boston, Massachusetts

**GENERAL COUNSEL**

White, White & Van Etten LLP  
Cambridge, Massachusetts

**ANNUAL STOCKHOLDERS MEETING**

This year's annual meeting will be held Monday, February 8, 2010 at 10:00 a.m. at TCC's facilities in Concord, Massachusetts. The shareholder record date is December 11, 2009.

**STOCK EXCHANGE LISTING**

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

**10-K REPORT**

A copy of the Company's Annual Report on Form 10-K for 2009, 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 26, 2009.

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 • [tcinfo@tccsecure.com](mailto:tcinfo@tccsecure.com) • [www.tccsecure.com](http://www.tccsecure.com)