



**TECHNICAL COMMUNICATION CORPORATION**

**100 Domino Drive  
Concord, Massachusetts 01742**

**Annual Meeting of Stockholders  
February 11, 2013**



## TECHNICAL COMMUNICATIONS CORPORATION

### Notice of Annual Meeting of Stockholders To Be Held February 11, 2013

To Our Stockholders:

NOTICE IS HEREBY GIVEN that the 2013 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 11, 2013, to:

1. Elect one Class I Director to serve on the Board of Directors for a term of three years expiring at the 2016 Annual Meeting of Stockholders;
2. Hold a stockholder advisory vote on the compensation of the Company's named executive officers as disclosed in the proxy statement for the Meeting;
3. Ratify the appointment of McGladrey, LLP as the independent registered public accounting firm of the Company for the fiscal year ending September 28, 2013; and
4. 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 21, 2012 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 29, 2012, 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 11, 2013

***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 11, 2013**

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 2013 Annual Meeting of Stockholders to be held on February 11, 2013 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 2016 Annual Meeting of Stockholders;
- (2) a stockholder advisory vote on the compensation of the Company's named executive officers as disclosed in the proxy statement for the meeting; and
- (3) the ratification of McGladrey, LLP as the Company's independent registered public accounting firm for the fiscal year ending September 28, 2013.

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 21, 2012 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;
- the Proxy Statement for the meeting;
- the form of proxy card; and
- the Company's Annual Report to Stockholders for the fiscal year ended September 29, 2012.

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 on the card, as well as a stockholder's control/identification number(s).

**TECHNICAL COMMUNICATIONS CORPORATION**

100 Domino Drive  
Concord, MA 01742

**PROXY STATEMENT**  
**for the**  
**2013 Annual Meeting of Stockholders**

**February 11, 2013**

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 (“TCC” or the “Company”), for use at the Company’s 2013 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 11, 2013.

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 29, 2012 containing financial statements and other information of interest to stockholders, will be mailed to stockholders on or about January 11, 2013.

**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 21, 2012 (the “Record Date”) are entitled to notice of and to vote at the Meeting.

As of the Record Date, there were 1,838,716 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 AS RECOMMENDED BY THE BOARD OF DIRECTORS. Thus, proxies not marked to the contrary will be voted:

- in favor of the nominee for election to the Board,
- in favor of the compensation of our named executive officers as disclosed in this Proxy Statement, and
- in favor of ratification of the Company’s independent registered public accounting firm.

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 rule changes, brokers no longer have discretionary authority to vote for directors, including in uncontested elections. Moreover, rules adopted by the Securities and Exchange Commission in 2011 in response to the Dodd-Frank Wall Street Reform and Consumer Protection Act regarding “say on pay” and “say when on pay” proposals prohibit brokers from voting uninstructed shares on these matters.

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. Abstentions, broker non-votes and votes withheld will not be included in the totals for director elections, and will have no effect on the outcome of the vote.

The affirmative vote of the holders of a majority of the shares of Common Stock voting on the matter shall be required for the stockholder advisory vote on the compensation of the Company’s named executive officers as disclosed in the *Compensation* section (including the tables therein) of this Proxy Statement. Abstentions and broker non-votes will not be included in the totals for the proposal, and will have no effect on the outcome of the vote.

The affirmative vote of the holders of a majority of the shares of Common Stock voting on the matter is required for the ratification of the selection of the independent registered public accounting firm. Abstentions and broker non-votes will not be included in the totals for the proposal, 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.

## **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 2014 Annual Meeting of Stockholders; and the term of the Class III Directors expires at the 2015 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 on 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.

### **Nominee for Director**

One director is to be elected at the Meeting as the Class I director. 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 2016 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 21, 2012.

| <b><u>Name and Address<sup>(1)</sup></u></b> | <b><u>Year First Became a Director</u></b> | <b><u>Age</u></b> | <b><u>Positions and Offices with the Company</u></b>                             |
|--|--|-------------------|--|
| Mitchell B. Briskin                          | 1998                                       | 53                | Class I Director   |
| Francisco F. Blanco                          | 2011                                       | 70                | Class II Director  |
| Carl H. Guild, Jr.                           | 1997                                       | 68                | Class III Director, Chairman of the Board, Chief Executive Officer and President |
| Thomas E. Peoples                            | 1998                                       | 64                | Class III Director   |
| <b><u>Non-Director Officers</u></b>          |  |                   |  |
| Michael P. Malone                            | --   | 53                | Chief Financial Officer, Treasurer and Assistant Secretary                       |

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

### *Directors and Nominee*

**Mitchell B. Briskin.** Mr. Briskin has served as Vice President of Strategic Relationships at Thermalin Diabetes, LLC, a next-generation insulin development company, since April 2012. Formerly, Mr. Briskin was a Managing Director at Stonebridge Associates, LLC, an investment bank, where he has worked from 1999 to 2012. 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.

Mr. Briskin's qualifications for election to and service on the Board of Directors include his financial expertise and knowledge and his understanding of the Company's accounting practices and general accounting principles. Mr. Briskin's investment banking experience and legal education and experience add other valuable perspectives to the Board.

**Francisco F. Blanco.** Mr. Blanco is President and CEO of The Pola Group, LLC, a consulting firm focused on providing advice and assistance, strategic direction and creative business development solutions for commercial and government clients, where he has worked since 2010. From 2001 to 2010, Mr. Blanco was Executive Vice President of the Intelligence and National Security Alliance (INSA), a member-based non-profit, non-partisan, public-private organization that works to promote and recognize the highest standards within the national security and intelligence communities. Prior to joining INSA, Mr. Blanco was employed in a



variety of senior management and leadership positions during his 30-year tenure at the U.S. Department of Defense.

Mr. Blanco's qualifications for election to and service on the Board of Directors include his industry experience, his government experience and relationships with government leaders and agencies, his management and business development skills, and his in-depth understanding of the Company's products and their markets.

**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, a defense, homeland security and aerospace technology 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.

Mr. Guild's qualifications for election to and service on the Board of Directors include his management and leadership experience and financial acumen, his deep understanding of the Company's products, business and industry, including its international operations and customers, and his demonstrated commitment to TCC and its stockholders.

**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 also served in the U.S. Army between August 1966 and February 1987, retiring from service as a Lieutenant Colonel. He is also a former Board member and Treasurer of the National Guard Youth Foundation and was an appointed member of the U.S. Department of Defense Science Board from 2000 to 2002.

Mr. Peoples's qualifications for election to and service on the Board of Directors include his management and business experience, his government experience and relationships with government leaders and agencies, his business development skills and engineering expertise, and his in-depth understanding of the Company's products and their markets.

#### *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, which agreement is summarized under "Employment Agreements" in the *Compensation* section below.

## **Corporate Governance**

### *Board Composition and Independence; Meetings*

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 Listing 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 and acted once by written consent in lieu of a meeting during the fiscal year ended September 29, 2012. Each director attended 100% 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 2012.

### *Board Structure; Role in Risk Oversight*

The Board currently combines the role of Chairman of the Board with the role of Chief Executive Officer, with Carl H. Guild, Jr. serving in both capacities since 2001. The Board believes that combining these roles fosters clear accountability, effective decision-making and alignment on corporate strategy. The structure allows one person to speak for and lead the Company and avoids duplication of work and confusion about who is in charge. Given the Company’s historic size and financial results, and the requirement that members of the Board serve staggered terms, the Board has determined that neither dividing these roles nor designating a lead independent director is necessary or would result in significant benefits to the Company. The Board believes that its composition and membership – with 75% of its members considered independent - contribute to, and are currently sufficient for, effective independent oversight and minimize any potential conflicts that may result from the combination of the CEO and Chairman roles.

The Board of Directors oversees the business of the Company, including management performance and risk management, to assure that the long-term interests of TCC’s stockholders are being served. The process to identify, analyze, report and manage risks has been developed informally over time and involves managers reporting to the Chief Executive Officer and Chief Financial Officer, who in turn report to the Board on the significant risks facing the Company. Each risk is discussed and quantified when possible and a plan is developed to address and mitigate identified risks. Each committee of the Board is also responsible for reviewing the risk exposure of the Company related to the committee’s areas of responsibility and providing input to management and the Board on such risks. The Audit Committee is especially critical in this process, and such committee’s responsibilities include reviewing risk management and compliance programs and consulting with management and the Board on risk identification, measurement and mitigation.

## *Committees*

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, which consists of Messrs. Briskin (Chairman), Blanco and Peoples, held four meetings during fiscal year 2012. 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, reviewing, approving and/or ratifying related person transactions, 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 2012, the Audit Committee's charter was reviewed and reaffirmed without change.

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 and each of the other members of the Audit Committee are 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. Peoples (Chairman), Briskin and Blanco, and held four meetings during the 2012 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 Nasdaq 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 2012, the Governance Committee's

charter was reviewed and its contents reaffirmed without change. The Governance Committee must also annually evaluate its own performance.

The Board has 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 materially 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 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 does not have a formal policy with regard to the consideration of diversity when identifying and evaluating nominees but diversity may be considered when making nominations, including racial and ethnic diversity, gender, and diversity of personal and professional experiences, backgrounds, skills and qualifications.

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 members of the Board attended the 2012 Annual Meeting of Stockholders.

TCC'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 2012 fiscal year, or written representations from certain reporting persons that they were not required to file, the Company believes that during fiscal year 2012, its officers, directors, and beneficial owners of more than 10% of the Common Stock complied with all applicable Section 16(a) filing requirements, except Forms 4 for each of Mr. Guild, Mr. Briskin and Mr. Peoples that were due in May 2012 were not filed until December 2012.

## **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 \$80,000 for fiscal year 2012 and approximately \$83,000 for fiscal year 2011. There were no other transactions during fiscal years 2012 or 2011, 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 as a director or executive officer.

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 29, 2012.

The Audit Committee has reviewed and discussed the 2012 fiscal year audited financial statements with management. The Audit Committee has also discussed with the Company's independent registered public accounting firm, McGladrey, LLP, 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 29, 2012 be included in the Company's Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

*Audit Committee*  
Mitchell B. Briskin (Chair)  
Thomas E. Peoples  
Francisco F. Blanco

## COMPENSATION DISCUSSION AND ANALYSIS

As noted above, one role of the Compensation, Nominating and 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 of the Company, 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 stockholder 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 stockholder 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, such 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. Bonuses and equity incentives have historically been granted in periods during which the Company's financial performance have supported such awards, including for fiscal years 2010 and 2011. Executive officers have not received these components of compensation, such as for the 2012 fiscal year, when the Company's operating results have not been positive and/or the recipients have not achieved specified performance milestones.

The Company also has in place retirement and change of control arrangements with its two named executive officers, who 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 bonuses 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 – traditionally the 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 Governance Committee 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 by management, subject to review by the Governance Committee, 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 2012, the maximum bonus opportunity for each of the Company's CEO and CFO was set at 65% and 40%, respectively, of their annual base salaries. The percentage of bonus opportunity and performance milestones were as follows for the named executive officers:

- 25% of the bonus opportunity was tied to the establishment of a strategic relationship with a potential partner during the 2012 fiscal year;
- up to 15% of the bonus opportunity was tied to the achievement of backlog value (defined as the average of backlog on the final business day of the third and fourth quarters of the 2012 fiscal year) of \$3 million or greater during the 2012 fiscal year, with the full 15% being awarded for backlog value of \$5 million; and
- up to 60% (30% for the CFO) of the bonus opportunity was tied to profit before tax (computed after the payment of employee incentives but prior to executive bonus payments and stock option expensing) of at least \$1.9 million for the 2012 fiscal year, with the full amount being awarded for profit before taxes of \$2.9 million.

For Mr. Malone, our Chief Financial Officer, 30% of his bonus opportunity was based on his achievement of additional responsibilities outlined by Mr. Guild and the Governance Committee, including for fiscal year 2012 the realization of specified tax savings and an improvement of yields on cash and cash equivalents held by the Company.

### *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 stock options to its employees and directors as the equity component of compensation, which provide recipients the opportunity to purchase shares of our Common Stock upon vesting 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, with input from Mr. Guild, of each individual's position within the Company, his or her performance, and his or her growth potential and that of the Company.

### Equity Plans

The Company currently administers three plans that provide for the grant of equity incentive compensation to officers, directors and employees. 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 incentives to recipients, and promote the success of the Company's business. Under 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 was permitted to be set at any price for non-qualified options. The maximum term for any option granted under the 2001 Plan was 10 years; vesting periods are at the Board's discretion and typically ranged between zero and five years. The 2001 Plan expired on August 2, 2011 and as of December 21, 2012, no shares remained available for awards under such plan.

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 21, 2012, the Company had issued a total of 152,972 options pursuant to the 2005 Plan and 47,028 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.

The Technical Communications Corporation 2010 Equity Incentive Plan, which was amended and restated in December 2010 (as amended and restated, the “2010 Plan”) provides for the issuance of up to 200,000 shares of Common Stock pursuant to awards of stock options (incentive and non-qualified), stock appreciation rights or “SARs”, and restricted stock to employees, directors and consultants to the Company. The stated purpose of the 2010 Plan is to promote the success and interests of the Company and its stockholders by permitting and encouraging participants to obtain a proprietary interest in the Company through the grant of awards that are consistent with the Company’s goals and that link the personal interests of participants to those of the Company’s stockholders. The 2010 Plan is further intended to enable the Company to attract, retain and motivate those whose services are critical to the success of the Company and align the interests of such individuals with those of the Company. Determinations as to award recipients, duration, price, vesting and performance requirements and other material terms are made by the Governance Committee, although there are specific requirements as to the price and term of certain awards depending on the award type and recipient. If any award under the 2010 Plan is canceled, terminates, expires or lapses for any reason without having been exercised in full, any shares subject to such award that remain unpurchased will be available for future grant. In addition, any shares retained by the Company upon exercise of an award in order to satisfy the exercise price of such award, or any withholding taxes due with respect to such exercise, shall be treated as not issued and shall continue to be available. At the same time, shares issued under the 2010 Plan and later repurchased by the Company are not available for future grant or sale. As of December 21, 2012, the Company had issued options to purchase an aggregate 147,614 shares pursuant to the 2010 Plan and 52,386 shares were still available for awards.

*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. A description of the severance arrangements with the Company’s named executive officers follows.

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

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, Treasurer and Chief Financial Officer

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 "perks" or similar 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 retirement 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 2012 was set at \$285,000, effective March 1, 2012, and was \$270,000 for fiscal year 2011 and the first half of fiscal year 2012.

Mr. Guild received no bonus for the fiscal year ended September 29, 2012 due to the Company's financial condition at year-end and Mr. Guild's failure to achieve any of the specified performance milestones set forth above under the discussion of the Executive Bonus Program for 2012.

Mr. Guild received an \$87,750 annual performance bonus for fiscal year 2011. This bonus was fully accrued but unpaid as of the Company's 2011 fiscal year-end, September 24, 2011, but was paid to Mr. Guild as of December 31, 2011. Mr. Guild's annual performance bonus for fiscal 2011 was a result of the Company's strong financial performance during and at year-end. Nevertheless, the bonus amount represented only 65% of the full bonus potential as a result of Mr. Guild only achieving a portion of the bonus objectives established for him under the Executive Bonus Program for the 2011 fiscal year.

In fiscal 2012, 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 May 3, 2012 under the 2005 Plan at an exercise price of \$10.20 per share with a term of 10 years, and vested immediately. In February 2011, stockholders approved the 2010 Plan. As a result, non-qualified options granted to Mr. Guild in July 2010 under such plan to purchase 18,900 shares of Common Stock at an exercise price of \$11.51 per share were ratified and approved. Such options vest as to 20% of the shares on each of the first five anniversaries of the date of grant and have a 10 year term. Mr. Guild also was awarded a non-qualified option to purchase 3,500 shares of Common Stock for his service as a director during fiscal 2011. See "Director Compensation" in the *Compensation* section below for more information regarding such director 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.

#### **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 2012 was set at \$160,000, effective March 1, 2012, and was \$150,000 for fiscal year 2011 and the first half of fiscal year 2012.

Mr. Malone received no bonus for the fiscal year ended September 29, 2012 due to the Company's financial condition at year-end and Mr. Malone's failure to achieve any of the specified performance milestones set forth above under the discussion of the Executive Bonus Program for 2012, including his individual additional responsibilities outlined by Mr. Guild and the Governance Committee.

Mr. Malone received a \$29,250 annual performance bonus for fiscal year 2011. This bonus was fully accrued but unpaid as of the Company's 2011 fiscal year-end, September 24, 2011, but was paid to Mr. Malone as of December 31, 2011. Mr. Malone's annual performance bonus for fiscal 2011, much like that of Mr. Guild, represented only 65% of the full bonus potential as a result of Mr. Malone only achieving a portion of the bonus objectives established for the year.

As noted above, stockholders approved the 2010 Plan in February 2011. As a result, non-qualified options granted to Mr. Malone in July 2010 under such plan to purchase 10,501 shares of Common Stock at an exercise price of \$11.51 per share were ratified and approved. Such options vest as to 20% of the shares on each of the first five anniversaries of the date of grant and have a 10 year term. Mr. Malone was not awarded any other options during fiscal years 2012 or 2011.

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 2012, 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.

## **Say on Pay Proposals and Votes**

As discussed under Proposal II below, stockholders will have the opportunity to cast their vote on the compensation of TCC's named executive officers as described in this Proxy Statement at the Meeting. The advisory vote will not be binding on the Governance Committee or the Board of Directors. However, the Governance Committee and the Board will review the voting results and any concerns raised by stockholders will be considered when determining future compensation arrangements and making decisions about future compensation programs and practices. The Board and Governance Committee also may consult directly with stockholders to better understand any issues and concerns. In the prior two years, stockholders (not including broker non-votes) have voted in favor of the compensation of the Company's named executive officers. Stockholders also voted in favor of including an advisory vote on executive compensation in the Company's proxy materials every year as recommended by the Board, which annual vote the Board has implemented.



## 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 2012 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<br/>and<br/>Principal Position</u>   | <u>Year</u> | <u>Salary<br/>(\$)</u> | <u>Bonus<br/>(\$)</u> | <u>Option<br/>Awards<br/>(\$)</u> | <u>All<br/>Other<br/>Compensation<br/>(\$)</u> | <u>Total<br/>(\$)</u> |
|--|-------------|------------------------|-----------------------|-----------------------------------|--|-----------------------|
| <b>Carl H. Guild, Jr.</b><br>President, Chief<br>Executive Officer<br>and Chairman           | 2012        | \$278,659(1)           | --                    | \$15,725<br>(2)                   | \$6,102<br>(3)                                 | \$300,486             |
|  | 2011        | \$270,005              | \$87,750<br>(4)       | \$120,055<br>(5)(6)               | \$4,752<br>(3)                                 | \$482,562             |
| <b>Michael P. Malone</b><br>Chief Financial Officer,<br>Treasurer and Assistant<br>Secretary | 2012        | \$155,782(7)           | --                    | --                                | \$5,883<br>(8)                                 | \$161,665             |
|  | 2011        | \$150,010              | \$29,250<br>(9)       | \$58,009<br>(10)                  | \$3,531<br>(8)                                 | \$240,800             |

- (1) Mr. Guild’s annual base salary was set at \$285,000 effective March 1, 2012. His annual salary prior to March 1, 2012 was \$270,000.
- (2) Amount represents an award on May 3, 2012 of a non-qualified option to purchase 3,500 shares of Common Stock at \$10.20 per share, which vested in full on that date and has a 10 year term. 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 2012: dividend yield of 4%, expected volatility of 68%, risk-free interest rate of 0.83%, and expected life of 6.5 years.
- (3) Includes the Company’s 25% match on the first 6% and 30% match on the second 6% of Mr. Guild’s 401(k) contribution for fiscal 2012, and the Company’s 25% match on the first 6% of Mr. Guild’s 401(k) contribution for fiscal 2011. Also includes life insurance premiums paid by the Company of \$840 and \$792, respectively, for each of fiscal years 2012 and 2011.
- (4) The bonus amount of \$87,750 for fiscal 2011 was accrued but unpaid at September 24, 2011, and paid as of December 31, 2011.
- (5) Amount includes an award on May 5, 2011 of a non-qualified option to purchase

3,500 shares of Common Stock at \$9.77 per share, which vested in full on that date and has a 10 year term. Such award was made to Mr. Guild for his service as a director of the Company. The dollar amount presented includes 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 2011: dividend yield of 4%, expected volatility of 70%, risk-free interest rate of 2.0%, and expected life of five years.

- (6) Amount also includes an award on July 29, 2010 of a non-qualified option to purchase 18,900 shares of Common Stock at \$11.51 per share, which vests as to 20% of the shares on each of the first five anniversaries of the date of grant and has a 10 year term. The dollar amount presented includes 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 2010: dividend yield of zero, expected volatility of 75%, risk-free interest rate of 1.5%, and expected life of five years. These options were not included in Mr. Guild's compensation for 2010 because they were subject to approval of the 2010 Plan by stockholders, which was obtained in February 2011.
- (7) Mr. Malone's annual base salary was set at \$160,000 effective March 1, 2012. His annual salary prior to March 1, 2012 was \$150,000.
- (8) Includes the Company's 25% match on the first 6% and 30% match on the second 6% of Mr. Malone's 401(k) contribution for fiscal 2012, and the Company's 25% match on the first 6% of Mr. Malone's 401(k) contribution for fiscal 2011. Also includes life insurance premiums paid by the Company of \$840 and \$792, respectively, for each of fiscal years 2012 and 2011.
- (9) The bonus amount of \$29,250 for fiscal 2011 was accrued but unpaid at September 24, 2011, and paid as of December 31, 2011.
- (10) Amount represents an award on July 29, 2010 of a non-qualified option to purchase 10,501 shares of Common Stock at \$11.51 per share, which vests as to 20% of the shares on each of the first five anniversaries of the date of grant and has a 10 year term. 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 2010: dividend yield of zero, expected volatility of 75%, risk-free interest rate of 1.5%, and expected life of five years. These options were not included in Mr. Malone's compensation for 2010 because they were subject to approval of the 2010 Plan by stockholders, which was obtained in February 2011.

For further 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 \$285,000 effective March 1, 2012 from \$270,000, and he received a performance award in the amount of \$87,750 for fiscal 2011. No performance award was earned in fiscal 2012.

For a more in-depth discussion of Mr. Guild's right to receive annual performance bonuses and his right to severance and change in control payments, see 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 increased to \$160,000 effective March 1, 2012 from \$150,000, and he received a performance award in the amount of \$29,250 for fiscal 2011. No performance award was earned in fiscal 2012.

For a more in-depth discussion of Mr. Malone's right to receive annual performance bonuses and his right to severance and change in control payments, see 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 held by our named executive officers outstanding as of the end of the Company's 2012 fiscal year, which date was September 29, 2012.

**Option Awards**

| <b><u>Name</u></b> | <b>Equity Incentive Plan Awards:</b>                                       |  | <b>Number of Securities Underlying Unexercised Unearned Options (#)</b> | <b>Option Exercise Price (\$)</b> | <b>Option Expiration Date</b> |
|--------------------|--|--|---|-----------------------------------|-------------------------------|
|                    | <b>Number of Securities Underlying Unexercised Options (#) Exercisable</b> | <b>Number of Securities Underlying Unexercised Options (#) Unexercisable</b> |   |                                   |                               |
| Carl H. Guild, Jr. | 3,500 (1)  | --   | --  | 7.02                              | 02/08/20                      |
|                    | 7,560 (2)  | 11,340 (2)   | --  | 11.51                             | 07/29/20                      |
|                    | 3,500 (3)  | --   | --  | 9.77                              | 05/05/21                      |
|                    | 3,500 (4)  | --   | --  | 10.20                             | 05/03/22                      |
| Michael P. Malone  | 10,000 (5)   | --   | --  | 3.00                              | 11/10/15                      |
|                    | 4,200 (2)  | 6,301 (2)  | --  | 11.51                             | 07/29/20                      |

- (1) Granted on February 8, 2010 under the 2005 Plan; options have 10 year term and were fully vested as of February 8, 2010.
- (2) Granted on July 29, 2010 under the 2010 Plan; options have 10 year term and vest as to 20% of the shares on each of the first five anniversaries of the date of grant.
- (3) Granted on May 5, 2011 under the 2010 Plan; options have 10 year term and were fully vested as of May 5, 2011.
- (4) Granted on May 3, 2012 under the 2005 Plan; options have 10 year term and were fully vested as of May 3, 2012.
- (5) Granted 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 currently administers three plans that provide for the grant of equity incentive compensation to officers, directors and employees: the Technical Communications Corporation 2010 Equity Incentive Plan (as amended and restated), the 2005 Non-Statutory Stock Option Plan and the 2001 Stock Option Plan. At December 21, 2012, there were an aggregate of 750,000 shares authorized under these plans, of which 245,202 were outstanding and 99,414 were available for future grant. 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 or a committee thereof. 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 2012*

On May 3, 2012, the Board of Directors granted to each of the members of the Company's Board of Directors, except Mr. Blanco who is not eligible for option grants until he

has completed one year of service, options under the 2005 Plan to purchase 3,500 shares of Common Stock, for an aggregate 10,500 shares. These non-qualified stock options, which are exercisable at \$10.20 per share, vested immediately and have a term of 10 years. Such grants were the only grants of stock options made to executive officers and directors of the Company during the 2012 fiscal year.

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

No retirement, severance or similar compensation was paid to any employee during the 2012 fiscal year. For a description of the amounts that may be payable to our named executive officers upon their resignation, retirement, termination or a change in control, 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 29, 2012. Mr. Guild, our President, CEO and Chairman of the Board of Directors, did not receive any compensation for his service as a director during the 2012 fiscal year other than the option grant discussed above.

| <b><u>Name</u></b>  | <b><u>Fees Earned or<br/>Paid in Cash</u></b><br>(S) | <b><u>Option Awards</u></b><br>(S) | <b><u>All Other<br/>Compensation</u></b><br>(S) | <b><u>Total</u></b><br>(S) |
|---------------------|--|------------------------------------|---|----------------------------|
| Mitchell B. Briskin | \$30,100<br>(1)                                      | \$15,725<br>(2)(3)                 | -   | \$45,825                   |
| Thomas E. Peoples   | \$24,500<br>(1)                                      | \$15,725<br>(2)(3)                 | -   | \$40,225                   |
| Francisco F. Blanco | \$18,000<br>(1)                                      | --                                 | -   | \$18,000                   |

- (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. Mr. Blanco’s fees are for the three quarters he served on the Board of Directors in fiscal 2012.
- (2) Amount represents the award on May 3, 2012 of a non-qualified option to purchase 3,500 shares of Common Stock at \$10.20 per share, which vested immediately and has a 10 year term. 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 2012: dividend yield of 4%, expected volatility of 68%, risk-free interest rate of 0.83%, and expected life of 6.5 years.
- (3) Mr. Peoples had 22,500 options outstanding at the 2012 fiscal year-end, all of which were fully vested and exercisable. Mr. Briskin had 17,500 options outstanding at the 2012 fiscal year-end, all of which were fully vested and exercisable.

Board members receive a Board meeting fee of \$2,500 per meeting attended (whether in person or via telephone conference, so long as the duration of the meeting attended exceeds 30 minutes). Board members also receive a quarterly stipend of \$3,500 for their service. Members of the Audit Committee are paid \$1,000 for each Audit Committee meeting that is not held in connection with a regularly scheduled Board meeting, and the Audit Committee Chairman receives a quarterly stipend of \$400 in addition to the stipend he receives as a director of the Company. Members of the Governance Committee receive \$500 for each meeting that is held other than in connection with a regularly scheduled meeting of the Board of Directors.

Commencing in 2008, directors are annually 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 grant. Stock options granted to directors are considered non-qualified and vest immediately. Each grant expires 10 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.

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 during fiscal year 2012 commensurate with their responsibilities to the Company and appropriate for a company of TCC's size and revenues.

## **PROPOSAL II. STOCKHOLDER ADVISORY VOTE ON EXECUTIVE COMPENSATION**

As a result of the passage in July 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Reform Act”) and in compliance with Section 14A of the Exchange Act, stockholders have the opportunity to cast a non-binding, advisory vote on the compensation of executives as described in a company’s proxy statement, otherwise known as “say on pay” proposals. The legislation makes clear that these votes do not overrule a Board’s compensation decisions, impose additional fiduciary duties on the Board, or limit stockholders’ ability to make other compensation-related proposals.

The Company’s guiding compensation philosophy, as discussed above in *Compensation Discussion and Analysis*, is to provide compensation that rewards individual and organizational performance and align such compensation with the interests of long-term stockholders. 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.

We believe that the Company’s executive compensation programs have been effective at providing appropriate incentives for the achievement of targeted results, aligning pay and performance, creating an ownership culture in which award recipients think and act like stockholders, and in enabling TCC to attract and retain some of the most talented executives in the communications security device and system industry.

Revenues for the 2012 fiscal year were \$8,117,000 with a net loss of \$841,000 or \$(0.46) per share, and operating expenses for the year increased by 22% as compared to the 2011 fiscal year. The fiscal 2012 results were largely due to a continuing slowdown in sales principally driven by delays in the receipt of certain key contracts for Mid-East customers, partially offset by strong sales of our radio applications. While the Company sold several products, including its universal radio encryption system, its military grade network encryptors and encryptors for use in private satellite communications systems, revenues from these sales were used to fund the Company’s planned increase in research and development that began in fiscal 2011, which negatively impacted operating results for the year. The Company expects that sales will improve over the next 18 months and hopes to experience increased demand for communications security, although resources will continue to be committed to internal product development during the 2013 fiscal year and beyond.

Compensation actions taken with respect to fiscal 2012 for TCC’s named executive officers reflected the Company’s results. Specifically, in recognition of both the Company’s poor financial performance and poor individual achievement of performance milestones, no annual performance bonuses were awarded to our CEO or CFO for fiscal year 2012. Stockholders are encouraged to read the *Compensation Discussion and Analysis* and *Compensation* sections of this Proxy Statement for a more detailed discussion of how the Company’s compensation programs reflect our overarching compensation philosophy and core principles and how such philosophy and principles were implemented when making compensation decisions for 2012.

Our Board values constructive dialogue on compensation and other governance topics, and recognizes the interest that investors have in executive compensation. In response to the passage of the Reform Act and in recognition of growing support for advisory votes on compensation and our stockholders’ say-on-pay and say-when-on-pay votes at the Company’s

2010 annual meeting, stockholders now have the opportunity to vote on an advisory resolution concerning the compensation of our executives on an annual basis.

Accordingly, stockholders are being asked to vote on the following resolution at the Meeting:

**RESOLVED**, that the compensation paid to the Company's named executive officers as disclosed in the *Compensation* section (including the tables and narrative discussion therein) of this Proxy Statement be hereby APPROVED.

Stockholders will have the opportunity to vote for or against such resolution, or abstain from voting. The affirmative vote of the holders of a majority of the shares of Common Stock voting on the matter shall be required to approve the stockholder advisory vote on executive compensation as disclosed in this Proxy Statement. Abstentions and broker non-votes will not be included in the totals for the proposal, and will have no effect on the outcome of the vote.

The advisory vote will not be binding on the Governance Committee or the Board of Directors. However, the Governance Committee and the Board will review the voting results and any concerns raised by stockholders will be considered when determining future compensation arrangements and making decisions about future compensation programs and practices. The Board and Governance Committee also may consult directly with stockholders to better understand any issues and concerns.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR"  
THE ADVISORY RESOLUTION APPROVING EXECUTIVE COMPENSATION.**



**PROPOSAL III. RATIFICATION OF SELECTION OF  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**Independent Registered Public Accounting Firm**

The Audit Committee has selected the firm of McGladrey, LLP (formerly McGladrey & Pullen, LLP, “McGladrey”), independent certified public accountants, to serve as the Company’s independent registered public accounting firm for the fiscal year ending September 28, 2013. McGladrey acted as the Company’s independent registered public accounting firm for the 2012 and 2011 fiscal years.

It is expected that a member of McGladrey will be present at the Meeting and will be available to respond to appropriate questions and make a statement if he so desires.

**Fees**

*Audit Fees.* The aggregate fees billed by McGladrey for professional services rendered for the audit of the Company’s annual financial statements for fiscal years 2012 and 2011, and the reviews of the financial statements included within the Company’s quarterly reports during fiscal years 2012 and 2011, were approximately \$25,800 (of total audit fees for fiscal 2012 of \$67,400, the remainder of which will be billed in fiscal year 2013) and \$66,860, respectively.

*Audit-Related Fees.* No fees were billed by McGladrey 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 2012 and 2011.

*Tax Fees.* The aggregate fees billed by McGladrey for professional services rendered for tax compliance, tax advice and tax planning for the Company for each of fiscal years 2012 and 2011 were approximately \$18,485 and \$16,600, 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 McGladrey for products and services provided other than those otherwise described above for fiscal years 2012 and 2011.

**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 2012, the Audit Committee pre-approved all such services performed by McGladrey.

**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 on the matter is required for the ratification of the selection of the independent registered public accounting firm. Abstentions and broker non-votes will not be included in the totals for the proposal, 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 2013.**

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows, as of December 21, 2012, the beneficial ownership of Common Stock of the Company 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 TCC's current directors and nominees, (iii) each of the Company's named executive officers, and (iv) all current directors and executive officers of the Company as a group. As of December 21, 2012, there were 1,838,716 shares of Common Stock outstanding.

| <u>Name and Address of Beneficial Owner<sup>(1)</sup></u>                  | <u>Amount and Nature of Beneficial Ownership<sup>(1)</sup></u> | <u>Percent of Class</u> |
|--|--|-------------------------|
| Francisco F. Blanco  | -  | -                       |
| Mitchell B. Briskin  | 24,277(2)  | 1.3%                    |
| Carl H. Guild, Jr.   | 316,019(3)   | 17.0%                   |
| Thomas E. Peoples  | 22,590(4)  | 1.2%                    |
| Michael P. Malone  | 94,455(5)  | 5.1%                    |
| <b>All current directors and executive officers as a group (5 persons)</b> | 457,341(6)   | 23.9%                   |

- (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 21, 2012, 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. Blanco, Briskin, Guild, Peoples and Malone is c/o Technical Communications Corporation, 100 Domino Drive, Concord, Massachusetts 01742.
- (2) Includes 17,500 shares issuable upon the exercise of stock options.
- (3) Includes 18,060 shares issuable upon the exercise of stock options. Includes 297,959 shares held jointly by Mr. Guild and his wife.
- (4) Includes 22,500 shares issuable upon the exercise of stock options.
- (5) Includes 14,200 shares issuable upon the exercise of stock options.
- (6) Includes an aggregate 72,260 shares issuable upon the exercise of stock options.

### Change in Control

The Company knows of no arrangements (including any pledge by any person of securities of TCC) 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 2014 Annual Meeting**

Proposals of stockholders for inclusion in the Proxy Statement and form of proxy, including director nominees, for the Company's 2014 Annual Meeting of Stockholders must be received by the Company at its principal executive offices no later than September 13, 2013, and must comply with the applicable requirements of federal securities laws and the Company's nomination procedures as discussed herein. 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 27, 2013. 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 by such individuals.

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 2012 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 Commission for the fiscal year ended September 29, 2012. 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 29, 2012

- ( ) 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 001-34816

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:

Common Stock, \$0.10 par value  
(Title of each class)

NASDAQ Capital Market  
(Name of each exchange on which registered)

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

Not applicable  
(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

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 24, 2012, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$16,773,118.

The number of shares of the registrant's common stock, par value \$ 0.10 per share, outstanding as of December 14, 2012 was 1,838,716.

Portions of the Company's Definitive Proxy Statement to be delivered to shareholders in connection with the Company's 2013 Annual Meeting of Shareholders to be held February 11, 2013 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 29, 2012

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Item 1. **BUSINESS**

Technical Communications Corporation (“TCC” or the “Company”) was organized in 1961 as a Massachusetts corporation to engage primarily in consulting activities. Since the late 1960s, the business has consisted entirely of the design, development, manufacture, distribution, marketing and sale of communications security devices and systems. The secure communications solutions provided by TCC protect vital information transmitted over a wide range of data, fax and voice networks. TCC’s products have been sold into over 115 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 recipients 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.

## 2012 Highlights and Recent Events

The Company experienced a slowdown in sales during fiscal 2012 principally driven by delays in the receipt of certain key contracts for Mid-East customers. This situation was a result of the political unrest in the region, which diverted foreign government attention to domestic issues. We expect that these market areas will recover during the next 18 months and the Company hopes to experience increased demand for communications security due to the turnover in governing administrations.

During fiscal 2012, TCC delivered its DSP9000 universal radio encryption system for use in Afghanistan, its DSD72A-SP military grade network encryptors for use in Taiwan and its TCC CX series encryptors for use in private satellite communications systems. TCC also continued its commitment to internal product development by completing key milestones in the expansion of our SONET/STM and IP network product lines.

Revenues in fiscal 2012 were \$8,117,000 with a net loss of \$841,000 or \$0.46 per share. The fiscal 2012 results are largely due to the continuing slowdown in sales of our encryption products for foreign military networks, partially offset by strong sales for radio applications. TCC's backlog at the end of the year was \$315,000 and was \$1,773,000 as of December 7, 2012.

In fiscal 2012, TCC delivered \$5.7 million of its DSP 9000 universal radio encryption systems for use by both the coalition and indigenous forces in Afghanistan. TCC's DSP 9000 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 DSP 9000 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 that may be using radios produced by different manufacturers. We believe that the DSP 9000 system provides a universal encryption solution that is readily deployable, cost effective and adaptable to meet unique user requirements.

TCC also delivered \$1.2 million of network encryptors to Raytheon Company for deployment in the Republic of China (Taiwan) with the Patriot Air Defense System in fiscal 2012. This equipment is from TCC's DSD 72A-SP product line of high performance encryptors used worldwide in tactical and strategic networks requiring strong encryption security and high reliability. The equipment delivered for Taiwan provides network encryption equipment for system expansion.

Revenues from these sales during fiscal 2012 were used to fund the Company's planned increase in research and development that began in fiscal 2011. This increased internal product development was focused on the development of new products to provide platforms for future growth and a basis for collaboration with OEMs.

TCC initiated the development of a low cost, battery-powered, pocket encryptor to be compatible with our DSP 9000 system and capable of interoperating with essentially all VHF and HF radios during the year. This encryptor, called the HSE 6000, is designed to respond to the many customer requests for a man-borne solution that provides universal encryption capability and is now available as a commercially available solution for military, border patrol, and police forces.

TCC also completed development of new DSD 72A-SP equipment upgrades that allow customers to use new radios, multiplexers and switches in its 2012 fiscal year. In 2011, a new multi-interface system designed to give users the capability of matching a single encryptor to a multiple interface radio was successfully tested by a major user. Procurement of this system up-grade was expected in 2012 but, as mentioned above, has been delayed due to political unrest. Current expectations are that the procurement will proceed in 2013.

For future military network security requirements, TCC completed the development of a very high speed version of the DSD 72A capable of speeds of 155mbs and 622mbs (STM1 and STM4) over fiber optic and electrical interfaces. Customer field tests of TCC's new STM encryptors were successfully completed in fiscal 2012 and we expect that users of the DSD 72A system will consider these devices for their upcoming network expansions.

## 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 95% of revenue for the Company over the previous two fiscal years. These products have proven to be highly durable, which has led to significant repeat business from our government 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. We have also developed new products for the line, beginning with the introduction in 2005 of a new secure wireless mobile phone, the first in a new line of secure wireless products. During 2007, we introduced a new flip phone model, during 2009 we introduced a new keyboard/PDA secure wireless phone and a new desktop encryptor, and in 2012 we introduced an IP-based phone to this product line. The market for the secure wireless mobile phones continues to develop modestly.

Although we believe our Network Security Systems products are competitive, 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 has 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 of its products upon a customer's 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.

### **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. In October 2010, TCC announced the introduction of a new family of high speed SONET/SDH encryptors capable of operating on fiber optic networks. These encryptors have been designed to meet a wide range of environmental and operational requirements and have been shown to provide a high level of security in a wide range of deployment conditions.

The Company's Narrowband Radio Security family of products offers 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 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 interfaces, 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 inaugural product in the Company's new line of secure wireless products first introduced in 2005. During fiscal 2012 the Company introduced a new IP-based secure wireless product, which is designed to set up secure calls with all GSM bands, GPRS, EDGE, and 3G. In addition, it can establish secure calls connecting directly to the Internet via Wi-Fi, USB and satellite links, all without need for a SIM card.

## **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 Group, Motorola Solutions, 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 2012, the Company had two customers representing 85% of total net sales. These sales consisted of sales of our radio encryptors to a radio manufacturer for deployment in Afghanistan representing 70% of sales and sales of our bulk encryptors to Raytheon for a Patriot Missile upgrade program in Taiwan representing 15% of sales. In fiscal year 2011, the Company had two customers representing 82% of total net sales. These sales consisted of sales of our radio encryptors to a radio manufacturer for deployment in Afghanistan representing 67% of sales and sales of our bulk encryptors to Raytheon for a Patriot Missile upgrade program in Taiwan representing 15% of sales.

The Company sells directly to customers, original equipment manufacturers ("OEMs") 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 of the order date. Because of the possibility of customer changes in delivery schedules or the 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 29, 2012 and September 24, 2011 was approximately \$315,000 and \$5,190,000, 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 and 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 government's recognition of the technology available from foreign sources and the need to allow domestic 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.

The costs and effects of compliance by the Company with applicable environmental laws during fiscal 2012 were and historically have been immaterial. In the event the Company's sales to Europe increase, the Company may have to incur additional costs to provide for the disposal of its products in compliance with applicable laws.

### 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's internal manufacturing process consists primarily of adding critical components, final assembly, quality control, testing and system burn-in. Delivery times vary depending on the products and options ordered.



## Technological Expertise

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

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

TCC has been designing and producing secure, cryptography-based communications systems for over 50 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 29, 2012 and September 24, 2011, the Company spent \$4,421,000 and \$3,530,000, respectively, on internal product development. In fiscal 2012, the Company's internal product development expenses were higher than prior years but in line with its planned commitment to research and development, and reflected the costs of product testing and production readiness efforts. It is expected that development expenses will decrease by about 25% in fiscal 2013 as compared to fiscal 2012.

By the middle of fiscal 2013, the Company anticipates the development of three new products and expects to reorient its development investment toward collaborative product developments with major OEMs. Initial work began in 2012 to establish these technical partnerships and we expect that full-scale development will begin in mid-2013. The resulting products will be imbedded proprietary encryption solutions which will significantly enhance the value of the OEMs products and allow TCC encryption to be carried to the market by major equipment providers.

In 2012, TCC completed systems testing and initiated field testing of our high speed SONET/SDH optical encryptor called the 72B, which provides full-rate encryption capability at 155mbs and 622mbs speeds. This encryptor is designed to be compliant with the Federal Information Processing Standard ("FIPS") level 140-2 and is being offered in three configurations covering applications for commercial telecommunications providers through highly ruggedized military and government requirements. TCC

expects that the 72B encryptor family will provide fully interoperable operations between office and harsh field environments.

Also in 2012, TCC substantially completed development of the HSE 6000, a low cost, battery powered man-borne encryptor that provides highly secure communications between personnel and base command units. The HSE 6000 is designed for the rugged environments of military and police operations and can function with most VHF and HF radios systems. The HSE 6000 can interoperate with the TCC DSP 9000 Radio Encryption System which is deployed extensively throughout the world. Customer field testing is expected to begin in early 2013.

In 2011, TCC began development of an advanced, 100Mbs through 1Gbs family of IP encryptors and the KeyNet Optical Management system to service private network markets for government, military and satellite users. This new network product, named the CX7211, is scheduled for installation with initial customers in early 2013. The CX7211 is the first IP encryptor that is expandable, which allows its throughput capacity to be easily increased as network loads increase. TCC believes this feature makes the CX7211 very cost-effective for new installations and very easy to expand when the market demands it.

### Foreign Operations

The Company is dependent upon its foreign sales. Although foreign sales were more profitable than domestic sales during fiscal years 2012 and 2011 because the mix of products sold abroad included a greater number of 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, foreign and domestic 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. and foreign 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 2012 and 2011, sales directly to international customers accounted for approximately 11.8% and 2.4%, respectively, of our net sales. During those periods a significant portion of domestic sales (70% and 67%, respectively) were made to a domestic radio manufacturer that shipped our radio encryption products overseas for use in Afghanistan. In addition, we completed shipments of products delivered to the Government of Egypt representing 5% of sales under a contract with the U.S. Army during the 2011 fiscal year. Based on our historical results we expect that international sales, including sales to domestic customers that ship to foreign end-users, 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 29, 2012, the Company employed 34 full-time employees and two part-time employees, as well as several full and part-time consultants. The Company believes that its relationship with its employees is good.

## Item 1A. RISK FACTORS

*You should carefully consider the following risk factors that affect our business. Such risks 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 29, 2012 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 communications security industry;
- changes in general economic conditions; and
- shortfalls 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 arrangements 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 increase or 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 sales to foreign end-users 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 would 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.

***Our management has determined that the Company's internal control over financial reporting is currently not effective.***

Our management team, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of the end of the Company's 2012 fiscal year. In the course of that assessment, management identified a control deficiency that was also identified in the course of its assessments for fiscal years 2008 through 2011. Specifically, management determined that TCC lacked sufficient staff to adequately segregate accounting duties, which could result in a misstatement of financial statement items that would not be detected. Management concluded that such control deficiency constituted a material weakness and that our internal control over financial reporting was not effective as of September 29, 2012.

Until we are able to remediate the material weakness identified, such material weakness may materially and adversely affect our ability to report accurately our financial condition and results of operations in the future in a timely and reliable manner. In addition, although we review and evaluate our internal control systems to allow management to report on the sufficiency of our internal control over financial reporting, we cannot assure you that we will not discover additional weaknesses in the future or that any corrective actions taken to remediate issues identified during the course of an assessment will be effective. Any such additional weaknesses or failure to remediate any existing weakness could materially adversely affect our financial condition or ability to comply with applicable financial reporting requirements.

***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 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 the manufacturers or suppliers of certain product components, 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 these 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 14, 2012, we employed 35 full-time and two part-time employees 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 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 initial term of the lease was 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 for each renewal term. Rent expense for the years ended September 29, 2012 and September 24, 2011 was \$165,000 and \$159,000, respectively. On September 30, 2011, the Company exercised its option to extend the lease for the period April 1, 2012 through September 30, 2014.

**Item 3. LEGAL PROCEEDINGS**

There are no current legal proceedings as to which TCC or its subsidiary is a party or as to which any of their property is subject.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

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

Market Information

The Company's common stock, \$0.10 par value, began trading on the NASDAQ Capital Market on July 14, 2010 under the symbol "TCCO." Prior to such date, the common stock was traded on the Over-the-Counter Bulletin Board under the symbol "TCCO.OB." The following table presents low and high sales prices for the common stock for the time periods specified as reported by The NASDAQ Stock Market, Inc.

| <u>Title of Class</u>             | <u>Quarter Ending</u> | <u>Price</u> |             |
|-----------------------------------|-----------------------|--------------|-------------|
|                                   |                       | <u>Low</u>   | <u>High</u> |
| Common Stock,<br>\$0.10 par value | 9/29/2012             | \$ 5.65      | \$ 8.81     |
|                                   | 6/23/2012             | 7.30         | 12.42       |
|                                   | 3/24/2012             | 7.17         | 12.95       |
|                                   | 12/24/2011            | 6.96         | 8.24        |
|                                   | 9/24/2011             | \$ 6.01      | \$ 8.65     |
|                                   | 6/25/2011             | 8.02         | 11.00       |
|                                   | 3/26/2011             | 9.70         | 13.98       |
|                                   | 12/25/2010            | 9.00         | 17.00       |



## Holders

As of December 14, 2012, there were approximately 1,250 record holders of our Common Stock.

## Dividends

The Company paid cash dividends on its common stock during fiscal years 2012 and 2011 as follows:

| <u>Payment Date</u> | <u>Aggregate</u> | <u>Per Share</u> |
|---------------------|------------------|------------------|
| December 15, 2011   | \$182,709        | \$ 0.10          |
| March 15, 2012      | 182,889          | 0.10             |
| June 15, 2012       | 183,872          | 0.10             |
| September 14, 2012  | 183,872          | 0.10             |
| December 27, 2010   | \$182,609        | \$ 0.10          |
| March 15, 2011      | 182,609          | 0.10             |
| June 15, 2011       | 182,709          | 0.10             |
| September 15, 2011  | 182,709          | 0.10             |

On December 6, 2012, the Company's Board of Directors declared a dividend of \$0.10 per share of common stock outstanding. The dividend in the aggregate amount of \$183,872 is payable in cash on December 28, 2012 to all shareholders of record on December 20, 2012. It is not the Company's intention to pay dividends unless future profits warrant such actions.

## Equity Compensation Plan Information

The following table presents information about the Technical Communications Corporation 2010 Equity Incentive Plan (as amended and restated), the Technical Communications Corporation 2005 Non-Statutory Stock Option Plan, and the Technical Communications Corporation 2001 Stock Option Plan as of the fiscal year ended September 29, 2012. 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 29, 2012, included herewith.

| <u>Plan category</u>   | <u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u> | <u>Weighted average exercise price of outstanding options, warrants and rights</u> | <u>Number of securities remaining available for future issuance</u> |
|--|--|--|---|
| Equity compensation plans approved by stockholders . . . . .     | 149,614(1)   | \$11.12  | 53,386  |
| Equity compensation plans not approved by stockholders . . . . . | 95,588(2)  | \$5.99   | 47,028  |
| Total . . . . .  | 245,202  | \$9.12   | 100,414   |

(1) Of the 149,614 options outstanding as of September 29, 2012, 66,204 were exercisable as of such date at an average exercise price of \$10.81 per share.

(2) Of the 95,588 options outstanding as of September 29, 2012, 85,588 were exercisable as of such date at an average exercise price of \$5.80 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 2012 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 2012 fiscal year.

## Item 6. **SELECTED FINANCIAL DATA**

Not applicable.

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

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

**Forward-Looking Statements**

The following discussion may contain statements that are not purely historical. Such statements contained herein or as may otherwise be incorporated by reference herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include but are not limited to statements regarding anticipated operating results, future earnings, and the ability to achieve growth and profitability. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, including but not limited to the effect of foreign political unrest; future changes in export laws or regulations; changes in technology; 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 29, 2012 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 principally from the sale of these products, which have traditionally been to foreign governments either through direct sale, pursuant to a U.S. government contract or made as a sub-contractor to domestic corporations under contract with the U.S. government. However, we have also sold these products to commercial entities and U.S. government agencies. In addition to product sales, we generate revenues from contract engineering services performed for certain government agencies, both domestic and foreign, and commercial entities.

**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, inventory reserves, receivable 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 where title passes upon entry of the product into the first port in the buyer's country. 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 actual 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 proportional performance method based upon the proportion of actual 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 a product development contract 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 (based on first-in, first-out (FIFO)), 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 \$1.1 million as of September 29, 2012 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 the compensation expense for all share-based payments 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 29, 2012 as compared to year ended September 24, 2011*

#### **Net Sales**

Net sales for the years ended September 29, 2012 and September 24, 2011 were \$8,117,000 and \$12,102,000, respectively, a decrease of \$3,985,000 or 33%. Sales for fiscal 2012 consisted of \$7,160,000, or 88%, from domestic sources and \$957,000, or 12%, from international customers as compared to fiscal 2011, in which sales consisted of \$11,808,000, or 98%, from domestic sources and \$294,000, or 2%, from international customers.

Foreign sales consisted of shipments to seven different countries during the year ended September 29, 2012 and six different countries during the year ended September 24, 2011. 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>2012</u>       | <u>2011</u>       |
|--------------|-------------------|-------------------|
| Saudi Arabia | \$ 406,000        | \$ 60,000         |
| Jordan       | 316,000           | 4,000             |
| Egypt        | 179,000           | -                 |
| Thailand     | 51,000            | 90,000            |
| Bahrain      | 2,000             | 88,000            |
| France       | -                 | 48,000            |
| Other        | <u>3,000</u>      | <u>4,000</u>      |
|              | <u>\$ 957,000</u> | <u>\$ 294,000</u> |

Revenue for the year ended September 29, 2012 was primarily derived from the sale of the Company's narrowband radio encryptors to a U.S. radio manufacturer for deployment into Afghanistan amounting to \$5,710,000 and to an additional domestic customer amounting to \$113,000. In addition we

sold our secure telephone, fax, and data encryptors to a foreign customer amounting to \$314,000 and we had sales of our frame relay and internet protocol encryptor products to three customers amounting to \$225,000 during the year. We also had sales of our link encryptors into the Middle East for \$93,000, sold spare parts to three foreign customers amounting to \$287,000 and shipped our high speed bulk encryptors amounting to \$1,173,000 under a contract with a domestic customer.

Revenue for fiscal 2011 was derived from the sale of the Company's narrowband radio encryptors to a U.S. radio manufacturer amounting to \$8,160,000 and to an additional domestic customer amounting to \$262,000. Billings under programs for engineering services work amounting to \$211,000 also were recognized during the period. In addition, we made the final shipment under a contract with CECOM amounting to \$610,000 during fiscal 2011. We also sold our secure data link encryptors to a domestic customer amounting to \$630,000 and we shipped our high speed bulk encryptors amounting to \$1,710,000 under a contract with a domestic customer.

## **Gross Profit**

Gross profit for fiscal year 2012 was \$6,278,000, a decrease of \$3,532,000 or 36%, compared to gross profit of \$9,810,000 for fiscal year 2011. Gross profit expressed as a percentage of sales was 77% in fiscal year 2012 compared to 81% in the prior year. The decrease in gross profit as a percentage of sales was primarily associated with lower sales volume in fiscal 2012 of our higher margin radio encryptors.

## **Operating Costs and Expenses**

### *Selling, General and Administrative*

Selling, general and administrative expenses for fiscal 2012 were \$3,310,000, compared to \$2,813,000 for fiscal 2011. This increase of \$497,000 or 18% was attributable to an increase in selling and marketing expenses of \$604,000 offset by a decrease in general and administrative expenses of \$107,000 during the 2012 fiscal year.

The increase in selling and marketing costs during fiscal 2012 was attributable to increases in product evaluation expenses of \$328,000, travel expenses of \$51,000, and personnel-related costs of \$67,000. Additionally, there were increases in third party sales and marketing agreements of \$30,000 and outside sales commissions of \$46,000. There were also increases in engineering support costs of \$37,000, product demonstration costs of \$25,000 and bid and proposal efforts of \$13,000 during the period.

The decrease in general and administrative costs during fiscal 2012 was primarily attributable to a decrease in personnel-related costs of \$139,000. This decrease was partially offset by an increase in bank and investment fees of \$6,000 and charitable contributions of \$20,000.

### *Product Development*

Product development costs for fiscal 2012 were \$4,421,000, compared to \$3,530,000 for fiscal 2011, an increase of \$891,000 or 25%. This increase was primarily attributable to increases in outside contractor costs of \$1,281,000, recruiting costs of \$81,000 and project material costs of \$156,000. These increases were partially offset by decreases in personnel-related costs of \$136,000 and an increase in engineering support of business development activities, which decreased product development costs by approximately \$504,000 for the 2012 fiscal year. The increased costs were incurred primarily for the development of the CX7211 high speed internet protocol encryptor.

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 no billable engineering services revenue generated during fiscal 2012 and \$211,000 generated during fiscal 2011.

It is anticipated that cash from operations will fund our near-term research and development and marketing activities. We also believe that, in the long term, based on current billable activities, cash from operations will be sufficient to meet the development goals of the Company, although we can give no assurances. Although expected to decrease in fiscal 2013, 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. 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 a net loss of \$841,000 for fiscal 2012, as compared to net income of \$2,269,000 for fiscal 2011. This decrease in net income is primarily attributable to a 33% decrease in sales and a 22% increase in operating expenses during fiscal 2012. The Company recorded an income tax benefit of \$597,000 during fiscal 2012 based on its expected effective tax rate of 41.5% for the 2012 fiscal year. This compares to an income tax provision of \$1,200,000 recorded in the year ended September 24, 2011.

The effects of inflation and changing costs have not had a significant impact on sales or earnings in recent years. As of September 29, 2012, 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 decreased by \$7,176,000 to \$2,056,000 as of September 29, 2012, from a balance of \$9,232,000 at September 24, 2011. This decrease was primarily attributable to the investment of cash in short-term marketable securities of \$5,295,000, the payment of cash dividends of \$733,000, capital acquisitions of \$193,000, a net loss of \$841,000, a decrease in accounts payable and accrued expenses of \$616,000 and increases in accounts receivable and income taxes receivable of \$513,000 and \$509,000, respectively. The decreases were partially offset by the proceeds from the maturity of marketable securities of \$626,000 and a decrease in inventory of \$646,000.

During fiscal 2012, the Company paid special cash dividends totaling \$733,000. The payment of these dividends was based on the profits generated by the Company in recent years. In addition, in December 2012 the Company's Board of Directors declared a dividend of \$0.10 per share of common stock outstanding. The dividend is payable in cash on December 28, 2012 to all shareholders of record on December 20, 2012. It is not the Company's intention to pay dividends on a regular basis unless future profits warrant such actions.

It is anticipated that our cash balances and cash generated from operations will be sufficient to fund our near-term research and development and marketing activities. We also believe that, in the long term, an anticipated improvement of business prospects, current billable activities and cash from operations will be sufficient to meet the development goals of the Company, although we can give no assurances. Although expected to decrease in fiscal 2013, 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. In circumstances where resources will be insufficient, the Company will look to other sources of financing, including debt and/or equity investments.

The Company paid \$32,000 during the fiscal year ended September 29, 2012 for current tax estimates of its income tax liability for fiscal year 2012. The Company has recorded refundable income taxes of \$859,000 as of September 29, 2012.

The Company's backlog as of September 29, 2012 was approximately \$315,000. The orders in backlog are expected to ship during fiscal 2013 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 2012 and 2011.

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 29, 2012 the Company had one outstanding letter of credit amounting to \$18,000, which is secured by a cash certificate of deposit. At September 24, 2011 there were no outstanding standby letters of credit. The Company generally secures its outstanding standby letters of credit with the line of credit facility with the Bank.

In April 2007, the Company entered into a 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 initial term of the lease was 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 for each renewal term. Rent expense for the years ended September 29, 2012 and September 24, 2011 was \$165,000 and \$159,000, respectively. On September 30, 2011 the Company exercised its option to extend the lease for the period April 1, 2012 through September 30, 2014.

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 29, 2012 and September 24, 2011, the Company spent \$4,421,000 and \$3,530,000, respectively, on internal product development. In fiscal 2012, the Company's internal product development expenses were higher than prior years but in line with its planned commitment to research and development, and reflected the costs of product testing and production readiness efforts. It is expected that development expenses will decrease by about 25% in fiscal 2013 as compared to fiscal 2012.

By the middle of fiscal 2013, the Company anticipates the development of three new products and expects to reorient its development investment toward collaborative product developments with major OEM's. Initial work began in 2012 to establish these technical partnerships and we expect that full-scale development will begin in mid-2013. The resulting products will be imbedded proprietary encryption solutions which will significantly enhance the value of the OEMs products and allow TCC encryption to be carried to the market by major equipment providers.

In 2012, TCC completed systems testing and initiated field testing of our high speed SONET/SDH optical encryptor called the 72B, which provides full-rate encryption capability at 155mbs and 622mbs speeds. This encryptor is designed to be compliant with the Federal Information Processing Standard ("FIPS") level 140-2 and is being offered in three configurations covering applications for commercial telecommunications providers through highly ruggedized military and government requirements. TCC expects that the 72B encryptor family will provide fully interoperable operations between office and harsh field environments.

Also in 2012, TCC substantially completed development of the HSE 6000, a low cost, battery powered man-borne encryptor that provides highly secure communications between personnel and base command units. The HSE 6000 is designed for the rugged environments of military and police operations and can function with most VHF and HF radios systems. The HSE 6000 can interoperate with the TCC DSP 9000 Radio Encryption System which is deployed extensively throughout the world. Customer field testing is expected to begin in early 2013.

In 2011, TCC began development of an advanced, 100Mbs through 1Gbs family of IP encryptors and the KeyNet Optical Management system to service private network markets for government, military and satellite users. This new network product, named the CX7211, is scheduled for installation with initial customers in early 2013. The CX7211 is the first IP encryptor that is expandable, which allows its throughput capacity to be easily increased as network loads increase. TCC believes this feature makes the CX7211 very cost-effective for new installations and very easy to expand when the market demands it.

Other than those stated above, there are no plans for significant internal product development in fiscal 2013 and the Company does not anticipate any significant capital expenditures during the year.

## **Off-Balance Sheet Arrangements**

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

## **New Accounting Pronouncements**

ASU 2011-05, Comprehensive Income (Topic 220)—Presentation of Comprehensive Income

This ASU requires all nonowner changes in stockholders' equity to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. However, ASU 2011-12 has deferred the specific requirement within ASU 2011-05 to present on the face of the financial statements items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. Entities should continue to report reclassifications out of accumulated comprehensive income consistent with the presentation requirements in effect before ASU 2011-05.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

### **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 29, 2012. 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 for fiscal year 2012, management identified a control deficiency that was also identified during its assessments for the 2008 through 2011 fiscal years. During the course of the previous years’ evaluations, and again during the evaluation for the 2012 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 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 29, 2012.

Management has discussed the material weakness and related potential 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 2013 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 we cannot guarantee that our efforts, if any, will result in the 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.

*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 2012 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; Legal Proceedings,” “Corporate Governance,” and “Section 16(a) Beneficial Ownership Reporting Compliance,” with respect to our 2013 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 2012 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/investors](http://www.tccsecure.com/investors).

**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 2013 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 2012 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 2013 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 2012 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; Legal Proceedings” and “Corporate Governance” with respect to our 2013 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 2012 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 caption Proposal III – Ratification of Selection of Independent Registered Public Accounting Firm with respect to our 2013 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 2012 fiscal year.

## PART IV

### Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (1) Financial Statements The following Consolidated Financial Statements and Notes thereto are filed as part of Part II, Item 8 of this report:

|   | <u>Page</u> |
|---|-------------|
| Consolidated Balance Sheets as of<br>September 29, 2012 and September 24, 2011  | 29          |
| Consolidated Statements of Operations for the Years Ended<br>September 29, 2012 and September 24, 2011                      | 30          |
| Consolidated Statements of Comprehensive Income (Loss) for the<br>Years Ended September 29, 2012 and September 24, 2011     | 30          |
| Consolidated Statements of Cash Flows for the Years Ended<br>September 29, 2012 and September 24, 2011                      | 31          |
| Consolidated Statements of Changes in Stockholders' Equity for the<br>Years Ended September 29, 2012 and September 24, 2011 | 32          |
| Notes to Consolidated Financial Statements  | 33-45       |

(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)

- 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.)
- 10.11 Purchase Order from Datron World Communications dated April 16, 2010 (Confidential portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.1 to the Company's Form 10-QSB filed with the Securities and Exchange Commission on May 11, 2010.)
- 10.12 Purchase Order from Datron World Communications dated April 16, 2010 (Confidential portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.2 to the Company's Form 10-QSB filed with the Securities and Exchange Commission on May 11, 2010.)
- 10.13 Purchase Order from Datron World Communications dated April 21, 2010 (Confidential portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.3 to the Company's Form 10-QSB filed with the Securities and Exchange Commission on May 11, 2010.)
- 10.14 Purchase Order from Datron World Communications dated October 15, 2010 (Confidential portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.14 to the Company's Form 10-K filed with the Securities and Exchange Commission on December 22, 2010.)
- 10.15 Purchase Order from Datron World Communications dated November 29, 2010 (Confidential portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.15 to the Company's Form 10-K filed with the Securities and Exchange Commission on December 22, 2010.)
- 10.16 Purchase Order from Datron World Communications dated November 30, 2010 (Confidential portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.16 to the Company's Form 10-K filed with the Securities and Exchange Commission on December 22, 2010.)
- 10.17<sup>+</sup> 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.17 to the Company's Form 10-K filed with the Securities and Exchange Commission on December 22, 2010.)
- 10.18 Purchase Order from Datron World Communications dated February 5, 2011 (Confidential portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.) (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed with the Securities and Exchange Commission on May 10, 2011.)
- 10.19 Purchase Order from Datron World Communications dated July 5, 2011 (Confidential portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.) (incorporated by reference to Exhibit 10.1 to the Company's Form 10-K filed with the Securities and Exchange Commission on December 22, 2011.)
- 10.20 Purchase Order from Raytheon Technical Services Company LLC, a subsidiary of Raytheon Company dated November 2, 2011 (Confidential portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.) (incorporated by reference to Exhibit 10.1 to the Company's Form 10-K filed with the Securities and Exchange Commission on December 22, 2011.)
- 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
- 23.1\* Consent of McGladrey LLP
- 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 21, 2012

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><br>Carl H. Guild, Jr.   | Chief Executive Officer and President<br>Chairman of the Board, Director<br>(Principal Executive Officer) | December 21, 2012 |
| <u>/s/ Michael P. Malone</u><br>Michael P. Malone     | Treasurer and Chief Financial Officer<br>(Principal Financial<br>and Accounting Officer)                  | December 21, 2012 |
| <u>/s/ Mitchell B. Briskin</u><br>Mitchell B. Briskin | Director  | December 21, 2012 |
| <u>/s/ Thomas E. Peoples</u><br>Thomas E. Peoples     | Director  | December 21, 2012 |
| <u>/s/ Francisco F. Blanco</u><br>Francisco F. Blanco | Director  | December 21, 2012 |

**Technical Communications Corporation and Subsidiary**  
**Consolidated Balance Sheets**  
**September 29, 2012 and September 24, 2011**

| <b>ASSETS</b>  | <b><u>2012</u></b>   | <b><u>2011</u></b>   |
|--|----------------------|----------------------|
| Current assets:  |                      |                      |
| Cash and cash equivalents  | \$ 2,056,311         | \$ 9,231,717         |
| Marketable securities  | 4,668,864            | -                    |
| Accounts receivable - trade, less allowance of<br>\$25,000   |                      |                      |
| at September 29, 2012 and September 24, 2011   | 1,380,472            | 867,717              |
| Inventories  | 2,633,408            | 3,278,914            |
| Income taxes receivable  | 859,336              | 350,074              |
| Deferred income taxes  | 618,078              | 498,771              |
| Other current assets   | 170,729              | 138,888              |
| Total current assets   | <u>12,387,198</u>    | <u>14,366,081</u>    |
| Equipment and leasehold improvements   | 4,084,886            | 3,892,171            |
| Less accumulated depreciation and amortization   | (3,632,288)          | (3,415,750)          |
| Equipment and leasehold improvements, net  | <u>452,598</u>       | <u>476,421</u>       |
|  | <u>\$ 12,839,796</u> | <u>\$ 14,842,502</u> |
| <br><b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                      |                      |
| Current liabilities:   |                      |                      |
| Accounts payable   | \$ 167,313           | \$ 313,101           |
| Accrued liabilities:   |                      |                      |
| Compensation and related expenses  | 316,751              | 648,706              |
| Customer deposits  | 52,372               | 133,495              |
| Other current liabilities  | 176,281              | 314,296              |
| Total current liabilities  | <u>712,717</u>       | <u>1,409,598</u>     |
| Commitments and contingencies  |                      |                      |
| Stockholders' equity   |                      |                      |
| Common stock - par value \$0.10 per share;<br>7,000,000 shares authorized, 1,838,716 and<br>1,827,319 shares issued and outstanding at September<br>29, 2012 and September 24, 2011,<br>respectively | 183,872              | 182,732              |
| Additional paid-in capital   | 3,569,731            | 3,312,512            |
| Accumulated other comprehensive income   | 10,042               | -                    |
| Retained earnings  | 8,363,434            | 9,937,660            |
| Total stockholders' equity   | <u>12,127,079</u>    | <u>13,432,904</u>    |
|  | <u>\$ 12,839,796</u> | <u>\$ 14,842,502</u> |

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

**Technical Communications Corporation and Subsidiary**  
**Consolidated Statements of Operations**  
**Years ended September 29, 2012 and September 24, 2011**

|   | <u>2012</u>         | <u>2011</u>         |
|---|---------------------|---------------------|
| Net sales                                       | \$ 8,117,292        | \$ 12,102,105       |
| Cost of sales                                   | 1,839,784           | 2,292,426           |
| Gross profit                                    | <u>6,277,508</u>    | <u>9,809,679</u>    |
| Operating expenses:                             |                     |                     |
| Selling, general and administrative             | 3,310,044           | 2,812,761           |
| Product development                             | 4,420,703           | 3,530,212           |
| Total operating expenses                        | <u>7,730,747</u>    | <u>6,342,973</u>    |
| Operating (loss) income                         | (1,453,239)         | 3,466,706           |
| Other income                                    |                     |                     |
| Investment income                               | <u>15,363</u>       | <u>2,451</u>        |
| (Loss) income before provision for income taxes | (1,437,876)         | 3,469,157           |
| (Benefit) provision for income taxes            | <u>(596,991)</u>    | <u>1,199,776</u>    |
| Net (loss) income                               | <u>\$ (840,885)</u> | <u>\$ 2,269,381</u> |
| Net (loss) income per common share              |                     |                     |
| Basic   | \$ (0.46)           | \$ 1.24             |
| Diluted   | \$ (0.46)           | \$ 1.21             |
| Weighted average shares                         |                     |                     |
| Basic   | 1,832,937           | 1,826,441           |
| Diluted   | 1,832,937           | 1,872,221           |
| Dividends paid per common share                 | \$ 0.40             | \$ 0.40             |

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**Years ended September 29, 2012 and September 24, 2011**

|  | <u>2012</u>         | <u>2011</u>         |
|--|---------------------|---------------------|
| Net (loss) income                      | \$ (840,885)        | \$ 2,269,381        |
| Other comprehensive income, net of tax | <u>10,042</u>       | <u>-</u>            |
| Comprehensive (loss) income            | <u>\$ (830,843)</u> | <u>\$ 2,269,381</u> |

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



**Technical Communications Corporation and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**Years ended September 29, 2012 and September 24, 2011**

|  | <u>2012</u>         | <u>2011</u>         |
|--|---------------------|---------------------|
| <b>Operating activities:</b>   |                     |                     |
| Net (loss) income  | \$ (840,885)        | \$ 2,269,381        |
| Adjustments to reconcile net income<br>to cash (used in) provided by operating activities: |                     |                     |
| Depreciation and amortization  | 216,538             | 214,694             |
| Stock-based compensation   | 238,860             | 305,072             |
| Deferred income taxes  | (119,307)           | (30,270)            |
| Unrealized gain on available for sale securities   | 10,042              | -                   |
| Changes in current assets and current liabilities:   |                     |                     |
| Accounts receivable  | (512,755)           | (736,674)           |
| Inventories  | 645,506             | (665,628)           |
| Income taxes receivable  | (509,262)           | (350,074)           |
| Other current assets   | (31,841)            | 15,245              |
| Customer deposits  | (81,123)            | (72,619)            |
| Accounts payable and accrued liabilities   | (615,758)           | (1,759,359)         |
| Cash used in operating activities  | <u>(1,599,985)</u>  | <u>(810,232)</u>    |
| <b>Investing activities:</b>   |                     |                     |
| Additions to equipment and leasehold improvements  | (192,715)           | (265,678)           |
| Proceeds from maturities of marketable securities  | 626,000             | -                   |
| Purchases of marketable securities   | (5,294,865)         | -                   |
| Cash used in investing activities  | <u>(4,861,580)</u>  | <u>(265,678)</u>    |
| <b>Financing activities:</b>   |                     |                     |
| Proceeds from stock issuance   | 19,500              | 4,720               |
| Dividends paid   | (733,341)           | (730,635)           |
| Cash used in financing activities  | <u>(713,841)</u>    | <u>(725,915)</u>    |
| Net decrease in cash and cash equivalents  | (7,175,406)         | (1,801,825)         |
| Cash and cash equivalents at beginning of year   | <u>9,231,717</u>    | <u>11,033,542</u>   |
| Cash and cash equivalents at end of year   | <u>\$ 2,056,311</u> | <u>\$ 9,231,717</u> |
| <b>Supplemental disclosures:</b>   |                     |                     |
| Income taxes paid  | \$ 31,849           | \$ 3,215,000        |

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

**Technical Communications Corporation and Subsidiary**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**Years ended September 29, 2012 and September 24, 2011**

|  | <u>2012</u>   | <u>2011</u>   |
|--|---------------|---------------|
| <b>Stockholders' Equity</b>                      |               |               |
| Shares of common stock:                          |               |               |
| Beginning balance                                | 1,827,319     | 1,826,217     |
| Retire treasury shares                           | (232)         |               |
| Exercise of stock options                        | 5,200         | 1,000         |
| Cashless exercise of stock options               | 6,429         | 102           |
| Ending balance                                   | 1,838,716     | 1,827,319     |
| Common stock at par value:                       |               |               |
| Beginning balance                                | \$ 182,732    | \$ 182,622    |
| Retire treasury shares                           | (23)          |               |
| Exercise of stock options                        | 1,163         | 110           |
| Ending balance                                   | 183,872       | 182,732       |
| Additional paid-in capital:                      |               |               |
| Beginning balance                                | \$ 3,312,512  | \$ 3,003,509  |
| Exercise of stock options                        | 18,336        | 4,610         |
| Retire treasury shares                           | 23            | -             |
| Cashless exercise of stock options               | -             | (679)         |
| Stock-based compensation                         | 238,860       | 305,072       |
| Ending balance                                   | 3,569,731     | 3,312,512     |
| Retained earnings:                               |               |               |
| Beginning balance                                | \$ 9,937,660  | \$ 8,398,914  |
| Dividends paid                                   | (733,341)     | (730,635)     |
| Net (loss) income                                | (840,885)     | 2,269,381     |
| Ending balance                                   | 8,363,434     | 9,937,660     |
| Other comprehensive income:                      |               |               |
| Beginning balance                                | -             | -             |
| Unrealized gain on available for sale securities | 10,042        | -             |
| Ending balance                                   | 10,042        | -             |
| Total stockholders' equity                       | \$ 12,127,079 | \$ 13,432,904 |

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

**(1) Company Operations**

Technical Communications Corporation was incorporated in Massachusetts in 1961; its wholly-owned 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 115 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 and the earnings 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.

*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. Significant judgments and estimates include those related to revenue, receivable reserves, inventory reserves, income taxes and stock-based compensation. 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 (based on first-in, first-out (FIFO) method), 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 lesser of the estimated useful life of the asset or lease term. 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 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 where title passes upon entry of the product into the first port in the buyer's country. 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 actual 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 proportional performance method based upon the proportion of actual 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 a product development contract 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.

Cost of product revenue includes material, labor and overhead. Costs incurred in connection with funded research and development 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 the exercise of stock options, if any, is reflected in the Company's statement of cash flows as a financing activity rather than an operating activity. There were no excess tax benefits for the years ended September 29, 2012 and September 24, 2011.

The Company selected the Black-Scholes option pricing model as the method for determining the estimated fair value of 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, (3) a risk-free interest rate and (4) the expected dividend 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:

|                         | <b>September 29,<br/>2012</b> | <b>September 24,<br/>2011</b> |
|-------------------------|-------------------------------|-------------------------------|
| <u>Assumptions:</u>     |                               |                               |
| Option life             | 5 to 6.5 years                | 5 to 6.5 years                |
| Risk-free interest rate | 0.63 % to 0.94%               | 1.2% to 2.4%                  |
| Stock volatility        | 68%                           | 70% to 73%                    |
| Dividend yield          | 4%                            | 0 to 4%                       |

There were 17,000 options granted during the year ended September 29, 2012 and 162,865 options granted during the year ended September 24, 2011. The following table summarizes share-based compensation costs included in the Company's consolidated statements of income for the years ended September 29, 2012 and September 24, 2011:

|   | <b>2012</b>       | <b>2011</b>       |
|---|-------------------|-------------------|
| Cost of sales                                       | \$ 16,582         | \$ 20,089         |
| Selling, general and administrative                 | 102,429           | 127,814           |
| Product development                                 | <u>119,849</u>    | <u>157,169</u>    |
| Total share-based compensation expense before taxes | <u>\$ 238,860</u> | <u>\$ 305,072</u> |

As of September 29, 2012, there was \$457,807 of unrecognized compensation cost related to options granted. The unrecognized compensation cost will be recognized as the options vest. The weighted average period over which the compensation cost is expected to be recognized is 2.99 years.

The Company had the following stock option plans outstanding as of September 29, 2012: the Technical Communications Corporation 2001 Stock Option Plan, the 2005 Non-Statutory Stock Option Plan and the 2010 Equity Incentive Plan. There were an aggregate of 750,000 options to acquire shares authorized under these plans, of which 245,202 options were outstanding at September 29, 2012. Vesting periods are at the discretion of the Board of Directors and typically range between zero 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 ten years from the date of grant.

## Notes to Consolidated Financial Statements (continued)

As of September 29, 2012, there were no shares available for new option grants under the 2001 Stock Option Plan; there were 47,028 shares available for grant under the 2005 Non-Statutory Stock Option Plan and 53,386 available for grant under the 2010 Equity Plan.

The following tables summarize stock option activity during fiscal years 2011 and 2012:

|  | <b>Options Outstanding</b> |                 |                 |                         |                         |
|--|----------------------------|-----------------|-----------------|-------------------------|-------------------------|
|  | <b>Number of Shares</b>    |                 |                 | <b>Weighted Average</b> | <b>Weighted Average</b> |
|  | <b>Unvested</b>            | <b>Vested</b>   | <b>Total</b>    | <b>Exercise Price</b>   | <b>Contractual Life</b> |
| <b>Outstanding, September 25, 2010</b> | 39,100                     | 76,188          | 115,288         | \$ 5.23                 | 7.14 years              |
| Grants                                 | 148,865                    | 14,000          | 162,865         | 11.31                   |                         |
| Vested                                 | (46,324)                   | 46,324          | -               | 9.01                    |                         |
| Exercises                              | -                          | (1,200)         | (1,200)         | 4.25                    |                         |
| Cancellations/forfeitures              | <u>(10,821)</u>            | <u>(3,080)</u>  | <u>(13,901)</u> | 8.71                    |                         |
| <b>Outstanding, September 24, 2011</b> | 130,820                    | 132,232         | 263,052         | \$ 8.81                 | 7.77 years              |
| Grants                                 | 6,500                      | 10,500          | 17,000          | 9.66                    |                         |
| Vested                                 | (35,292)                   | 35,292          | -               | 10.34                   |                         |
| Exercises                              | -                          | (11,629)        | (11,629)        | 4.49                    |                         |
| Cancellations/forfeitures              | <u>(8,610)</u>             | <u>(14,611)</u> | <u>(23,221)</u> | 8.36                    |                         |
| <b>Outstanding, September 29, 2012</b> | <u>93,418</u>              | <u>151,784</u>  | <u>245,202</u>  | \$ 9.12                 | 6.99 years              |

Information related to the stock options vested or expected to vest as of September 29, 2012 is as follows:

| Range of<br>Exercise Prices | Number of<br>Shares | Weighted-<br>Average<br>Remaining<br>Contractual<br>Life (years) | Weighted-<br>Average<br>Exercise Price | Exercisable<br>Number of<br>Shares | Exercisable<br>Weighted-<br>Average<br>Exercise Price |
|-----------------------------|---------------------|--|--|------------------------------------|---|
| \$0.01 - \$1.00             | 600                 | 0.62   | \$ 0.99                                | 600                                | \$ 0.99   |
| \$2.01 - \$3.00             | 15,288              | 2.94   | 3.00                                   | 15,288                             | 3.00  |
| \$3.01 - \$4.00             | 16,600              | 3.82   | 3.66                                   | 16,600                             | 3.66  |
| \$4.01 - \$5.00             | 13,400              | 6.20   | 4.90                                   | 11,200                             | 4.90  |
| \$5.01 - \$10.00            | 53,400              | 6.67   | 7.47                                   | 44,740                             | 7.47  |
| \$10.01 - \$15.00           | <u>145,914</u>      | 7.99   | 11.41                                  | <u>63,356</u>                      | 11.30   |
|                             | <u>245,202</u>      | 6.99   | \$ 9.12                                | <u>151,784</u>                     | \$ 7.99   |

The aggregate intrinsic value of the Company's "in-the-money" outstanding and exercisable options as of September 29, 2012 was \$90,423. The intrinsic value of the options exercised during the year ended September 29, 2012 was \$96,689. Nonvested common stock options are subject to the risk of forfeiture until the fulfillment of specified conditions.

## Notes to Consolidated Financial Statements (continued)

### *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.

The Company follows the appropriate guidance relative to uncertain tax positions. This standard provides detailed guidance for the financial statement 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 2012 and 2011, 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 and for the years ended September 29, 2012 and September 24, 2011, the Company had no interest or tax penalties.

### *Warranty Costs*

The Company provides for estimated warranty costs at the time product revenue is recognized based in part upon historical experience.

### *Fair Value of Financial Instruments*

In determining the fair value of financial instruments, the Company follows the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements. The topic provides a consistent definition of fair value which focuses on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The topic also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. The three level hierarchy is as follows:

- Level 1 - Pricing inputs are quoted prices available in active markets for identical investments as of the reporting date.
- Level 2 - Pricing inputs are quoted prices for similar investments, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data.
- Level 3 - Pricing inputs are unobservable for the investment, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Company's available-for-sale securities are comprised of investments in municipal bonds, brokered certificates of deposit and mutual funds. These securities represent ownership in individual bonds in municipalities within the United States, certificates of deposit in U.S. banks and money

**Notes to Consolidated Financial Statements (continued)**

market funds held in a brokerage account. The fair value of these investments is based on quoted prices from recognized pricing services (e.g. Standard & Poors, Bloomberg, etc), or in the case of mutual funds, at their closing net asset value.

The Company assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Company's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. During the fiscal years ended September 29, 2012 and September 24, 2011, there were no transfers between levels.

The following table sets forth by level, within the fair value hierarchy, the financial instruments carried at fair value as of September 29, 2012 and September 24, 2011, in accordance with the fair value hierarchy as defined above. As of September 29, 2012 and September 24, 2011, the Company did not hold any assets classified as Level 3.

|   | <u>Total</u>        | <u>Quoted Prices in<br/>Active Markets for<br/>Identical Assets<br/>(Level 1)</u> | <u>Significant Other<br/>Observable Inputs<br/>(Level 2)</u> |
|---|---------------------|---|--|
| <b><u>September 29, 2012</u></b>          |                     |   |  |
| <b>Debt and certificates of deposits:</b> |                     |   |  |
| Municipal bonds                           | \$ 1,925,371        | \$ -  | \$ 1,925,371   |
| Certificates of deposit                   | <u>2,743,493</u>    | <u>-</u>  | <u>2,743,493</u>   |
| Total debt instruments                    | <u>4,668,864</u>    | <u>-</u>  | <u>4,668,864</u>   |
| <b>Mutual funds:</b>                      |                     |   |  |
| Money market funds                        | <u>1,340,440</u>    | <u>1,340,440</u>  | <u>-</u>   |
| Total mutual funds                        | <u>1,340,440</u>    | <u>1,340,440</u>  | <u>-</u>   |
| Total investments                         | <u>\$ 6,009,304</u> | <u>\$ 1,340,440</u>   | <u>\$ 4,668,864</u>  |
| <b><u>September 24, 2011</u></b>          |                     |   |  |
| <b>Mutual funds:</b>                      |                     |   |  |
| Money market funds                        | \$ <u>8,478,891</u> | \$ <u>8,478,891</u>   | \$ <u>-</u>  |
| Total mutual funds                        | <u>8,478,891</u>    | <u>8,478,891</u>  | <u>-</u>   |
| Total investments                         | <u>\$ 8,478,891</u> | <u>\$ 8,478,891</u>   | <u>\$ -</u>  |

Assets and liabilities measured at fair value on a nonrecurring basis are recognized at fair value subsequent to initial recognition when they are deemed to be impaired. As of September 29, 2012 and September 24, 2011, the Company's assets and liabilities subject to measurement at fair value on a nonrecurring basis are equipment and leasehold improvements. Neither was deemed to be impaired or measured at fair value on a nonrecurring basis.

*Earnings per Share (EPS)*

The Company presents both a "basic" and a "diluted" EPS. Basic EPS is computed by dividing net income by the 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. The 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.



## Notes to Consolidated Financial Statements (continued)

### *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 2012 fiscal year ended on September 29, 2012 and included 53 weeks. The 2011 fiscal year ended on September 24, 2011 and included 52 weeks.

### *Comprehensive Income*

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains (losses) on securities available for sale.

Other comprehensive income is as follows, for the years ended:

|  | September 29, 2012 | September 24, 2011 |
|--|--------------------|--------------------|
| Change in net unrealized gain on available-for-sale securities | \$ 10,042          | -                  |

The component of accumulated other comprehensive income is as follows for the years ended:

|  | September 29, 2012 | September 24, 2011 |
|--|--------------------|--------------------|
| Net unrealized gain on available-for-sale securities | \$ 10,042          | -                  |

### *Operating Segments*

The Company reports on operating segments in accordance with 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.

### *New Accounting Pronouncements*

#### ASU 2011-05, Comprehensive Income (Topic 220)—Presentation of Comprehensive Income

This ASU requires all nonowner changes in stockholders' equity to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. However, ASU 2011-12 has deferred the specific requirement within ASU 2011-05 to present on the face of the financial statements items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. Entities should continue to report reclassifications out of accumulated comprehensive income consistent with the presentation requirements in effect before ASU 2011-05.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

**Notes to Consolidated Financial Statements (continued)**

**(3) Income Per Share**

Basic and diluted EPS were calculated as follows:

|   | <b>September 29,<br/><u>2012</u></b> | <b>September 24,<br/><u>2011</u></b> |
|---|--------------------------------------|--------------------------------------|
| Net (loss) income                             | \$ <u>(840,885)</u>                  | \$ <u>2,269,381</u>                  |
| Weighted Average Shares Outstanding - Basic   | 1,832,937                            | 1,826,441                            |
| Dilutive effect of stock options              | <u>-</u>                             | <u>45,780</u>                        |
| Weighted Average Shares Outstanding - Diluted | <u>1,832,937</u>                     | <u>1,872,221</u>                     |
| Basic Net (Loss) Income Per Share             | \$ (0.46)                            | \$ 1.24                              |
| Diluted Net (Loss) Income Per Share           | \$ (0.46)                            | \$ 1.21                              |

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: 245,202 in fiscal year 2012 and 142,964 in fiscal year 2011.

**(4) Cash Equivalents and Marketable Securities**

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. Substantially all cash equivalents are invested in money market mutual funds. Money market mutual funds held in a brokerage account are considered available-for-sale. The Company accounts for marketable securities in accordance with FASB ASC 320, *Investments—Debt and Equity Securities*. All marketable securities must be classified as one of the following: held-to-maturity, available-for-sale, or trading. The Company classifies its marketable securities as available-for-sale and, as such, carries the investments at fair value, with unrealized holding gains and losses reported in stockholders' equity as a separate component of accumulated other comprehensive income (loss). The cost of securities sold is determined based on the specific identification method. Realized gains and losses, and declines in value judged to be other than temporary, are included in investment income.

As of September 29, 2012, available-for-sale securities consisted of the following:

|                         | <b><u>Cost</u></b>  | <b><u>Accrued<br/>Interest</u></b> | <b><u>Gross Unrealized<br/>Gains</u></b> | <b><u>Losses</u></b> | <b><u>Estimated<br/>Fair Value</u></b> |
|-------------------------|---------------------|------------------------------------|--|----------------------|--|
| Money market funds      | \$ 361,584          | \$ —                               | \$ —                                     | \$ —                 | \$ 361,584                             |
| Certificates of deposit | 2,754,127           | 1,963                              | —  | 12,597               | 2,743,493                              |
| Municipal bonds         | <u>1,879,731</u>    | <u>23,001</u>                      | <u>22,639</u>                            | <u>—</u>             | <u>1,925,371</u>                       |
|                         | <u>\$ 4,995,442</u> | <u>\$ 24,964</u>                   | <u>\$ 22,639</u>                         | <u>\$ 12,597</u>     | <u>\$ 5,030,448</u>                    |

The contractual maturities of these investments as of September 29, 2012 were as follows:

|                                | <b><u>Cost</u></b>  | <b><u>Fair Value</u></b> |
|--------------------------------|---------------------|--------------------------|
| Within 1 year                  | \$ 3,216,684        | \$ 3,206,823             |
| After 1 year through 5 years   | 1,660,652           | 1,699,945                |
| After 5 years through 10 years | <u>118,106</u>      | <u>123,680</u>           |
|                                | <u>\$ 4,995,442</u> | <u>\$ 5,030,448</u>      |

The Company's available-for-sale securities were included in the following captions in the condensed consolidated balance sheets:

|                           | <b><u>September 29, 2012</u></b> | <b><u>September 24, 2011</u></b> |
|---------------------------|----------------------------------|----------------------------------|
| Cash and cash equivalents | \$ 361,584                       | \$ —                             |
| Marketable securities     | <u>4,668,864</u>                 | <u>—</u>                         |
|                           | <u>\$ 5,030,448</u>              | <u>\$ —</u>                      |

**Notes to Consolidated Financial Statements (continued)**

**(5) Inventories**

Inventories consist of the following:

|                            | <u>September 29, 2012</u> | <u>September 24, 2011</u> |
|----------------------------|---------------------------|---------------------------|
| Finished goods             | \$ 38,406                 | \$ 404,233                |
| Work in process            | 642,159                   | 1,241,470                 |
| Raw materials and supplies | <u>1,952,843</u>          | <u>1,633,211</u>          |
| Total inventories          | <u>\$ 2,633,408</u>       | <u>\$ 3,278,914</u>       |

**(6) Equipment and Leasehold Improvements**

Equipment and leasehold improvements consist of the following:

|   | <u>September 29,<br/>2012</u> | <u>September 24,<br/>2011</u> | <u>Estimated<br/>Useful Life</u>          |
|---|-------------------------------|-------------------------------|---|
| Engineering and manufacturing equipment           | \$ 1,829,672                  | \$ 1,785,157                  | 3-8 years                                 |
| Demonstration equipment                           | 778,240                       | 778,240                       | 3 years                                   |
| Furniture and fixtures                            | 933,024                       | 841,791                       | 3-8 years                                 |
| Automobile  | 49,441                        | -                             | 5 years                                   |
| Leasehold improvements                            | <u>494,509</u>                | <u>486,983</u>                | Lesser of useful life<br>or term of lease |
| Total equipment and<br>leasehold improvements     | 4,084,886                     | 3,892,171                     |   |
| Less accumulated depreciation and<br>amortization | <u>(3,632,288)</u>            | <u>(3,415,750)</u>            |   |
| Equipment and leasehold improvements, net         | <u>\$ 452,598</u>             | <u>\$ 476,421</u>             |   |

Depreciation expense was \$216,538 and \$214,694 for the fiscal years ended September 29, 2012 and September 24, 2011, respectively.

**(7) Other Accrued Liabilities**

|   | <u>September 29,<br/>2012</u> | <u>September 24,<br/>2011</u> |
|---|-------------------------------|-------------------------------|
| Product warranty costs                      | \$ 61,702                     | \$ 185,832                    |
| Professional service fees                   | 68,812                        | 61,006                        |
| Annual report and investor relations fees   | 33,967                        | 23,858                        |
| Customer support agreements and commissions | <u>11,800</u>                 | <u>43,600</u>                 |
| Total other accrued liabilities             | <u>\$ 176,281</u>             | <u>\$ 314,296</u>             |

**(8) Leases**

In April 2007, the Company entered into a 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 initial term of the lease was 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 for each renewal period. Rent expense for the years ended September 29, 2012 and September 24, 2011 was \$165,000 and \$159,000, respectively. On September 30, 2011, the Company exercised its option to extend the lease for the period April 1, 2012 through September 30, 2014.

**Notes to Consolidated Financial Statements (continued)**

**(9) 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 29,<br/>2012</b> | <b>September 24,<br/>2011</b> |
|---|-------------------------------|-------------------------------|
| Beginning balance                                       | \$ 185,832                    | \$ 198,433                    |
| Plus: accruals related to new sales                     | 39,938                        | 117,769                       |
| Less: payments and adjustments to prior period accruals | <u>(164,068)</u>              | <u>(130,370)</u>              |
| Ending balance  | <u>\$ 61,702</u>              | <u>\$ 185,832</u>             |

**(10) Income Taxes**

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

|  | <b>September 29,<br/>2012</b> | <b>September 24,<br/>2011</b> |
|--|-------------------------------|-------------------------------|
| Current:                                   |                               |                               |
| Federal                                    | \$ (458,732)                  | \$ 981,914                    |
| State                                      | <u>(18,952)</u>               | <u>248,132</u>                |
| Total current taxes                        | <u>(477,684)</u>              | <u>1,230,046</u>              |
| Deferred:                                  |                               |                               |
| Federal                                    | 66,923                        | (29,224)                      |
| State                                      | <u>(186,230)</u>              | <u>(1,046)</u>                |
| Total deferred taxes                       | <u>(119,307)</u>              | <u>(30,270)</u>               |
| Total (benefit) provision for income taxes | <u>\$ (596,991)</u>           | <u>\$ 1,199,776</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 29, 2012</b> |                | <b>September 24, 2011</b> |                |
|--|---------------------------|----------------|---------------------------|----------------|
|  | <u>Amount</u>             | <u>Percent</u> | <u>Amount</u>             | <u>Percent</u> |
| Tax provision at U.S. statutory rate               | \$ (488,877)              | (34.0%)        | \$ 1,179,513              | 34.0%          |
| State income tax provision, net of federal benefit | (133,495)                 | (9.2%)         | 158,452                   | 4.6%           |
| Federal tax credits                                | (46,061)                  | (3.2%)         | (111,330)                 | (3.2%)         |
| Other  | 39,754                    | 2.7%           | (26,549)                  | (0.8%)         |
| Valuation allowance                                | <u>31,688</u>             | <u>2.2%</u>    | <u>(310)</u>              | <u>-</u>       |
| Total (benefit) provision for income taxes         | <u>\$ (596,991)</u>       | <u>(41.5%)</u> | <u>\$ 1,199,776</u>       | <u>34.6%</u>   |

## Notes to Consolidated Financial Statements (continued)

Deferred income taxes consist of the following:

|                           | September 29,<br><u>2012</u> | September 24,<br><u>2011</u> |
|---------------------------|------------------------------|------------------------------|
| Inventory differences     | \$ 1,151,031                 | \$ 1,119,243                 |
| Payroll related accruals  | 80,923                       | 177,604                      |
| Warranty accruals         | 24,236                       | 72,995                       |
| Other                     | <u>512,919</u>               | <u>248,172</u>               |
| Total                     | 1,769,109                    | 1,618,114                    |
| Less: valuation allowance | <u>(1,151,031)</u>           | <u>(1,119,343)</u>           |
| Total                     | <u>\$ 618,078</u>            | <u>\$ 498,771</u>            |

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 \$(31,688) and \$310 in fiscal years 2012 and 2011, respectively.

The Company has determined that the tax benefit related to its obsolete inventory will not likely be realized, and therefore has provided a full valuation allowance against the related deferred tax asset. It is the Company's intention to maintain the related inventory items for the foreseeable future to support equipment in the field, and therefore cannot determine when the tax benefit, if any, will be realized.

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 2008 through 2011 remain open to examination. In addition, the amount of the Company's federal and state net operating loss carryforwards utilized in prior periods may be subject to examination and adjustment.

### (11) 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 2012 or 2011. The Company's matching contributions were \$78,288 and \$42,891 in fiscal years 2012 and 2011, 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, there were no bonuses accrued for executives at September 29, 2012 and \$117,000 of bonuses were accrued at September 24, 2011. Bonus expense is included in selling, general and administrative expense.

### (12) 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

## Notes to Consolidated Financial Statements (continued)

the Company to maintain its deposit accounts with the Bank, as well as comply with certain other covenants. There were no cash borrowings against the line during fiscal years 2012 and 2011.

At September 29, 2012 the Company had one outstanding letter of credit amounting to \$17,883, which is secured by a cash certificate of deposit. At September 24, 2011, there were no outstanding standby letters of credit.

The Company maintains its cash and cash equivalents in bank deposit accounts and money market accounts that, at times, may exceed federally insured limits. The Company holds marketable securities consisting of certificates of deposit and municipal bonds. The certificates of deposit are maintained in accounts that are within the federal insurance limits. The municipal bonds are considered investment grade but may be subject to the issuing entities' default on interest or principal repayments. 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, cash equivalents or marketable securities.

### (13) Major Customers and Export Sales

In fiscal year 2012, the Company had two customers representing 85% (70% and 15%) of total net sales and at September 29, 2012 had two customers representing 96% (83% and 13%) of accounts receivable. In fiscal year 2011, the Company had two customers representing 82% (67% and 15%) of total net sales and at September 24, 2011 had two customers representing 81% (60% and 21%) of accounts receivable.

A breakdown of net sales is as follows:

|             | <b>September 29,<br/><u>2012</u></b> | <b>September 24,<br/><u>2011</u></b> |
|-------------|--------------------------------------|--------------------------------------|
| Domestic    | \$ 7,160,372                         | \$ 11,807,609                        |
| Foreign     | <u>956,920</u>                       | <u>294,496</u>                       |
| Total Sales | <u>\$ 8,117,292</u>                  | <u>\$ 12,102,105</u>                 |

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

|                           | <b>September 29,<br/><u>2012</u></b> | <b>September 24,<br/><u>2011</u></b> |
|---------------------------|--------------------------------------|--------------------------------------|
| Central and South America | 0.3%                                 | -                                    |
| Europe                    | -                                    | 17.8%                                |
| Mid-East and Africa       | 94.4%                                | 51.6%                                |
| Far East                  | 5.3%                                 | 30.6%                                |

The Company sold products to seven different countries during the year ended September 29, 2012 and six different countries during the year ended September 24, 2011. 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 29,<br/><u>2012</u></b> | <b>September 24,<br/><u>2011</u></b> |
|--------------|--------------------------------------|--------------------------------------|
| Saudi Arabia | 42.4%                                | 20.4%                                |
| Jordan       | 33.0%                                | 1.5%                                 |
| Egypt        | 18.7%                                | -                                    |
| Thailand     | 5.3%                                 | 30.6%                                |
| Bahrain      | 0.3%                                 | 29.8%                                |
| France       | -                                    | 16.4%                                |
| Other        | 0.3%                                 | 1.3%                                 |

**(14) 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.

**(15) Subsequent Events**

On December 6, 2012, the Company's Board of Directors declared a dividend of \$0.10 per share of common stock outstanding. The dividend in the amount of \$183,872 is payable in cash on December 28, 2012 to all shareholders of record on December 20, 2012.

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

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
Technical Communications Corporation:

We have audited the accompanying consolidated balance sheets of Technical Communications Corporation and subsidiary as of September 29, 2012 and September 24, 2011, and the related consolidated statements of operations, comprehensive income (loss), 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 audit 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 control over financial reporting. Our audits included consideration of internal control 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 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 financial position of Technical Communications Corporation and subsidiary as of September 29, 2012 and September 24, 2011, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ McGladrey LLP

Boston, Massachusetts  
December 21, 2012









**CORPORATE INFORMATION  
AS OF DECEMBER 2012**

**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  
Vice President of Strategic Relationships at Thermalin  
Diabetes, LLC

Francisco F. Blanco  
President and CEO of The Pola Group, LLC

Thomas E. Peoples  
Consultant

**INDEPENDENT PUBLIC ACCOUNTANTS**

McGladrey, LLP  
Boston, Massachusetts

**GENERAL COUNSEL**

White, White & Van Etten LLP  
Cambridge, Massachusetts

**ANNUAL STOCKHOLDERS MEETING**

This year's annual meeting will be held Monday, February 11, 2013 at 10:00 a.m. at TCC's facilities in Concord, Massachusetts. The shareholder record date is December 21, 2012.

**STOCK EXCHANGE LISTING**

The common stock is traded on the NASDAQ Capital Market, NASDAQ Symbol: TCCO.

**10-K REPORT**

A copy of the Company's Annual Report on Form 10-K for 2012, 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 29, 2012.

ISO 9001:2008 Certified  Quality Management System

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