



**TECHNICAL COMMUNICATION CORPORATION**  
**100 Domino Drive**  
**Concord, Massachusetts 01742**

**Annual Meeting of Stockholders**  
**February 8, 2016**



**TECHNICAL COMMUNICATIONS CORPORATION****Notice of Annual Meeting of Stockholders  
To Be Held February 8, 2016**

To Our Stockholders:

NOTICE IS HEREBY GIVEN that the 2016 Annual Meeting of Stockholders (the “Meeting”) of Technical Communications Corporation, a Massachusetts corporation (the “Company”), will be held at the offices of the Company, 100 Domino Drive, Concord, Massachusetts 01742, at 10:00 a.m. (local time) on Monday, February 8, 2016, to:

1. Elect one Class I Director to serve on the Board of Directors for a term of three years expiring at the 2019 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 Moody, Famiglietti and Andronico, LLP as the independent registered public accounting firm of the Company for the fiscal year ending October 1, 2016; 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 11, 2015 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 on Form 10-K for the fiscal year ended October 3, 2015, which contains financial statements and other information of interest to stockholders, accompanies this Notice and the attached Proxy Statement.

*By Order of the Board of Directors,*  
David A. White, Secretary

Concord, Massachusetts  
January 8, 2016

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

**Important Notice Regarding the Availability of Proxy Materials  
for the Annual Shareholder Meeting to be Held on February 8, 2016**

This Proxy Statement and related materials are available at the Company's website at <https://www.tccsecure.com/Investors.aspx>.

This Proxy Statement relates to the Company's 2016 Annual Meeting of Stockholders to be held on February 8, 2016 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 2019 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 Moody, Famiglietti and Andronico, LLP as the independent registered public accounting firm of the Company for the fiscal year ending October 1, 2016.

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

Only stockholders of record at the close of business on December 11, 2015 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 on Form 10-K for the fiscal year ended October 3, 2015.

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**  
**2016 Annual Meeting of Stockholders**

**February 8, 2016**

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 2016 Annual Meeting of Stockholders and any adjournments thereof (the “Meeting”), to be held at the offices of the Company, 100 Domino Drive, Concord, Massachusetts 01742, at 10:00 a.m. (local time) on Monday, February 8, 2016.

It is expected that the Notice of Meeting, this Proxy Statement and the accompanying proxy card, and an Annual Report to Stockholders on Form 10-K for the fiscal year ended October 3, 2015 containing financial statements and other information of interest to stockholders, will be mailed to stockholders on or about January 8, 2016.

**Record Date and Outstanding Shares**

Only record holders of shares of the Company’s Common Stock, par value \$0.10 per share, as of the close of business on December 11, 2015 (the “Record Date”) are entitled to notice of and to vote at the Meeting.

As of the Record Date, there were 1,839,877 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. Matters as to which brokers do not have discretionary authority include the election of directors, even in uncontested elections, and “say on pay” and “say when on pay” proposals.

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 to be elected at the Meeting expires at the 2019 annual meeting of stockholders; the term of the Class II Director expires at the 2017 annual meeting of stockholders; and the term of the Class III Directors will expire at the 2018 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.

### **Nominees 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 2019 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.

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

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

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

The following table sets forth the name and address of each director, nominee and executive officer of the Company, the year each current director first became a director, and the age and positions currently held by each such individual with the Company. The following table is as of December 11, 2015.

| <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                                       | 56                | Class I Director   |
| Francisco F. Blanco                           | 2011                                       | 73                | Class II Director  |
| Carl H. Guild, Jr.                            | 1997                                       | 71                | Class III Director, Chairman of the Board, Chief Executive Officer and President |
| Thomas E. Peoples                             | 1998                                       | 67                | Class III Director   |
| <b><u>Non-Director Executive Officers</u></b> |  |                   |  |
| Michael P. Malone                             | --   | 56                | 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 Nominees*

**Mitchell B. Briskin.** Mr. Briskin served as Vice President of Strategic Relationships at Thermalin Diabetes, LLC, a next-generation insulin development company, from April 2012 until May 2014. Formerly, Mr. Briskin was a Managing Director at Stonebridge Associates, LLC, an investment bank, where he 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 currently serves as President of International Executive Counselors, LLC, a consulting company he established in Virginia in 2005. Mr. Peoples was Vice President and Managing Director of The SPECTRUM Group, a Washington, DC area-based consulting firm from 2004 to February 2015. 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 and software solutions 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 arrangements exist to the Board’s knowledge or were considered by the Board in determining any director’s or nominee’s independence.

The Board of Directors held four meetings during the fiscal year ended October 3, 2015. Each director attended at least 80% 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 2015.

### *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 and acted once by written consent in lieu of a meeting during fiscal year 2015. 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 <https://www.tccsecure.com/Investors.aspx>. The Audit Committee's charter requires that the committee review and update the charter periodically as conditions dictate. In August 2015, 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 2015 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 <https://www.tccsecure.com/Investors.aspx>. 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 2015, the Governance Committee's charter was reviewed and revised to reflect recent changes in independence rules. 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 <https://www.tccsecure.com/Investors.aspx> 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 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 2015 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 <https://www.tccsecure.com/Investors.aspx>.

### **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 2015 fiscal year, or written representations from certain reporting persons that they were not required to file, the Company believes that during fiscal year 2015, its officers, directors, and beneficial owners of more than 10% of the Common Stock complied with all applicable Section 16(a) filing requirements.

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

David A. White, the Company's Secretary, is a member of a law firm that provides legal services to the Company. Fees paid to Mr. White's law firm were approximately \$74,000 for fiscal year 2015 and approximately \$67,000 for fiscal year 2014. There were no other transactions during fiscal years 2015 or 2014, 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 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 <https://www.tccsecure.com/Investors.aspx>.

## **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 October 3, 2015.

The Audit Committee has reviewed and discussed the 2015 fiscal year audited financial statements with management. The Audit Committee has also discussed with the Company's independent registered public accounting firm, Moody, Famiglietti and Andronico, 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 October 3, 2015 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 is available at <https://www.tccsecure.com/Investors.aspx>. 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 incentive 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 would be considered when applicable.

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. Executive officers have not received these components of compensation when the Company's operating results have not been positive and/or the recipients have not achieved specified performance milestones. No bonuses were paid with respect to fiscal years 2015 and 2014 to any named executive officer due to the financial performance of the Company.

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, such as corporate profits and sales order activity.

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.

#### *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 and recommendations 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 was authorized to 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 was 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 was required to 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 were 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 11, 2015, no shares remained available for awards under such plan, although options to purchase 2,400 shares granted under the 2001 Plan remained outstanding.

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 permitted 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 was 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 were made by the Governance Committee in its discretion. As of December 11, 2015, the Company had issued a total of 180,277 options pursuant to the 2005 Plan. The 2005 Plan expired on May 5, 2015 and as of December 11, 2015, no shares remained available for awards under such plan, although options to purchase 112,600 shares granted under the 2005 Plan remained outstanding.

The Technical Communications Corporation 2010 Equity Incentive Plan, 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 deemed 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 are 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, are 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 11, 2015, the Company had

issued options to purchase an aggregate 164,814 shares pursuant to the 2010 Plan and 59,019 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 years 2015 and 2014 was \$285,000.

Mr. Guild did not receive a bonus with respect to the fiscal years ended October 3, 2015 and September 27, 2014 due to the Company’s financial condition at year-end and Mr. Guild’s failure to achieve his specified performance milestones for the periods.

In fiscal 2015, the Board awarded Mr. Guild an option to purchase 3,500 shares of Common Stock for his service as a director, as it did for all other directors. These non-qualified options were granted on May 7, 2015 under the 2010 Plan at an exercise price of \$4.05 per share with a term of 10 years, and will vest over a five year period. 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 2014. These non-qualified options were granted on February 12, 2014 under the 2005 Plan at an exercise price of \$7.65 per share with a term of 10 years, and vested immediately. 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 years 2015 and 2014 was \$160,000.

Mr. Malone did not receive a bonus with respect to the fiscal years ended October 3, 2015 and September 27, 2014 due to the Company’s financial condition at year-end and Mr. Malone’s failure to achieve his specified performance milestones for the periods.

Mr. Malone was not awarded any stock options or other equity incentives during fiscal years 2015 or 2014.

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 2015, 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. Stockholders (not including broker non-votes) have voted in favor of the compensation of the Company's named executive officers every year since being given the opportunity to do so. 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 2015 fiscal year, for all services rendered by such officers to the Company and its subsidiary 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           | 2015        | \$285,006(1)           | --                    | \$7,934<br>(2)                    | \$6,683<br>(3)                                 | \$299,623             |
|  | 2014        | \$285,006(1)           | --                    | \$15,847<br>(4)                   | \$6,496<br>(3)                                 | \$307,349             |
| <b>Michael P. Malone</b><br>Chief Financial Officer,<br>Treasurer and Assistant<br>Secretary | 2015        | \$160,014(5)           | --                    | --                                | \$5,946<br>(6)                                 | \$165,960             |
|  | 2014        | \$160,014(5)           | -                     | --                                | \$5,744<br>(6)                                 | \$165,758             |

- (1) Mr. Guild’s annual base salary was set at \$285,000 effective March 1, 2012.
- (2) Amount represents an award on May 7, 2015 of a non-qualified option to purchase 3,500 shares of Common Stock at \$4.05 per share, which will vest over a five year period 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 2015: dividend yield of 0%, expected volatility of 57%, risk-free interest rate of 1.8%, 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) contributions for fiscal 2015 and 2014. Also includes life insurance premiums paid by the Company of \$333 and \$444, respectively, for each of fiscal years 2015 and 2014.
- (4) Amount represents an award on February 12, 2014 of a non-qualified option to purchase 3,500 shares of Common Stock at \$7.65 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 2014: dividend yield of 0%, expected volatility of 62%, risk-free interest rate of 1.5%, and expected life of 6.5 years.

- (5) Mr. Malone's annual base salary was set at \$160,000 effective March 1, 2012.
- (6) Includes the Company's 25% match on the first 6%, and 30% match on the second 6%, of Mr. Malone's 401(k) contributions for fiscal 2015 and 2014. Also includes life insurance premiums paid by the Company of \$666 for each of fiscal years 2015 and 2014.

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 has not changed since such date. No performance awards were earned with respect to fiscal 2015 and 2014.

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 has not changed since such date. No performance awards were earned with respect to fiscal 2015 and 2014.

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 2015 fiscal year, which date was October 3, 2015.

| <u>Name</u>        | <u>Option Awards</u>   |  |   |                                   |                               |
|--------------------|--|--|---|-----------------------------------|-------------------------------|
|                    | <u>Number of Securities Underlying Unexercised Options (#) Exercisable</u> | <u>Number of Securities Underlying Unexercised Options (#) Unexercisable</u> | <u>Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)</u> | <u>Option Exercise Price (\$)</u> | <u>Option Expiration Date</u> |
| Carl H. Guild, Jr. | 3,500 (1)  | --   | --  | 7.02                              | 02/08/20                      |
|                    | 18,900 (2)   | --   | --  | 11.51                             | 07/29/20                      |
|                    | 3,500 (3)  | --   | --  | 9.77                              | 05/05/21                      |
|                    | 3,500 (4)  | --   | --  | 10.20                             | 05/03/22                      |
|                    | 3,500 (5)  | --   | --  | 4.67                              | 02/11/23                      |
|                    | 3,500 (6)  | --   | --  | 7.65                              | 02/12/24                      |
|                    | --   | 3,500 (7)  | --  | 4.05                              | 05/07/25                      |
| Michael P. Malone  | 10,000 (8)   | --   | --  | 3.00                              | 11/10/15                      |
|                    | 10,501 (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 February 11, 2013 under the 2005 Plan; options have 10 year term and were fully vested as of February 11, 2013.
- (6) Granted on February 12, 2014 under the 2005 Plan; options have 10 year term and were fully vested as of February 12, 2014.
- (7) Granted on May 7, 2015 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.
- (8) 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, the 2005 Non-Statutory Stock Option Plan and the 2001 Stock Option Plan. At December 11, 2015, there were an aggregate of 750,000 shares authorized under these plans, of which 254,981 were outstanding and 59,019 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 2015*

On May 7, 2015, the Board of Directors granted to each of the members of the Company’s Board of Directors options under the 2010 Plan to purchase 3,500 shares of Common Stock, for an aggregate 14,000 shares. These non-qualified stock options, which are exercisable at \$4.05 per share, will vest 20% per year commencing the first anniversary of the date of grant 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 2015 fiscal year.

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

No retirement, severance or similar compensation was paid to any employee during the 2015 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 paid to the Company’s directors for the fiscal year ended October 3, 2015. 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 2015 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>( <b>\$</b> ) | <b><u>Option Awards</u></b><br>( <b>\$</b> ) | <b><u>All Other<br/>Compensation</u></b><br>( <b>\$</b> ) | <b><u>Total</u></b><br>( <b>\$</b> ) |
|---------------------|--|--|---|--------------------------------------|
| Mitchell B. Briskin | \$26,600<br>(1)  | \$7,934<br>(2)(3)                            | -   | \$34,534                             |
| Thomas E. Peoples   | \$25,000<br>(1)  | \$7,934<br>(2)(3)                            | -   | \$32,934                             |
| Francisco F. Blanco | \$25,000<br>(1)  | \$7,934<br>(2)(3)                            | -   | \$32,934                             |

- (1) Includes quarterly stipend and fees paid for Board of Directors and committee meetings attended during the fiscal year. For Mr. Briskin, also includes quarterly stipend received for serving as Chairman of the Audit Committee.
- (2) Amount represents the award on May 7, 2015 of a non-qualified option to purchase 3,500 shares of Common Stock at \$4.05 per share, which option will vest over a five year period 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 2015: dividend yield of 0%, expected volatility of 57%, risk-free interest rate of 1.8%, and expected life of 6.5 years.
- (3) Mr. Briskin had 28,000 options outstanding at the 2015 fiscal year-end, of which 24,500 were fully vested and exercisable. Mr. Peoples had 33,000 options outstanding at the 2015 fiscal year-end, of which 29,500 were fully vested and exercisable. Mr. Blanco had 10,500 options outstanding at the 2015 fiscal year-end, of which 7,000 were fully vested and exercisable.

Board members are entitled to 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), which fee can be waived. 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, commencing January 1, 2015, a quarterly stipend of \$1,400 in addition to the stipend he receives as a director of the Company; prior to January 1, 2015, the stipend was \$400 per quarter. 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 2015 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**

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Reform Act”) and Section 14A of the Exchange Act entitle stockholders 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 enabling TCC to attract and retain some of the most talented executives in the communications security device and system industry.

Revenues for the 2015 fiscal year were \$5,942,000 with a net loss of \$1,822,000 or \$(0.99) per share. Delays in the receipt of certain foreign and domestic contracts, coupled with customer and production delivery requirements, resulted in lower than expected revenue for fiscal 2015. Delays were primarily the result of international political unrest, which diverted foreign government customers’ attention to domestic issues, as well as other factors associated with government procurements that often subject the Company to unpredictable and erratic delays in the processing of procurements and delivery of products. The Company expects that sales will improve over the next 12 months and hopes to experience increased demand for communications security devices, systems and services, and will continue to commit resources, although at a reduced rate, to internal product development during the 2016 fiscal year and beyond.

Compensation actions taken with respect to fiscal 2015 for TCC’s named executive officers reflected the Company’s results. Specifically, in recognition of both the Company’s disappointing financial performance and poor individual achievement of performance milestones, no annual performance bonuses related to company performance were awarded to our CEO or CFO. 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 2015.

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, 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 Moody, Famiglietti & Andronico, LLP (“MFA”), independent certified public accountants, to serve as the Company’s independent registered public accounting firm for the fiscal year ending October 1, 2016. MFA acted as the Company’s independent registered public accounting firm for the company’s 2015 fiscal year. RSM US LLP (formerly McGladrey LLP) (“RSM”) acted as TCC’s independent registered public accounting firm for the Company’s 2014 fiscal year. Effective May 22, 2015, RSM was dismissed as the independent certified public accounting firm of the Company. The Audit Committee participated in and approved the decision to change independent registered public accounting firms.

The reports of RSM on the Company’s financial statements for each of the two fiscal years immediately preceding its dismissal did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles. Moreover, in connection with the audits of the Company’s financial statements for each of the two most recent fiscal years prior to dismissal and through May 22, 2015, there were no disagreements between the Company and RSM on any matter of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which disagreement, if not resolved to the satisfaction of RSM, would have caused it to make reference to the subject matter of such disagreement in connection with its reports on the financial statements for such periods. Finally, during the Company’s two most recent fiscal years prior to dismissal and through May 22, 2015, there were no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K) with RSM.

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

**Fees**

*Audit Fees.* The aggregate fees billed by MFA for professional services rendered for the audit of the Company’s annual financial statements for fiscal year 2015, and the reviews of the financial statements included in the Company’s quarterly reports during fiscal year 2015, were approximately \$14,000 (of total audit fees for fiscal 2015 of \$59,000, the remainder of which will be billed in fiscal year 2016).

The aggregate fees billed by RSM for professional services rendered for the audit of the Company’s annual financial statements for fiscal year 2015, and the reviews of the financial statements included in the Company’s quarterly reports during fiscal year 2015, were approximately \$25,480 (of total audit fees for fiscal 2015 of \$35,880, the remainder of which will be billed in fiscal year 2016). The aggregate fees billed by RSM for professional services rendered for the audit of the Company’s annual financial statements for fiscal year 2014, and the reviews of the financial statements included in the Company’s quarterly reports during fiscal year 2014, were \$72,852.

*Audit-Related Fees.* No fees were billed by MFA or RSM for assurance and related services that were reasonably related to the performance of such firm’s audit or review of the Company’s financial statements for fiscal years 2015 and 2014.

*Tax Fees.* The aggregate fees billed by RSM for professional services rendered for tax compliance, tax advice and tax planning for the Company for fiscal year 2015 was approximately \$18,774. The aggregate fees billed by RSM for professional services rendered for tax compliance, tax advice and tax planning for the Company for fiscal year 2014 was approximately \$30,451. These amounts represent those billed for tax return preparation and tax advice for the Company and its subsidiary. No fees have yet been billed by MFA for professional services rendered for tax compliance, tax advice and tax planning for fiscal year 2015.

*All Other Fees.* No fees were billed by MFA or RSM for products or services provided other than those otherwise described above for fiscal years 2015 and 2014.

### **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 2015, the Audit Committee pre-approved all such services performed by MFA and RSM.

### **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 2016.**



## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows, as of December 11, 2015, 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 11, 2015, there were 1,839,877 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  | 7,000 (2)  | 0.4%                    |
| Mitchell B. Briskin  | 31,277(3)  | 1.7%                    |
| Carl H. Guild, Jr.   | 334,359(4)   | 17.8%                   |
| Thomas E. Peoples  | 29,590(5)  | 1.6%                    |
| Michael P. Malone  | 90,756(6)  | 4.9%                    |
| <b>All current directors, executive officers and 5% holders as a group (5 persons)</b> | 492,702(7)   | 25.3%                   |

- (1) Unless otherwise indicated, each of the persons named in the table has sole voting and investment power with respect to the shares set forth opposite such person's name. With respect to each person or group, percentages are calculated based on the number of shares beneficially owned, including shares that may be acquired by such person or group, within 60 days of December 11, 2015, 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) Represents 7,000 shares issuable upon the exercise of stock options.
- (3) Includes 24,500 shares issuable upon the exercise of stock options.
- (4) Includes 36,400 shares issuable upon the exercise of stock options, and 297,959 shares held jointly by Mr. Guild and his wife.
- (5) Includes 29,500 shares issuable upon the exercise of stock options.
- (6) Includes 10,501 shares issuable upon the exercise of stock options.
- (7) Includes an aggregate 107,901 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 2017 Annual Meeting**

Proposals of stockholders for inclusion in the Proxy Statement and form of proxy, including director nominees, for the Company's 2017 Annual Meeting of Stockholders must be received by the Company at its principal executive offices no later than September 12, 2016, 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 25, 2016. 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 (which includes the Notice of Internet Availability of Proxy Materials) and the 2015 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 (which includes the Notice of Internet Availability of Proxy Materials) 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 October 3, 2015. 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 October 3, 2015

- ( ) 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 registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES  NO

Based on the closing price as of March 28, 2015, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$5,960,744.

The number of shares of the registrant's common stock, par value \$ 0.10 per share, outstanding as of December 11, 2015 was 1,839,877.

Portions of the Company's Definitive Proxy Statement to be delivered to shareholders in connection with the Company's 2016 Annual Meeting of Shareholders to be held February 8, 2016 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 October 3, 2015

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This annual report on Form 10-K contains or incorporates by reference not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by those sections. We refer you to the information under the heading "Forward-Looking Statements." As used in this annual report on Form 10-K, references to "Technical Communications Corp," the "Company," "TCC," "we," "our" or "us," unless the context otherwise requires, refer to Technical Communications Corporation and our subsidiaries. All trademarks or trade names referred to in this report are the property of their respective owners.

## PART I

### Item 1. BUSINESS

Technical Communications Corporation 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, systems and services. The secure communications solutions provided by TCC protect vital information transmitted over a wide range of data, video and voice networks. TCC's products have been sold into over 115 countries to 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, systems and services.

#### 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, mobile phones, facsimile machines and data network equipment over wires, fiber optic cables, radio waves, and microwave and satellite links. The principal markets for the Company's products are foreign and domestic governmental agencies, law enforcement and military 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. A customer may order equipment that is specially programmed to encrypt transmissions in accordance with a code to which only the customer has access. 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.

Providing secure communications systems and services for government and military markets worldwide remains a principal focus for TCC, as the Company believes continued concerns over security will sustain demand for increased protection of both voice and data networks. Our focus in the government market also now includes law enforcement special operations customers. Additionally, we see increased interest for secure communications in the corporate industrial sector. The Company is pursuing selected, evolutionary upgrades and product derivatives of our government/military products both to provide entry into these new markets and meet new requirements of our existing customers. We believe the ability of TCC to custom-tailor cryptographic functions and control systems to satisfy unique customer requirements will meet a growing demand as customers become more sophisticated in defining their communications security needs.

### 2015 Highlights and Recent Events

In fiscal 2015, TCC received and delivered on a significant foreign contract for \$3.3 million from the Government of Egypt for DSD 72A-SP military bulk encryption systems, training and support. The Company also received several foreign and domestic contracts amounting to \$1 million for its DSP 9000 radio encryption product family and services. Engineering services, including technology royalties, and network encryption product sales and services contributed \$1.5 million to revenue in fiscal 2015. In fiscal 2015, TCC received \$1,000,000 in contracts for such engineering services. Delivery under these contracts began in fiscal 2015 and is expected to be completed in fiscal 2016.

Revenues in fiscal 2015 were \$5,942,000 with a net loss of \$(1,822,000) or \$(0.99) per share. The fiscal 2015 results reflect the shipment of the large contract for network encryption products and services for use by the Government of Egypt, along with strong sales for radio applications during the year. TCC's backlog at the end of the 2015 fiscal year was \$717,000, compared to \$402,000 at the end of fiscal 2014.

Offering high-end custom cryptographic services and solutions is an established market niche for the Company and we believe an important competitive differentiator. In fiscal 2015, custom TCC equipment and services continued to provide recurring revenue opportunities within the Company's established government systems product line, as well as new market opportunities for network encryption. Highlights are as follows:

- In fiscal 2015, the Company delivered on several contracts received in fiscal 2015 from Datron Worldwide Communications, Inc., a radio communications manufacturer, as part of an original equipment manufacturer ("OEM") relationship for its DSP 9000 radio encryption equipment for deployment into Afghanistan and other countries. TCC provided a radio encryption card designed to be embedded in Datron radios, a DSP 9000 radio encryption handset sold with Datron radios, and other interoperable secure radio equipment.
- As noted above, in the first quarter of fiscal 2015 the Company received a \$3.3 million order for its DSD 72A-SP bulk encryption systems from the Government of Egypt. The Company expects follow-on sales as this customer continues to upgrade its network and require new systems and services for additional communications security applications.
- TCC's DLE 7050 link encryptor continues to provide incremental revenue from established customers. In the first quarter of fiscal 2015 TCC received a \$432,000 contract for the DLE 7050 for deployment into Saudi Arabia.
- TCC provided engineering services to customize TCC products, as well as develop technology for customer-specific security applications. TCC also delivered customized product training services during the year.

In the first quarter of fiscal 2016, TCC announced its next-generation CipherTalk<sup>®</sup> secure mobile phone, which provides military-grade encrypted and stealthy voice and text communications. The solution is based on a hardened Android<sup>™</sup> platform, which combines user functionality with maximum-level security features, differentiating it from several competitors. The target audience for the CipherTalk is governments and corporations that need to protect highly sensitive mobile phone communications. TCC believes the CipherTalk positions the Company to meet growing demand for high-end secure mobile voice and text communications globally.

The market for high-end communications security systems is competitive and subject to long government procurement cycles, unpredictable order fulfillment lead times and fluctuating market conditions. While TCC has a pipeline of potential contracts and initiatives in development, the timing and outcome of these potential contracts is unknown. As such, in fiscal 2015, TCC began to closely monitor and reduce operating expenses as appropriate, while strategically continuing to invest in business development efforts, develop strategic relationships and expand our sales channel network.

Technical work continued to focus on three principal areas: development of solutions that meet the needs of OEMs; product enhancements that include expanded features, planned capability and applications growth; and custom solutions that tailor our products and services to meet the unique needs of our customers. Going forward, the Company expects to continue technical efforts in these areas while also increasing our systems design and integration capabilities and services offering portfolio. The following are highlights of our product development efforts in fiscal 2015:

- Development to enhance the ability of TCC's Cipher X<sup>®</sup> 7211 IP encryption system to integrate a broad range of custom and national algorithms without requiring modifications to hardware. The Company plans to continue this development effort with the DSD 72B-SP fiber optic network encryption family in fiscal 2016. TCC believes custom algorithm integration is a competitive differentiator for the Company in foreign markets.
- Development of additional features in KEYNET IP Manager, the management system for the Company's Cipher X 7211 IP encryption system, to improve management system redundancy.
- Custom engineering services for commercial and government applications.
- Production readiness of TCC products and custom solutions.

Escalating turmoil around the world presents both significant opportunities and challenges for TCC. The threat of terrorism and other political unrest increases the demand for security products that provide both strategic and tactical benefits, and are readily available. At the same time, political disruptions can cause unpredictable and erratic delays in the processing of procurements, delivery of products and receipt of payments. The combined effects present a situation that challenges both our sales capture teams and our production capabilities. The Company believes these market conditions will provide opportunities to build a successful future through its efforts to enlarge and enhance its product line and expand its customer base by both identifying new customers for existing and new products and offering such products to current customers.

### Products and Services

Described below is TCC's portfolio of communications security solutions for mission-critical voice, data and video networks for military, government and corporate/industrial applications.

The Government Systems product line has traditionally been the Company's core product base and generated more than 80% of the Company's revenue during its 2015 and 2014 fiscal years. These products, such as the DSD 72A-SP military bulk encryptor, CSD 3324 SE telephone/fax encryptor, and DSP 9000 radio encryptor, 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 near term 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 some of these products are still 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.

Offering CipherTalk<sup>®</sup> secure mobile phone communications since 2005, the Company in fiscal 2016 introduced its next-generation CipherTalk secure mobile IP-based phone. The market for high-end secure wireless mobile phones is competitive and product demand continues to develop modestly.

With the availability of our next-generation IP and SONET/SDH encryptors and ability to integrate customer-specific national algorithms, the Company believes that its Network Security Systems are competitive for a growing niche of mission-critical government and industrial/corporate network

applications worldwide. TCC is hopeful that future derivatives of its IP encryptor and KEYNET IP Manager system will expand the market opportunity for these products.

The Company also provides customized tools, products and training upon a customer's request, as well as design solutions for OEM requirements. 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 DSD 72A-SP Military Bulk Ciphering System 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 is designed to integrate 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.

TCC's DSD 72A-SP (STM) SONET/SDH network encryptor meets the environmental and operational requirements for military environments and operates at 155 Mb/s and 622 Mb/s performance. It is designed to support customers with TCC's DSD 72A-SP system that are transitioning to higher speed SONET/SDH networks.

The Company's DSP 9000 Radio Security family of products offers strategic-level security for voice and data communications sent over HF, VHF and UHF channels. Designed for military environments, the Company believes 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. All versions interoperate with TCC's HSE 6000 Squad Radio Headset and Telephone Encryptor for cross-network secure voice conferencing. The DSP 9000 base station model also interoperates with the Company's CSD 3324 SE secure telephone system to enable "office-to-field" communications.

TCC's HSE 6000 Squad Radio Headset and Telephone Encryptor is designed for public safety special operations land mobile radio applications, as well as military applications. With the optional Telephone Interconnect Kit, the HSE 6000 connects to corded handset telephones for secure voice communications and radio-to-telephone conferencing over Voice over IP, digital, and analog telephone networks. It is also interoperable with the DSP 9000 radio security product family, enabling secure voice communications and cross-network conferencing across and between air, land, sea and office.

The Company's CSD 3324 SE Secure Telephone, Fax and Data system provides strategic-level communications security for voice, fax and data encryption in a telephone package designed for government applications needing high reliability. 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 800 keys provides hands-off security.

The Company's CSD 3324 SP telephone and fax system provides integrated secure voice and fax security in a telephone package designed for government and corporate applications. The CSD 3324 SPV secure telephone secures voice communications over the public switched telephone network and interoperates with the CSD 3324 SP system. TCC's CSD 3324 SPF fax encryptor attaches to fax machines to secure fax transmissions and is also compatible with the CSD 3324 SP.

### **Secure Office Systems**

The Company's CSD 3600 Secure Portable Telephone Attachment may be placed between any telephone and corded 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 CSD 4100 Executive Secure Telephone offers strategic-level voice and data security in an 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 8500 secure mobile phone is designed to provide military-grade encrypted voice and text communications anywhere in the world over GSM and Wi-Fi networks. Introduced in fiscal 2016, the CipherTalk 8500 IP-based secure wireless phone is built on a hardened Android™ smartphone platform for security and ease of use.

### **Network Security Systems**

TCC offers network encryption systems with KEYNET centralized key and device management for IP, SONET/SDH and frame relay networks to secure data in transit from local area network to local area network and across wide area networks. During 2014 the Company introduced KEYNET Lite, a version of KEYNET for small networks. The Company supports the industry standard Advanced Encryption Standard ("AES") 256-bit cryptographic algorithm and can integrate customer-specific national algorithms to meet customer-specific needs. All of TCC's encryption systems are designed to seamlessly overlay onto existing networks without requiring infrastructure changes. Network performance impact is negligible and we believe the systems are easy to deploy, monitor and manage. Additionally, the Cipher X family offers scalable performance to higher speeds without changing hardware. This minimizes the entry cost of deploying a security solution and provides a cost-effective path to meet evolving business needs. Upgrades are licensed and made available on-demand via the KEYNET management system. All performance levels interoperate and are designed to have identical functionality.

Cipher X 7211 IP Encryption with KEYNET IP Manager provides strategic-level secure communications for large IP networks for point-to-point and multicast applications such as video conferencing. It offers a unique combination of flexibility, scalable 1 gigabit per second performance and KEYNET IP Manager for ease of use. The Cipher X 7211 is a hardware-based, FIPS 140-2 Level 3 designed encryption device.

The DSD 72B-SP and DSD 72A-SP (STM) encryption family with KEYNET Optical Manager provides strategic-level path encryption of voice, data and video transmitted over SONET/SDH networks at wirespeed 155 Mb/s and 622 Mb/s performance. It comes in rugged industrial and industrial versions to meet various environmental and operating requirements. Protocol agnostic, the DSD 72B-SP family interoperates with any standard SDH or SONET network element. Automated KEYNET key and device management provides ease of use. The DSD 72B-SP family is interoperable with the DSD 72A-SP (STM) SONET/SDH encryptor for military environments.

Our Cipher X 7100 Frame Relay Encryption with KEYNET key and device management secures data transmitted over frame relay networks at up to 2 megabits per second. Encryption based on both the older Triple DES standard and AES 256-bit algorithm are available and the same KEYNET system manages both system types. This product was designed to enable customers with Triple DES systems to evolve their network to the latest AES 256-bit standard.

### **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, Omnicast AG, Cisco Systems, Inc., Certes Networks, Inc., Gemalto N.V., Harris Corporation and Silent Circle, Inc.

The Company competes based on its service, the operational and technical features of its products, its customization abilities, 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 2015, the Company had three customers representing 81% of total net sales. These sales consisted of shipments of our DSD 72A-SP military bulk encryption system to a customer in Egypt representing 55% of sales and shipments of our narrowband radio encryptors to a domestic customer for deployment into Afghanistan representing 13% of sales. We also had sales of our engineering services representing 8% of sales. In fiscal 2014, the Company had four customers representing 73% of total net sales. These sales consisted of sales of upgrade kits to our 72A-SP bulk encryptors to the US Army Communications and Electronics Command (“CECOM”) for deployment in Egypt representing 29% of sales, our radio encryptors to a radio manufacturer for deployment in Afghanistan representing 17% of sales, our narrowband radio encryptors and the supply of customized cryptographic services, tools and training to a domestic prime contractor supporting a government customer in North Africa representing 14% of sales, and our CipherX 7211 IP encryptors to a customer in the Middle East representing 13% of sales.

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

Orders for our products are usually placed by customers on an as-needed basis and we typically ship products within 30 to 180 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 October 3, 2015 and September 27, 2014 was approximately \$717,000 and \$402,000, respectively.

The Company expects that sales to a relatively small number of customers will continue to account for a high percentage of the Company's revenues 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 or participating in 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. There have been no government audits in recent years and the Company believes the result of such audits, should they occur, would not have a material adverse effect on its financial position or results of operations. 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 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, the impact of which could be material.

The costs and effects of compliance by the Company with applicable environmental laws during fiscal 2015 were, and historically have been, immaterial. In 2003 the European Union adopted the "Restriction of Hazardous Substances Directive 2002/95/EC". 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 that directive.

#### 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, resulting in 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

TCC'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 technological 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 fiscal years ended October 3, 2015 and September 27, 2014, the Company spent \$2,300,000 and \$2,729,000, respectively, on internal product development. The Company also spent \$223,000 on billable development efforts during fiscal 2015. In fiscal 2015, the Company's total product development costs were 8% lower than fiscal 2014 but in line with its planned commitment to research and development, and reflected the costs of custom development, product capability enhancements and production readiness. It is expected that development expenses in fiscal 2016 will be approximately 15-20% lower than fiscal 2015 levels.

Technical work continued to focus on three principal areas: development of solutions that meet the needs of OEMs; product enhancements that include expanded features, planned capability and applications growth; and custom solutions that tailor our products and services to meet the unique needs of our customers. Going forward, the Company expects to continue technical efforts in these areas while also increasing our systems design and integration capabilities and services offering portfolio. The following are highlights of our product development efforts in fiscal 2015:

- Development to enhance the ability of TCC's Cipher X 7211 IP encryption system to integrate a broad range of custom and national algorithms without requiring modifications to hardware. The Company plans to continue this development effort with the DSD 72B-SP fiber optic network encryption family in fiscal 2016. TCC believes custom algorithm integration is a competitive differentiator for the Company in foreign markets.
- Development of additional features in KEYNET IP Manager, the management system for the Company's Cipher X 7211 IP encryption system, to improve management system redundancy.
- Custom engineering services for commercial and government applications.
- Production readiness of TCC products and custom solutions.

Development of a CipherTalk 8500 asset management tool is planned for fiscal 2016 to facilitate the ability for customers to manage their own CipherTalk network.



## Foreign Operations

The Company's results of operations are dependent upon its foreign sales, including domestic sales shipped to foreign end-users. Although foreign sales were more profitable than domestic sales during fiscal years 2015 and 2014 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 2015 and 2014, sales directly to international customers accounted for approximately 63.1% and 25.5%, respectively, of our net sales. During those periods a significant portion of domestic sales (13% and 17%, respectively) were made to a domestic radio manufacturer that shipped our radio encryption products overseas for use in Afghanistan. During fiscal year 2013, we initiated shipments of products delivered to the Government of Egypt under a contract with the U.S. Army. These shipments continued into fiscal 2015 and 2014, representing 1% and 29%, respectively, of sales. 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 October 3, 2015, the Company employed 28 full-time employees and two part-time employees, as well as several 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 October 3, 2015 and subsequent quarterly reports filed with the SEC.*

***Our quarterly operating results typically 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:

- foreign political unrest;
- budgeting cycles of customers, including the U.S. government;
- introduction and market acceptance of new products and product enhancements by us and our competitors;
- 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 international operations expose us to additional risks.***

The Company is dependent upon its foreign sales (including domestic sales shipped to foreign end-users) 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.

We continue to focus our efforts 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.

***We continue to face a number of risks related to current global economic and political conditions that could unfavorably impact our business.***

Global economic conditions continue to be challenging for the secure communications markets, as many economies and financial markets remain in a recession resulting from a number of factors, including adverse credit conditions, low economic growth rates, continuing high rates of unemployment, and reduced

corporate capital spending. Economic growth in the U.S. and many other countries has remained low and the length of time these adverse economic conditions may persist is unknown. In addition, conflicts in the Middle East and elsewhere have created many economic and political uncertainties that have impacted worldwide markets. These global economic and political conditions have impacted and could continue to impact our business in a number of ways, including:

- *Budgeting and forecasting are difficult:* It is difficult to estimate changes in various parts of the U.S. and world economy, including the markets in which we participate. Components of our budgeting and forecasting are dependent upon estimates of demand for our products, and the prevailing economic and political uncertainties render estimates of future income and expenditures difficult.
- *Potential deferment or cancellation of purchases and orders by customers:* Uncertainty about current and future global economic and political conditions may cause, and in some cases has caused, governments and businesses to defer or cancel purchases. If future demand for our products declines due to deteriorating global economic and political conditions, it will negatively impact our financial results.
- *Customers' inability to obtain financing to make purchases:* Some of our customers require substantial financing, including government financing, in order to fund their operations and make purchases from us. The inability of these customers to obtain sufficient credit or other funds to finance purchases of our products and/or meet their payment obligations could have a negative impact on our financial results.

***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 measures 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 or participating in 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. There have been no government audits in recent years and the Company believes the result of such audits, should they occur, would not have a material adverse effect on its financial position or results of operations. 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.

***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 2015 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 2014. 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 October 3, 2015.

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 our products. The delay and expense associated with qualifying a new manufacturer or supplier and commencing production could result in a material loss of revenue and reduced operating margins and harm our relationships with customers. While we have not experienced any significant supply problems or problems with the quality of the manufacturing process of our suppliers and there have been no materially late deliveries of components or parts to date, it is possible that in the future we may encounter problems in the manufacturing process or shortages in parts, components or other elements vital to the manufacture, production and sale of our products.

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

Our success depends on identifying, hiring, training, and retaining qualified professionals. Competition for qualified employees in our industry is intense and we expect this to remain so for the foreseeable future. If we were unable to attract and hire a sufficient number of employees, or if a significant number of our current employees or any of our senior managers resign, we may be unable to complete or maintain existing projects or bid for new projects of similar scope and revenue. The Company's success is particularly dependent on the retention of existing management and technical personnel, including Carl H.

Guild, Jr., the Company's President and Chief Executive Officer. Although the Company has entered into an employment agreement with Mr. Guild, the loss or unavailability of his services could impede our ability to effectively manage our operations.

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

As of December 11, 2015, we employed 28 full-time and two part-time employees as well as several part-time consultants. In the event our products and services obtain greater market acceptance, we may be required to expand our management team and hire and train additional technical and skilled personnel. We may need to scale up our operations in order to service our customers, which may strain our resources, and we may be unable to manage our growth effectively. If our systems, procedures, and controls are inadequate to support our operations, growth could be delayed or halted, and we could lose our opportunity to gain significant market share. In order to achieve and manage growth effectively, we must continue to improve and expand our operational and financial management capabilities. Any inability to manage growth effectively could have a material adverse effect on our business, results of operations, and financial condition.

**Item 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**Item 2. PROPERTIES**

On April 1, 2014, the Company entered into a new lease for its current facilities. This lease is for 22,800 square feet located at 100 Domino Drive, Concord, MA. The Company has been a tenant in this space since 1983. This is the Company's only facility and houses all manufacturing, research and development, and corporate operations. The initial term of the lease is for five years through March 31, 2019 at an annual rate of \$171,000. In addition, the lease contains options to extend the lease for two and one half years through September 30, 2021 and another two and one half years through March 31, 2024 at an annual rate of \$171,000. Rent expense for each of the years ended October 3, 2015 and September 27, 2014 was \$171,000.

**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, trades on the NASDAQ Capital Market under the symbol "TCCO." 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 | 10/3/2015             | \$ 2.40      | \$ 3.71     |
|                                   | 6/27/2015             | 3.38         | 4.49        |
|                                   | 3/28/2015             | 4.00         | 5.00        |
|                                   | 12/28/2014            | 3.71         | 6.51        |
|                                   | 9/27/2014             | \$ 3.66      | \$ 6.43     |
|                                   | 6/28/2014             | 4.19         | 6.64        |
|                                   | 3/29/2014             | 6.40         | 8.50        |
|                                   | 12/27/2013            | 6.49         | 9.97        |

#### Holdings

As of December 11, 2015, there were approximately 75 record holders of our Common Stock. We believe there are approximately 900 beneficial holders of our stock.

#### Dividends

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, 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 October 3, 2015. 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 October 3, 2015, 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 . . . . .     | 142,381(1)   | \$10.34  | 59,019  |
| Equity compensation plans not approved by stockholders . . . . . | 112,600(2)   | \$6.16   | -   |
| Total . . . . .  | 254,981  | \$8.49   | 59,019  |

(1) Of the 142,381 options outstanding as of October 3, 2015, 125,021 were exercisable as of such date at an average exercise price of \$11.16 per share.

(2) Of the 112,600 options outstanding as of October 3, 2015, 111,900 were exercisable as of such date at an average exercise price of \$6.12 per share.



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

There were no sales by the Company of unregistered shares of the Company's common stock during the 2015 fiscal year and no purchases of TCC stock by or on behalf of the Company or any affiliated purchaser during the fourth fiscal quarter of the 2015 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; domestic and foreign government policies and economic conditions; 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 October 3, 2015 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. 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, impairment of long-lived assets, income taxes, fair value 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 and passage of title 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 Freight on Board (“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. There have been no government audits in recent years and the Company believes the result of such audits, should they occur, would not have a material adverse effect on its financial position or results of operations. 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. Product development costs are charged to billable engineering services, bid and proposal efforts or business development activities, as appropriate. Product development costs charged to billable projects are recorded as cost of sales; engineering costs charged to bid and proposal efforts are recorded as selling expenses; and product development costs charged to business development activities are recorded as marketing expenses. Product development costs consist primarily of costs associated with personnel, outside contractor and engineering services, supplies and materials.

### **Inventory**

The Company values its inventory at the lower of actual cost (based on first-in, first-out 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 are less than 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.

### **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. In addition, if the Company becomes aware of a customer's inability to meet its financial obligations, a specific write-off is recorded in that amount.

### **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 inventory obsolescence and stock-based compensation, 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 full valuation allowance against our deferred tax assets of approximately \$3.0 million as of October 3, 2015 due to uncertainties related to our ability to realize 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 and it is not anticipated that we will be subject to foreign taxes in the near future.

### **Stock-Based Compensation**

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

The choice of a valuation technique to determine fair value, 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 October 3, 2015 as compared to year ended September 27, 2014*

#### **Net Sales**

Net sales for the years ended October 3, 2015 and September 27, 2014 were \$5,942,000 and \$6,139,000, respectively, a decrease of \$197,000 or 3%. Sales for fiscal 2015 consisted of \$2,192,000, or 37%, from domestic sources and \$3,750,000, or 63%, from international customers as compared to fiscal 2014, in which sales consisted of \$4,575,000, or 75%, from domestic sources and \$1,564,000, or 25%, from international customers.

Foreign sales consisted of shipments to six different countries during the year ended October 3, 2015 and three different countries during the year ended September 27, 2014. 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>2015</u>         | <u>2014</u>         |
|--------------|---------------------|---------------------|
| Saudi Arabia | \$ 101,000          | \$ 1,155,000        |
| Egypt        | 3,477,000           | 164,000             |
| Colombia     | -                   | 245,000             |
| Other        | <u>172,000</u>      | <u>-</u>            |
|              | <u>\$ 3,750,000</u> | <u>\$ 1,564,000</u> |

For the year ended October 3, 2015, product sales revenue was derived primarily from shipments of our DSD 72A-SP military bulk encryption system to a customer in Egypt amounting to \$3,249,000, as well as an add-on order by the customer for spare parts amounting to \$147,000. Shipments of our narrowband radio encryptors to a domestic customer for deployment into Afghanistan amounted to \$744,000 and we recorded revenue under two new engineering services contracts amounting to \$555,000 during the period. We also sold our link encryptor to a domestic contractor for deployment into the Middle East amounting to \$432,000. In addition, the Company made shipments of our narrowband radio encryptors to supply the secure radio and telephone encryption solutions for a domestic prime contractor supporting a government customer in North Africa amounting to \$116,000. We also sold our internet protocol encryptor to two international customers amounting to \$190,000 and to a domestic customer in the amount of \$30,000 during our 2015 fiscal year.

For the year ended September 27, 2014, product sales revenue was derived from the Company making additional shipments, amounting to \$1,788,000, to the U.S. Army Communications and Electronics Command to upgrade the DSD 72A-SP military bulk encryption system currently in use by the Government of Egypt. The Company made shipments of our narrowband radio encryptors, and supplied customized cryptographic services, tools and training, for a domestic prime contractor supporting a government customer in North Africa amounting to \$1,280,000 and also made shipments of our narrowband radio encryptors to a U.S. radio manufacturer for deployment into Afghanistan amounting to \$1,044,000 during the year. We also sold our Cipher X 7211 IP encryptor to a customer in the Middle East amounting to \$800,000. Sales during 2014 of our data link encryptor for deployment into Saudi Arabia amounted to \$323,000, and sales of our secure telephone, fax, and data encryptors to a foreign customer amounted to \$245,000. In addition, the Company made shipments of our narrowband radio encryptors to supply the secure radio and telephone encryption solutions for a domestic customer supporting a government customer in North Africa amounting to \$220,000 during the period. Royalty sales to a domestic radio manufacturer amounted to \$128,000 during the year ended September 27, 2014.

#### **Gross Profit**

Gross profit for fiscal year 2015 was \$3,365,000, a decrease of \$740,000 from gross profit of \$4,105,000 for fiscal year 2014. Gross profit expressed as a percentage of sales was 57% in fiscal year 2015 compared to 67% in the prior year. This decrease is primarily the result of a write-down of inventory associated with older slow moving products during the fourth quarter of fiscal 2015.

## **Operating Costs and Expenses**

### *Selling, General and Administrative*

Selling, general and administrative expenses for fiscal 2015 were \$2,940,000, compared to \$2,980,000 for fiscal 2014. This decrease of \$40,000 was attributable to a decrease in general and administrative expenses of \$77,000 offset by an increase in selling and marketing expenses of \$37,000 during the 2015 fiscal year.

The decrease in general and administrative costs for the year ended October 3, 2015 was attributable to decreases in personnel-related costs of \$31,000, bad debt recovery of \$25,000, directors fees and expenses of \$8,000, quality certification expenses of \$8,000 and travel costs of \$6,000. These decreases were offset by increases in director and other public company fees of \$7,000 for the period.

The increase in selling and marketing expenses for the year ended October 3, 2015 was primarily attributable to increases in product evaluation costs of \$88,000, outside sales and marketing agreements of \$60,000, outside consulting costs of \$38,000, personnel-related costs of \$19,000, product demonstration costs of \$14,000 and engineering support services of \$9,000. These increases were offset by decreases in outside sales commissions of \$78,000, marketing development efforts of \$68,000, bid and proposal efforts of \$24,000 and travel costs of \$16,000 during the period.

### *Product Development Costs*

Product development costs for fiscal years 2015 and 2014 were \$2,300,000 and \$2,729,000, respectively. This decrease of \$429,000, or 16%, was attributable to decreases in personnel-related costs of \$95,000, project material costs of \$44,000, and outside contractor costs of \$27,000, and an increase in engineering support of sales and business development activities, which resulted in decreased product development costs of approximately \$68,000 for the 2015 fiscal year. During the year there were also two new billable engineering services contracts, which decreased product development costs by \$223,000.

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 \$555,000 of billable engineering services revenue generated during fiscal 2015 and no such revenue generated during fiscal 2014.

## **Net Loss**

The Company generated a net loss of \$1,822,000 for fiscal 2015, as compared to a net loss of \$2,565,000 for fiscal 2014. This \$743,000, or 29%, decrease in net loss is primarily attributable to a decrease in the income tax provision of \$1,025,000 during fiscal 2015. During the year ended September 27, 2014, the Company established a valuation allowance against deferred tax assets of \$894,000, which is included in the income tax provision for the year ended September 27, 2014. This compares to an income tax benefit of \$35,000 during fiscal 2015. During fiscal year 2015 the operating loss increased by \$270,000 as a result of decreased gross profit of \$740,000, which was partially offset by a decrease in operating expenses of \$469,000. Contributing to the decrease in gross profits was the write-down of old slow moving inventory amounting to \$667,000.

The effects of inflation and changing costs have not had a significant impact on sales or earnings in recent years. As of October 3, 2015, 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**

We believe that our overall financial condition remains strong. Our cash, cash equivalents and marketable securities at October 3, 2015 totaled \$3,709,000 and we continue to have no long-term debt. 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.

## Cash Requirements

We believe that the combination of existing cash, cash equivalents, and highly liquid short-term investments, together with future cash to be generated by operations, will be sufficient to meet our ongoing operating and capital expenditure requirements for the foreseeable future and at least through the end of fiscal year 2016. 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 Company's investment in product development, although we can give no assurances. Delays in the timing of significant sales transactions with foreign governments, U.S. government agencies and other organizations may have a significant negative effect on the Company's operations. Any increase in development activities - either billable or new product related - will require additional resources, which we may not be able to fund through cash from operations. The Company has some ability to mitigate this effect through cost-cutting measures. In circumstances where resources will be insufficient, the Company will look to other sources of financing, including debt and/or equity investments; however, we can provide no guarantees that we will be successful in securing such additional financing.

## Sources and Uses of Cash

The following table presents our abbreviated cash flows for the years ended October 3, 2015 and September 27, 2014:

|   | <u>2015</u>         | <u>2014</u>         |
|---|---------------------|---------------------|
| Net loss  | \$ (1,822,000)      | \$ (2,565,000)      |
| Changes not affecting cash                      | 1,037,000           | 1,378,000           |
| Changes in assets and liabilities               | <u>(1,203,000)</u>  | <u>1,421,000</u>    |
| Cash (used in) provided by operating activities | (1,988,000)         | 234,000             |
| Cash provided by (used in) investing activities | 1,403,000           | (150,000)           |
| Cash used in financing activities               | <u>-</u>            | <u>-</u>            |
| Net change in cash and cash equivalents         | (585,000)           | 84,000              |
| Cash and cash equivalents - beginning of period | <u>2,862,000</u>    | <u>2,778,000</u>    |
| Cash and cash equivalents - end of period       | <u>\$ 2,277,000</u> | <u>\$ 2,862,000</u> |

## Operating Activities

The Company used approximately \$2,222,000 more cash from operating activities in fiscal 2015 compared to fiscal 2014. This increased use was primarily attributable to lower collections of accounts and income taxes receivables of \$3.1 million. This use was offset by a reduction of inventories as a result of a write-down associated with older slow moving products of approximately \$667,000 and a general reduction in inventory levels of \$340,000 as compared to fiscal year 2014.

## Investing Activities

Cash provided by investing activities during fiscal 2015 increased by approximately \$1,553,000 to \$1,403,000 compared to cash used by investing activities of \$150,000 during fiscal 2014. This change is primarily attributable to the maturity of short-term investments in marketable securities of \$1,718,000 in fiscal 2015. This was partially offset by the cash paid for the Company's investment in PulsedLight, Inc. during the first three months of 2015.

## Financing Activities

There were no financing activities during either fiscal 2015 or 2014.

## Debt Instruments

The Company maintained 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 expired in February 2015 and was not renewed by the Company. The loan was secured by all assets of the Company (excluding consumer goods)

and required 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 the fiscal years ended October 3, 2015 and September 27, 2014.

### *Backlog*

Backlog at October 3, 2015 and September 27, 2014 amounted to \$717,000 and \$402,000, respectively. The orders in backlog at October 3, 2015 are expected to ship over the next six months depending on customer requirements and product availability.

### *Performance guaranties*

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 October 3, 2015, the Company had four outstanding letters of credit in the amounts of \$329,000, \$16,000, \$14,000 and \$4,000, which are secured by collateralized bank accounts totaling \$363,000. At September 27, 2014, the Company had three outstanding letters of credit in the amounts of \$349,000. These collateralized bank accounts represent cash which has restrictions on its use.

### *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 October 3, 2015 and September 27, 2014, the Company spent \$2,300,000 and \$2,729,000, respectively, on internal product development. The Company also spent \$223,000 on billable development efforts during fiscal 2015. In fiscal 2015, the Company's total product development costs were 8% lower than fiscal 2014 but in line with its planned commitment to research and development, and reflected the costs of custom development, product capability enhancements and production readiness. It is expected that development expenses in fiscal 2016 will be approximately 15-20% lower than fiscal 2015 levels.

Technical work continued to focus on three principal areas: development of solutions that meet the needs of OEMs; product enhancements that include expanded features, planned capability and applications growth; and custom solutions that tailor our products and services to meet the unique needs of our customers. Going forward, the Company expects to continue technical efforts in these areas while also increasing our systems design and integration capabilities and services offering portfolio. The following are highlights of our product development efforts in fiscal 2015:

- Development to enhance the ability of TCC's Cipher X 7211 IP encryption system to integrate a broad range of custom and national algorithms without requiring modifications to hardware. The Company plans to continue this development effort with the DSD 72B-SP fiber optic network encryption family in fiscal 2016. TCC believes custom algorithm integration is a competitive differentiator for the Company in foreign markets.
- Development of additional features in KEYNET IP Manager, the management system for the Company's Cipher X 7211 IP encryption system, to improve management system redundancy.
- Custom engineering services for commercial and government applications.
- Production readiness of TCC products and custom solutions.

Development of a CipherTalk 8500 asset management tool is planned for fiscal 2016 to facilitate the ability for customers to manage their own CipherTalk network.

It is anticipated that cash from operations will fund our near-term research and development and marketing activities through at least the end of our fiscal year 2016. 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. Any increase in development 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.

### *Capital Expenditures*

Other than those stated above, there are no plans for significant internal product development or material commitments for capital expenditures in fiscal 2016.

### **Off-Balance Sheet Arrangements**

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

### **New Accounting Pronouncements**

*ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)*

In July 2013, the FASB issued guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This guidance requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. If a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date, the unrecognized tax benefit should be presented in the financial statements as a liability and not combined with deferred tax assets. This guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2014, with early adoption permitted. This guidance was adopted by TCC during fiscal 2015 and did not have a material impact on the financial results of the Company.

*ASU 2014-09, Revenue From Contracts With Customers, amended by ASU 2015-14 (Topic 606)*

In May 2014, the FASB and the International Accounting Standards Board issued guidance on the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards that would: (1) remove inconsistencies and weaknesses in revenue requirements, (2) provide a more robust framework for addressing revenue issues, (3) improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, (4) provide more useful information to users of financial statements through improved disclosure requirements, and (5) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. This guidance is effective prospectively for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact of this guidance and is still considering whether it will have a material effect on the Company's consolidated financial statements. This guidance will become effective for TCC as of the beginning of our 2019 fiscal year.

*ASU 2014-15, Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*

In August 2014, the FASB updated U.S. GAAP to eliminate a critical gap in existing standards. The new guidance clarifies the disclosures management must make in the organization's financial statement footnotes when management has substantial doubt about its ability to continue as a "going concern." The Company is currently evaluating the impact of this guidance but does not expect its adoption will have a material effect on the Company's consolidated financial statements. The guidance applies to all companies and is effective for the annual reporting periods ending after December 15, 2016, including interim periods within that reporting period.



In connection with the FASB's efforts to simplify accounting standards, in January 2015 the FASB determined that eliminating the concept of extraordinary items from GAAP would reduce the cost and complexity of applying U.S. GAAP, while maintaining or improving the usefulness of information included in financial statements. The changes required by ASU 2015-01 are effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. Early adoption is permitted so long as the guidance is applied from the beginning of the fiscal year of adoption. The Company is currently evaluating the impact of this guidance but does not expect its adoption will have any effect on the Company's consolidated financial statements. This guidance will become effective for TCC as of the beginning of our 2017 fiscal year.

*ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory*

In July 2015, the FASB issued guidance with respect to inventory measurement. This ASU requires inventory to be measured at the lower of cost and net realizable value. The provisions of this ASU are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendment is required to be applied prospectively, and early adoption is permitted. This amendment is applicable for the Company beginning in the first quarter of our 2018 fiscal year. The adoption of this standard is not expected to have a material impact on our financial statements.

Other recent accounting pronouncements were issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC, during the 2015 fiscal year but such pronouncements are not believed by management to have a material impact on the Company's present or future 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 October 3, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework*, established in 1992.

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 2015, management identified a control deficiency that was also identified during its assessments for the Company's 2008 through 2014 fiscal years. During the course of the previous years' evaluations, and again during the evaluation for the 2015 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 October 3, 2015.

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 2016 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 feasible 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 2015 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 2016 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 2015 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 2016 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 2015 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 2016 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 2015 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 2016 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 2015 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 2016 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 2015 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>October 3, 2015 and September 27, 2014  | 31          |
| Consolidated Statements of Operations for the Years Ended<br>October 3, 2015 and September 27, 2014                      | 32          |
| Consolidated Statements of Comprehensive Loss for the<br>Years Ended October 3, 2015 and September 27, 2014              | 33          |
| Consolidated Statements of Cash Flows for the Years Ended<br>October 3, 2015 and September 27, 2014                      | 33          |
| Consolidated Statements of Changes in Stockholders' Equity for the<br>Years Ended October 3, 2015 and September 27, 2014 | 34          |
| Notes to Consolidated Financial Statements   | 35-49       |

(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 7, 2014, 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 11, 2014)
- 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 March 27, 2014, between the Company and Batstone LLC (incorporated by reference to the Company's 8-K filed with the Securities and Exchange Commission on April 2, 2014)
- 10.7 Loan Agreement, dated February 22, 2012, between the Company and Bank of America, N.A. (incorporated by reference to the Company's 10-K filed with the Securities and Exchange Commission on December 22, 2014)
- 10.8 Security Agreement, dated February 22, 2012, between the Company and Bank of America, N.A. (incorporated by reference to the Company's 10-K filed with the Securities and Exchange Commission on December 22, 2014)
- 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<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.)
- 10.11 Contract with U.S. Army Contracting Command, dated May 2, 2013, contract No. W15P7T-13-C-D519 (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 August 13, 2013.)
- 10.12 Purchase Order from Datron World Communications dated October 8, 2013 (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 10.22 to the Company's Form 10-K filed with the Securities and Exchange Commission on December 19, 2013.)
- 10.13 Contract with the Egyptian Armament Authority with an effective date of November 25, 2014 (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 the Company's 10-K filed with the Securities and Exchange Commission on December 22, 2014)
- 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 Independent Registered Public Accounting Firm
- 23.2\* Consent of RSM US 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
- 101.INS XBRL Report Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Calculation Linkbase Document
- 101.LAB XBRL Taxonomy Label Linkbase Document
- 101.PRE XBRL Presentation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

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Footnotes:

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

## SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TECHNICAL COMMUNICATIONS CORPORATION

By: /s/ Carl H. Guild, Jr.

Carl H. Guild, Jr.

Chief Executive Officer and President

Chairman of the Board, Director

Date: December 18, 2015

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 18, 2015 |
| <u>/s/ Michael P. Malone</u><br>Michael P. Malone     | Treasurer and Chief Financial Officer<br>(Principal Financial<br>and Accounting Officer)                  | December 18, 2015 |
| <u>/s/ Mitchell B. Briskin</u><br>Mitchell B. Briskin | Director  | December 18, 2015 |
| <u>/s/ Thomas E. Peoples</u><br>Thomas E. Peoples     | Director  | December 18, 2015 |
| <u>/s/ Francisco F. Blanco</u><br>Francisco F. Blanco | Director  | December 18, 2015 |

**Technical Communications Corporation and Subsidiary**  
**Consolidated Balance Sheets**  
**October 3, 2015 and September 27, 2014**

| <b>ASSETS</b>   | <b><u>2015</u></b>  | <b><u>2014</u></b>  |
|---|---------------------|---------------------|
| Current assets:   |                     |                     |
| Cash and cash equivalents   | \$ 2,276,511        | \$ 2,861,542        |
| Restricted cash   | 363,358             | 348,695             |
| Marketable securities:  |                     |                     |
| Available for sale securities   | -                   | 1,416,890           |
| Held to maturity securities   | 307,673             | 310,437             |
| Accounts receivable - trade, less allowance<br>of \$0 and \$25,000 at October 3, 2015 and September<br>27, 2014, respectively   | 1,790,856           | 403,139             |
| Inventories, net  | 1,850,885           | 2,721,313           |
| Other current assets  | 132,792             | 210,379             |
| Total current assets  | <u>6,722,075</u>    | <u>8,272,395</u>    |
| Marketable securities:  |                     |                     |
| Held to maturity securities   | 761,842             | 1,105,140           |
| Equipment and leasehold improvements  | 4,480,343           | 4,465,096           |
| Less accumulated depreciation and amortization  | (4,223,497)         | (4,033,233)         |
| Equipment and leasehold improvements, net   | <u>256,846</u>      | <u>431,863</u>      |
| Cost method investment  | <u>275,000</u>      | <u>-</u>            |
|   | <u>\$ 8,015,763</u> | <u>\$ 9,809,398</u> |
| <br><b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                     |                     |
| Current liabilities:  |                     |                     |
| Accounts payable  | \$ 179,584          | \$ 173,553          |
| Accrued liabilities:  |                     |                     |
| Compensation and related expenses   | 244,290             | 163,410             |
| Customer deposits   | 41,220              | 169,943             |
| Other current liabilities   | 136,810             | 157,784             |
| Income taxes payable  | 41,117              | 76,859              |
| Total current liabilities   | <u>643,021</u>      | <u>741,549</u>      |
| Commitments and contingencies (Note 11)   |                     |                     |
| Stockholders' equity  |                     |                     |
| Common stock - par value \$0.10 per share;<br>7,000,000 shares authorized, 1,839,877 issued<br>and outstanding at October 3, 2015 and<br>1,838,821 issued and outstanding at September 27, 2014 | 183,988             | 183,892             |
| Additional paid-in capital  | 4,110,096           | 3,986,996           |
| Accumulated other comprehensive loss  | -                   | (3,598)             |
| Retained earnings   | 3,078,658           | 4,900,559           |
| Total stockholders' equity  | <u>7,372,742</u>    | <u>9,067,849</u>    |
|   | <u>\$ 8,015,763</u> | <u>\$ 9,809,398</u> |

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

**Technical Communications Corporation and Subsidiary**  
**Consolidated Statements of Operations**  
**Years ended October 3, 2015 and September 27, 2014**

|  | <u>2015</u>    | <u>2014</u>    |
|--|----------------|----------------|
| Net sales  | \$ 5,942,160   | \$ 6,138,575   |
| Cost of sales                                    | 2,577,131      | 2,033,961      |
| Gross profit                                     | 3,365,029      | 4,104,614      |
| Operating expenses:                              |                |                |
| Selling, general and administrative              | 2,940,147      | 2,980,388      |
| Product development                              | 2,299,671      | 2,729,276      |
| Total operating expenses                         | 5,239,818      | 5,709,664      |
| Operating loss                                   | (1,874,789)    | (1,605,050)    |
| Other income                                     |                |                |
| Investment income                                | 18,263         | 30,289         |
| Loss before (benefit) provision for income taxes | (1,856,526)    | (1,574,761)    |
| (Benefit) provision for income taxes             | (34,625)       | 990,113        |
| Net loss   | \$ (1,821,901) | \$ (2,564,874) |
| Net loss per common share                        |                |                |
| Basic  | \$ (0.99)      | \$ (1.39)      |
| Diluted  | \$ (0.99)      | \$ (1.39)      |
| Weighted average shares                          |                |                |
| Basic  | 1,839,327      | 1,838,866      |
| Diluted  | 1,839,327      | 1,838,866      |

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**Years ended October 3, 2015 and September 27, 2014**

|   | <u>2015</u>    | <u>2014</u>    |
|---|----------------|----------------|
| Net loss                                      | \$ (1,821,901) | \$ (2,564,874) |
| Other comprehensive income (loss), net of tax | 3,598          | (1,578)        |
| Comprehensive loss                            | \$ (1,818,303) | \$ (2,566,452) |

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



**Technical Communications Corporation and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**Years ended October 3, 2015 and September 27, 2014**

|   | <u>2015</u>    | <u>2014</u>    |
|---|----------------|----------------|
| <b>Operating activities:</b>  |                |                |
| Net loss  | \$ (1,821,901) | \$ (2,564,874) |
| Adjustments to reconcile net loss to cash (used in) provided by operating activities: |                |                |
| Depreciation and amortization   | 199,251        | 201,831        |
| Stock-based compensation  | 124,918        | 213,243        |
| Deferred income taxes   | -              | 894,459        |
| Adjustments to reduce inventory to net realizable value                               | 687,843        | 55,724         |
| Bad debt recovery   | (25,000)       | -              |
| Amortization of premium on held to maturity securities                                | 51,739         | 70,394         |
| Unrealized loss on available for sale securities                                      | (3,598)        | (1,578)        |
| Changes in current assets and current liabilities:                                    |                |                |
| Accounts receivable   | (1,362,717)    | 972,625        |
| Inventories   | 182,585        | (158,433)      |
| Income taxes receivable   | -              | 723,988        |
| Other current assets  | 77,587         | 15,204         |
| Customer deposits   | (128,723)      | (89,659)       |
| Accounts payable and accrued liabilities  | 30,196         | (98,819)       |
| Cash (used in) provided by operating activities                                       | (1,987,820)    | 234,105        |
| <b>Investing activities:</b>  |                |                |
| Additions to equipment and leasehold improvements                                     | (25,957)       | (164,792)      |
| Increase in restricted cash   | (14,663)       | (315,909)      |
| Purchase of cost method investment  | (275,000)      | -              |
| Proceeds from maturities of marketable securities                                     | 1,718,409      | 2,909,001      |
| Purchases of marketable securities  | -              | (2,579,000)    |
| Cash provided by (used in) investing activities                                       | 1,402,789      | (150,700)      |
| Net (decrease) increase in cash and cash equivalents                                  | (585,031)      | 83,405         |
| Cash and cash equivalents at beginning of year  | 2,861,542      | 2,778,137      |
| Cash and cash equivalents at end of year  | \$ 2,276,511   | \$ 2,861,542   |
| <b>Supplemental disclosures:</b>  |                |                |
| Income taxes paid   | \$ 982         | \$ 4,942       |

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 October 3, 2015 and September 27, 2014**

|   | <u>2015</u>  | <u>2014</u>  |
|---|--------------|--------------|
| <b>Stockholders' Equity</b>                             |              |              |
| Shares of common stock:                                 |              |              |
| Beginning balance                                       | 1,838,921    | 1,838,716    |
| Cashless exercise of stock options                      | 956          | 205          |
| Ending balance  | 1,839,877    | 1,838,921    |
| Common stock at par value:                              |              |              |
| Beginning balance                                       | \$ 183,892   | \$ 183,872   |
| Cashless exercise of stock options                      | 96           | 20           |
| Ending balance  | 183,988      | 183,892      |
| Additional paid-in capital:                             |              |              |
| Beginning balance                                       | \$ 3,986,996 | \$ 3,774,759 |
| Cashless exercise of stock options                      | (1,818)      | (1,006)      |
| Stock-based compensation                                | 124,918      | 213,243      |
| Ending balance  | 4,110,096    | 3,986,996    |
| Other comprehensive income (loss):                      |              |              |
| Beginning balance                                       | (3,598)      | (2,020)      |
| Unrealized gain (loss) on available for sale securities | 3,598        | (1,578)      |
| Ending balance  | -            | (3,598)      |
| Retained earnings:                                      |              |              |
| Beginning balance                                       | \$ 4,900,559 | \$ 7,465,433 |
| Net loss  | (1,821,901)  | (2,564,874)  |
| Ending balance  | 3,078,658    | 4,900,559    |
| Total stockholders' equity                              | \$ 7,372,742 | \$ 9,067,849 |

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

## Notes to Consolidated Financial Statements

### (1) Company Operations

Technical Communications Corporation (“TCC”) was incorporated in Massachusetts in 1961; its wholly-owned subsidiary, TCC Investment Corp., was organized in that jurisdiction in 1982. Technical Communications Corporation and TCC Investment Corp. are collectively referred to as the “Company”. The Company’s business consists of only one industry segment, which is the design, development, manufacture, distribution, marketing and sale of communications security devices, systems and services. 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 for the foreseeable future. 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. The Company has incurred losses of approximately \$6 million during the past four years, though we believe we will have sufficient cash resources for operations through at least the end of fiscal year 2016.

### (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 TCC 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 recognition, receivable reserves, inventory reserves, impairment of long-lived assets, income taxes, fair value 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. At October 3, 2015 and September 27, 2014, the Company had restrictions on the use of cash which was used as collateral to secure outstanding letters of credit totaling \$363,358 and \$348,695, respectively. Certain amounts in the September 27, 2014 consolidated financial statements have been reclassified from cash to restricted cash for comparative purposes to conform to the presentation in the October 3, 2015 consolidated financial statements.

## Notes to Consolidated Financial Statements (continued)

### *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. When the financial condition of our customers deteriorate, resulting in an impairment of their ability to make payments, additional allowances are recorded. In addition, if the Company becomes aware of a customer's inability to meet its financial obligations, a specific write-off is recorded in that amount.

### *Inventories*

The Company values its inventory at the lower of actual cost (based on first-in, first-out 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 are less than 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 the Company's 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 the applicable lease term. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization 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. These events include a significant decrease in the market price of a long-lived asset, a significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition, a significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset, including an adverse action or assessment by a regulator, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset, a current-period operating or cash flow loss combined with a history of operating or cash flow losses, or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset, among other items. 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. Although an indicator of impairment of our long-lived assets did exist at October 3, 2015, we determined that no impairment charge was required as an estimate of our future undiscounted cash flows was sufficient to recover the assets.

*Revenue Recognition*

The Company recognizes product revenue when there is persuasive evidence of an arrangement, the fee is fixed or determinable, delivery of the product and passage of title 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 freight on board (“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. There have been no audits in recent years and the Company believes the result of such audits, should they occur, would not have a material adverse effect on its financial position or results of operations. If 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. Product development costs are charged to billable engineering services, bid and proposal efforts or business development activities, as appropriate. Product development costs charged to billable projects are recorded as cost of sales; engineering costs charged to bid and proposal efforts are recorded as selling expenses; and product development costs charged to business development activities are recorded as marketing expenses. Product development costs consist primarily of costs associated with personnel, outside contractor and engineering services, supplies and materials.

*Stock-Based Compensation*

Stock-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 fiscal years ended October 3, 2015 and September 27, 2014.

The Company uses 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 stock-based compensation.

## Notes to Consolidated Financial Statements (continued)

The fair value of options at date of grant was estimated with the following assumptions:

|                         | October 3, 2015 | September 27,<br>2014 |
|-------------------------|-----------------|-----------------------|
| <b>Assumptions:</b>     |                 |                       |
| Option life             | 6.5 years       | 6.5 years             |
| Risk-free interest rate | 1.8%            | 1.33 % to 1.88%       |
| Stock volatility        | 57%             | 60% to 65%            |
| Dividend yield          | 0%              | 0%                    |

There were 14,000 options granted during the year ended October 3, 2015 and 15,700 options granted during the year ended September 27, 2014. The weighted average grant date fair value of options granted during the years ended October 3, 2015 and September 27, 2014 was \$2.27 and \$4.44, respectively. The following table summarizes stock-based compensation costs included in the Company's consolidated statements of operations for the years ended October 3, 2015 and September 27, 2014:

|   | 2015              | 2014              |
|---|-------------------|-------------------|
| Cost of sales                                       | \$ 12,849         | \$ 16,287         |
| Selling, general and administrative                 | 43,231            | 111,067           |
| Product development                                 | <u>68,838</u>     | <u>85,889</u>     |
| Total stock-based compensation expense before taxes | <u>\$ 124,918</u> | <u>\$ 213,243</u> |

A summary of the status of the Company's nonvested shares as of October 3, 2015 and changes during the year ended October 3, 2015, is presented below:

|  | Shares         | Weighted<br>Average Grant<br>Date Fair Value |
|--|----------------|--|
| Nonvested shares at September 27, 2014 | 32,739         | \$ 5.24                                      |
| Grants                                 | 14,000         | 2.27   |
| Vested                                 | (24,296)       | 5.46   |
| Cancellations/forfeitures              | <u>(4,383)</u> | 5.13   |
| Nonvested shares at October 3, 2015    | <u>18,060</u>  | \$ 2.68                                      |

As of October 3, 2015, there was \$39,478 of unrecognized compensation cost related to options outstanding. The unrecognized compensation cost will be recognized as the options vest. The weighted average period over which the stock-based compensation cost is expected to be recognized is 4.16 years.

The Company had the following stock option plans outstanding as of October 3, 2015: 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 shares authorized for issuance under these plans, of which options to purchase 254,981 shares were outstanding at October 3, 2015. 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.

As of October 3, 2015, there were no shares available for new option grants under the 2001 Stock Option Plan and the 2005 Non-Statutory Stock Option Plan; there were 59,019 shares available for grant under the 2010 Equity Incentive Plan. On May 5, 2015 the 2005 Non-Statutory Stock Option Plan expired and shares were no longer available for grant under such plan.

## Notes to Consolidated Financial Statements (continued)

The following tables summarize stock option activity during fiscal years 2014 and 2015:

|  | <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 28, 2013</b> | <u>60,488</u>              | <u>197,094</u>  | <u>257,582</u>  | \$ 8.83                 | 6.21 years              |
| Grants                                 | 1,700                      | 14,000          | 15,700          | 7.50                    |                         |
| Vested                                 | (28,239)                   | 28,239          | -               | 11.06                   |                         |
| Exercises                              | -                          | (900)           | (900)           | 5.00                    |                         |
| Cancellations/forfeitures              | <u>(1,210)</u>             | <u>(1,687)</u>  | <u>(2,897)</u>  | 11.21                   |                         |
| <b>Outstanding, September 27, 2014</b> | <u>32,739</u>              | <u>236,746</u>  | <u>269,485</u>  | \$ 8.74                 | 5.46 years              |
| Grants                                 | 14,000                     | -               | 14,000          | 4.05                    |                         |
| Vested                                 | (24,296)                   | 24,296          | -               | 11.38                   |                         |
| Exercises                              | -                          | (5,288)         | (5,288)         | 3.00                    |                         |
| Cancellations/forfeitures              | <u>(4,383)</u>             | <u>(18,833)</u> | <u>(23,216)</u> | 9.92                    |                         |
| <b>Outstanding, October 3, 2015</b>    | <u>18,060</u>              | <u>236,921</u>  | <u>254,981</u>  | \$ 8.49                 | 4.83 years              |

Information related to the stock options vested or expected to vest as of October 3, 2015 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 |
|-----------------------------|---------------------|--|--|------------------------------------|---|
| \$2.01 - \$3.00             | 10,000              | 0.11   | \$ 3.00                                | 10,000                             | \$ 3.00   |
| \$3.01 - \$4.00             | 16,600              | 0.82   | 3.66                                   | 16,600                             | 3.66  |
| \$4.01 - \$5.00             | 42,000              | 6.89   | 4.54                                   | 27,100                             | 4.78  |
| \$5.01 - \$10.00            | 62,600              | 4.95   | 7.53                                   | 60,140                             | 7.57  |
| \$10.01 - \$15.00           | <u>123,781</u>      | 5.00   | 11.41                                  | <u>123,081</u>                     | 11.41   |
|                             | <u>254,981</u>      | 4.83   | \$ 8.49                                | <u>236,921</u>                     | \$ 8.78   |

The aggregate intrinsic value of the Company's "in-the-money" outstanding and exercisable options as of October 3, 2015 was \$0. There were 5,288 options exercised during the year ended October 3, 2015 with a total intrinsic value of \$5,605. There were 900 options exercised during the year ended September 27, 2014 with a total intrinsic value of \$2,601. Nonvested common stock options are subject to the risk of forfeiture until the fulfillment of specified conditions.

### *Income Taxes*

The Company accounts for income taxes using the asset/liability method. Under the asset/liability method, deferred income taxes are recognized at current income tax rates to reflect the tax effect of temporary differences between the consolidated financial reporting basis and tax basis of assets and liabilities. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

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 year 2015 and 2014 the Company had \$45,631 and \$80,829, respectively, of uncertain tax positions.

## Notes to Consolidated Financial Statements (continued)

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. For the year ended October 3, 2015 the Company recorded \$1,100 in interest and tax penalties, and for the year ended September 27, 2014, the Company recorded \$19,000 in interest and 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 Measurements*

In determining fair value measurements, 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 assets or liabilities as of the measurement date.
- Level 2 - Pricing inputs are quoted prices for similar assets and liabilities, 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 assets and liabilities, 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 asset or liability'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 asset or liability.

The Company's held to maturity securities are comprised of investments in municipal bonds. These securities represent ownership in individual bonds in municipalities within the United States. The Company's available for sale securities are comprised of certificates of deposit in U.S. banks. The Company also holds mutual funds held in the form of money market funds held by a brokerage account, which are classified as cash equivalents.

The fair value of these investments is based on quoted prices from recognized pricing services (e.g. Standard & Poor's, Bloomberg, etc.), or in the case of mutual funds, at their closing published 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 October 3, 2015 and September 27, 2014, there were no transfers between levels.



## Notes to Consolidated Financial Statements (continued)

The following table sets forth by level, within the fair value hierarchy, the assets measured at fair value on a recurring basis as of October 3, 2015 and September 27, 2014, in accordance with the fair value hierarchy as defined above. As of October 3, 2015 and September 27, 2014, 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 27, 2014</u></b>             |                         |   |  |
| <b><u>Available for Sale Securities:</u></b> |                         |   |  |
| Certificates of deposit                      | \$ 1,416,890            | -   | \$ 1,416,890   |
| Total debt instruments                       | <u>1,416,890</u>        | <u>-</u>  | <u>1,416,890</u>   |
| <b><u>Cash Equivalents</u></b>               |                         |   |  |
| <b><u>Mutual funds:</u></b>                  |                         |   |  |
| Money market funds                           | <u>1,801,443</u>        | <u>1,801,443</u>  | -  |
| Total mutual funds                           | <u>1,801,443</u>        | <u>1,801,443</u>  | -  |
| <br>Total assets                             | <br><u>\$ 3,218,333</u> | <br><u>\$ 1,801,443</u>   | <br><u>\$ 1,416,890</u>                                      |
| <b><u>October 3, 2015</u></b>                |                         |   |  |
| <b><u>Cash Equivalents</u></b>               |                         |   |  |
| <b><u>Mutual funds:</u></b>                  |                         |   |  |
| Money market funds                           | <u>1,385,201</u>        | <u>1,385,201</u>  | -  |
| Total mutual funds                           | <u>1,385,201</u>        | <u>1,385,201</u>  | -  |
| <br>Total assets                             | <br><u>\$ 1,385,201</u> | <br><u>\$ 1,385,201</u>   | <br><u>\$ -</u>  |

There were no assets or liabilities measured at fair value on a nonrecurring basis at October 3, 2015 and September 27, 2014.

### *Earnings per Share (EPS)*

The Company presents both a “basic” and a “diluted” EPS. Basic EPS is computed by dividing net loss 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 included 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.

### *Research and Development*

Research and development costs are included in product development expenses in our consolidated statements of operations. Expenditures for Company-sponsored research and development projects are expensed as incurred, and were \$2,299,671 and \$2,729,276 in 2015 and 2014, respectively. Customer-sponsored research and development projects performed under contracts are accounted for as contract costs as the work is performed and included in cost of sales and were \$222,569 in the 2015 fiscal year. There was no customer-sponsored research and development in fiscal year 2014.

### *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 2015 fiscal year ended on October 3, 2015 and included 53 weeks. The 2014 fiscal year ended on September 27, 2014 and included 52 weeks.

## Notes to Consolidated Financial Statements (continued)

### *Comprehensive Income (loss)*

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

### *New Accounting Pronouncements*

*ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)*

In July 2013, the FASB issued guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This guidance requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. If a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date, the unrecognized tax benefit should be presented in the financial statements as a liability and not combined with deferred tax assets. This guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2014, with early adoption permitted.

This guidance was adopted by the Company during fiscal 2015 and did not have a material impact on the financial results of the Company.

*ASU 2014-09, Revenue From Contracts With Customers (Topic 606)*

In May 2014, the FASB and the International Accounting Standards Board issued guidance on the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards that would: (1) remove inconsistencies and weaknesses in revenue requirements, (2) provide a more robust framework for addressing revenue issues, (3) improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, (4) provide more useful information to users of financial statements through improved disclosure requirements, and (5) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. This guidance is effective prospectively for annual reporting periods beginning after December 15, 2017 (based on ASU 2015-14), including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact of this guidance and is still considering whether it will have a material effect on the Company's consolidated financial statements. This guidance will become effective for the Company as of the beginning of our 2019 fiscal year.

*ASU 2014-15, Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*

In August 2014, the FASB updated U.S. GAAP to eliminate a critical gap in existing standards. The new guidance clarifies the disclosures management must make in the organization's financial statement footnotes when management has substantial doubt about its ability to continue as a "going concern." The Company is currently evaluating the impact of this guidance but does not expect its adoption will have a material effect on the Company's consolidated financial statements. The guidance applies to all companies and is effective for the annual reporting periods ending after December 15, 2016, including interim periods within that reporting period.

*ASU 2015-01, Income Statement—Extraordinary And Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation By Eliminating The Concept Of Extraordinary Items*

In connection with the FASB's efforts to simplify accounting standards, in January 2015 the FASB determined that eliminating the concept of extraordinary items from GAAP would reduce the cost and complexity of applying U.S. GAAP, while maintaining or improving the usefulness of information

## Notes to Consolidated Financial Statements (continued)

included in financial statements. The changes required by ASU 2015-01 are effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. Early adoption is permitted as long as the guidance is applied from the beginning of the fiscal year of adoption. The Company is currently evaluating the impact of this guidance but does not expect its adoption will have any effect on the Company's consolidated financial statements. This guidance will become effective for the Company as of the beginning of our 2017 fiscal year.

### *ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory*

In July 2015, the FASB issued guidance with respect to inventory measurement. This ASU requires inventory to be measured at the lower of cost and net realizable value. The provisions of this ASU are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendment is required to be applied prospectively, and early adoption is permitted. This amendment is applicable to the Company beginning in the first quarter of our 2018 fiscal year. The adoption of this standard is not expected to have a material impact on our consolidated financial statements.

Other recent accounting pronouncements were issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC during the 2015 fiscal year but such pronouncements are not believed by management to have a material impact on the Company's present or future financial statements.

### (3) Net Loss Per Share

Outstanding potentially dilutive stock options which were not included in the net loss per share amounts as their effect would have been anti-dilutive were as follows: 254,981 shares in fiscal year 2015 and 269,485 shares in fiscal year 2014.

### (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 either available for sale or held to maturity.

Available for sale securities are carried at fair value, with unrealized holding gains and losses reported in stockholders' equity as a separate component of accumulated other comprehensive income (loss). Held to maturity securities are carried at amortized cost. 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. During fiscal year 2013, the Company determined it would hold its investment in municipal bonds until maturity and subsequently reclassified these securities from available for sale to held to maturity. These securities are now carried at amortized cost.

As of October 3, 2015, available for sale securities consisted of the following:

|                           | <u>Cost</u>  | <u>Accrued Interest</u> | <u>Gross Unrealized Gains</u> | <u>Losses</u> | <u>Estimated Fair Value</u> |
|---------------------------|--------------|-------------------------|-------------------------------|---------------|-----------------------------|
| Money market mutual funds | \$ 1,385,201 | \$ -                    | \$ -                          | \$ -          | \$ 1,385,201                |

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

As of October 3, 2015, held to maturity securities consisted of the following:

|                 | <u>Cost</u>  | <u>Accrued Interest</u> | <u>Amortization Bond Premium</u> | <u>Amortized Cost</u> | <u>Unrealized Gains</u> | <u>Estimated Fair Value</u> |
|-----------------|--------------|-------------------------|----------------------------------|-----------------------|-------------------------|-----------------------------|
| Municipal bonds | \$ 1,166,857 | \$14,367                | \$ 111,709                       | \$ 1,069,515          | \$ 9,210                | \$ 1,078,725                |

As of September 27, 2014, available for sale securities consisted of the following:

|                           | <u>Cost</u>         | <u>Accrued Interest</u> | <u>Gross Unrealized Gains</u> | <u>Unrealized Losses</u> | <u>Estimated Fair Value</u> |
|---------------------------|---------------------|-------------------------|-------------------------------|--------------------------|-----------------------------|
| Money market mutual funds | \$ 1,801,443        | \$ -                    | \$ -                          | \$ -                     | \$ 1,801,443                |
| Certificates of deposit   | <u>1,418,000</u>    | <u>2,488</u>            | <u>-</u>                      | <u>3,598</u>             | <u>1,416,890</u>            |
|                           | <u>\$ 3,219,443</u> | <u>\$ 2,488</u>         | <u>\$ -</u>                   | <u>\$ 3,598</u>          | <u>\$ 3,218,333</u>         |

As of September 27, 2014, held to maturity securities consisted of the following:

|                 | <u>Cost</u>  | <u>Accrued Interest</u> | <u>Amortization Bond Premium</u> | <u>Amortized Cost</u> | <u>Unrealized Gains</u> | <u>Estimated Fair Value</u> |
|-----------------|--------------|-------------------------|----------------------------------|-----------------------|-------------------------|-----------------------------|
| Municipal bonds | \$ 1,506,653 | \$17,963                | \$ 109,039                       | \$ 1,415,577          | \$ 15,331               | \$ 1,430,908                |

The contractual maturities of held to maturity investments as of October 3, 2015 were as follows:

|                              | <u>Cost</u>         | <u>Amortized Cost</u> |
|------------------------------|---------------------|-----------------------|
| Within 1 year                | \$ 339,377          | \$ 307,673            |
| After 1 year through 5 years | <u>827,480</u>      | <u>761,842</u>        |
|                              | <u>\$ 1,166,857</u> | <u>\$ 1,069,515</u>   |

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

|                           | <u>October 3, 2015</u> | <u>September 27, 2014</u> |
|---------------------------|------------------------|---------------------------|
| Cash and cash equivalents | \$ 1,385,201           | \$ 1,801,443              |
| Marketable securities     | <u>-</u>               | <u>1,416,890</u>          |
|                           | <u>\$ 1,385,201</u>    | <u>\$ 3,218,333</u>       |

**(5) Inventories**

Inventories consist of the following:

|                            | <u>October 3, 2015</u> | <u>September 27, 2014</u> |
|----------------------------|------------------------|---------------------------|
| Finished goods             | \$ 8,015               | \$ 8,014                  |
| Work in process            | 662,575                | 1,126,365                 |
| Raw materials and supplies | <u>1,180,295</u>       | <u>1,586,934</u>          |
| Total inventories          | <u>\$ 1,850,885</u>    | <u>\$ 2,721,313</u>       |

As a result of recent changes in the Company's market for certain products, carrying amounts for those inventories have been reduced by approximately \$667,000, during the year ended October 3, 2015, due to quantities in excess of current requirements. Management believes that this reduces inventory to its lower of cost or market, and no additional loss will be incurred upon disposition of the excess quantities. While it is at least reasonably possible that the estimate will change materially in the near term, no estimate can be made of the range of additional loss that is at least possible.

**(6) Equipment and Leasehold Improvements**

Equipment and leasehold improvements consist of the following:

|   | <b>October 3,<br/>2015</b> | <b>September 27,<br/>2014</b> | <b>Estimated<br/>Useful Life</b>          |
|---|----------------------------|-------------------------------|---|
| Engineering and manufacturing equipment           | \$ 2,093,485               | \$ 2,074,488                  | 3-8 years                                 |
| Demonstration equipment                           | 828,306                    | 832,056                       | 3 years                                   |
| Furniture and fixtures                            | 1,014,602                  | 1,014,602                     | 3-8 years                                 |
| Automobile  | 49,441                     | 49,441                        | 5 years                                   |
| Leasehold improvements                            | <u>494,509</u>             | <u>494,509</u>                | Lesser of useful life<br>or term of lease |
| Total equipment and<br>leasehold improvements     | 4,480,343                  | 4,465,096                     |   |
| Less accumulated depreciation and<br>amortization | <u>(4,223,497)</u>         | <u>(4,033,233)</u>            |   |
| Equipment and leasehold improvements, net         | <u>\$ 256,846</u>          | <u>\$ 431,863</u>             |   |

Depreciation expense was \$199,251 and \$201,831 for the fiscal years ended October 3, 2015 and September 27, 2014, respectively.

**(7) Leases**

On April 1, 2014, the Company entered into a new lease for its current facilities. This lease is for 22,800 square feet located at 100 Domino Drive, Concord, MA. The Company has been a tenant in this space since 1983. This is the Company's only facility and houses all manufacturing, research and development, and corporate operations. The initial term of the lease is for five years through March 31, 2019 at an annual rate of \$171,000. Future minimum lease payments under the remainder of this lease total \$598,500 at October 3, 2015. In addition the lease contains options to extend the lease for two and one half years through September 30, 2021 and another two and one half years through March 31, 2024 at an annual rate of \$171,000. Rent expense for each of the years ended October 3, 2015 and September 27, 2014 was \$171,000.

**(8) Guarantees**

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

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

|   | <b>October 3, 2015</b> | <b>September 27, 2014</b> |
|---|------------------------|---------------------------|
| Beginning balance                                       | \$ 41,532              | \$ 28,639                 |
| Plus: accruals related to new sales                     | 26,426                 | 27,928                    |
| Less: payments and adjustments to prior period accruals | <u>(37,475)</u>        | <u>(15,035)</u>           |
| Ending balance  | <u>\$ 30,483</u>       | <u>\$ 41,532</u>          |

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

**(9) Income Taxes**

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

|  | <b>October 3, 2015</b> | <b>September 27, 2014</b> |
|--|------------------------|---------------------------|
| Current:                                   |                        |                           |
| Federal                                    | \$ (35,537)            | \$ 94,660                 |
| State                                      | <u>912</u>             | <u>994</u>                |
| Total current taxes                        | <u>(34,625)</u>        | <u>95,654</u>             |
| Deferred:                                  |                        |                           |
| Federal                                    | -                      | 590,943                   |
| State                                      | <u>-</u>               | <u>303,516</u>            |
| Total deferred taxes                       | <u>-</u>               | <u>894,459</u>            |
| Total (benefit) provision for income taxes | <u>\$ (34,625)</u>     | <u>\$ 990,113</u>         |

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

|  | <b>October 3, 2015</b> |                       | <b>September 27, 2014</b> |                       |
|--|------------------------|-----------------------|---------------------------|-----------------------|
|  | <b><u>Amount</u></b>   | <b><u>Percent</u></b> | <b><u>Amount</u></b>      | <b><u>Percent</u></b> |
| Tax benefit at U.S. statutory rate                 | \$ (631,219)           | (34.0%)               | \$ (535,419)              | (34.0%)               |
| State income tax provision, net of federal benefit | (29,977)               | (1.6%)                | (36,235)                  | (2.3%)                |
| Change in state effective rate                     | (42,538)               | (2.3%)                | 39,616                    | 2.5%                  |
| Stock compensation                                 | 33,912                 | 1.8%                  | 41,992                    | 2.7%                  |
| Prior year true-up                                 | 42,596                 | 2.3%                  | 32,691                    | 2.1%                  |
| Uncertain tax positions                            | (35,198)               | (1.9%)                | 80,829                    | 5.1%                  |
| Other  | 12,939                 | 0.7%                  | 54,809                    | 3.5%                  |
| Valuation allowance                                | <u>614,860</u>         | <u>33.1%</u>          | <u>1,311,830</u>          | <u>83.3%</u>          |
| Total (benefit) provision for income taxes         | <u>\$ (34,625)</u>     | <u>(1.9%)</u>         | <u>\$ 990,113</u>         | <u>62.9%</u>          |

Deferred income taxes consist of the following:

|                           | <b>October 3, 2015</b> | <b>September 27, 2014</b> |
|---------------------------|------------------------|---------------------------|
| Inventory differences     | \$ 1,301,847           | \$ 1,067,748              |
| Net operating losses      | 1,110,378              | 682,031                   |
| Stock based compensation  | 219,454                | 278,996                   |
| Tax credits               | 148,893                | 128,774                   |
| Other                     | <u>219,516</u>         | <u>227,679</u>            |
| Total                     | 3,000,088              | 2,385,228                 |
| Less: valuation allowance | <u>(3,000,088)</u>     | <u>(2,385,228)</u>        |
| Total                     | <u>\$ -</u>            | <u>\$ -</u>               |

During fiscal year 2015 the change in the valuation allowance was \$614,860 and related to the net operating loss and inventory differences. During fiscal year 2014 the Company established a valuation allowance against deferred tax assets and as a result recorded an income tax provision as a result of this allowance of \$894,459. The valuation allowance is related to uncertainty with respect to the Company's ability to realize its deferred tax assets. Deferred tax assets consist of net operating loss carryforwards, tax credits, inventory differences and other temporary differences. During fiscal year 2014 the change in the valuation allowance was \$1,311,830 and related to the establishment of a full valuation allowance.

## Notes to Consolidated Financial Statements (continued)

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 states of Massachusetts and New Hampshire. For U.S. federal purposes, the tax years 2012 through 2014 and for state purposes 2011 through 2014 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. The Company has federal research credits of \$97,685 available through fiscal year 2033 and net operating loss carryforwards of \$2,806,822 available through fiscal year 2035. In addition, the Company has Massachusetts research credits of \$77,589 available through fiscal year 2027 and net operating loss carryforwards of \$2,459,845 available through fiscal year 2035.

The below table details the changes in uncertain tax positions, which if recognized would favorably impact our effective tax rate:

|  |                  |
|--|------------------|
| Balance at September 27, 2014  | \$ 80,829        |
| Addition related to prior year positions   | 1,114            |
| Reduction in uncertain tax positions, arising from lapses<br>in statutes of limitation | <u>(36,312)</u>  |
| Balance at October 3, 2015   | <u>\$ 45,631</u> |

The increase in the Company's total uncertain tax positions relates to research credits taken on a prior year state tax return.

### (10) Employee Benefit Plans

The Company has a qualified, contributory, profit sharing plan covering substantially all employees. The Company's policy is to fund contributions as they are accrued. The contributions are allocated based on the employee's proportionate share of total compensation. The Company's contributions to the plan are determined by the Board of Directors and are subject to other specified limitations. There were no Company profit sharing contributions during fiscal years 2015 or 2014. The Company's matching contributions were \$89,924 and \$81,936 in fiscal years 2015 and 2014, 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 October 3, 2015 and September 27, 2014.

### (11) Commitments and contingencies

The Company previously maintained 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. This line of credit expired in February 2015 and was not renewed by the Company. The loan was a demand loan with interest payable at the Bank's prime rate plus 2.75% on all outstanding balances, was secured by all assets of the Company (excluding consumer goods) and required 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 the fiscal years ended October 3, 2015 and September 27, 2014.

At October 3, 2015, the Company had four outstanding letters of credit in the amounts of \$328,732, \$16,364, \$14,662 and \$3,600, which are secured by collateralized bank accounts totaling \$363,358. At September 27, 2014, the Company had three outstanding letters of credit in the amounts of \$328,732, \$16,363 and \$3,600, which were secured by collateralized bank accounts totaling \$348,695.

## Notes to Consolidated Financial Statements (continued)

The Company maintains its cash and cash equivalents in bank deposit accounts and money market mutual funds that, at times, may exceed federally insured limits. The Company currently holds marketable securities consisting of municipal bonds. 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 and believes it is not exposed to any significant credit risk on its cash, cash equivalents or marketable securities.

### (12) Major Customers and Export Sales

In fiscal year 2015, the Company had three customers representing 81% (58%, 12% and 11%) of total net sales and at October 3, 2015 had two customers representing 100% (89% and 11%) of accounts receivable. In fiscal year 2014, the Company had four customers representing 73% (29%, 17%, 14% and 13%) of total net sales and at September 27, 2014 had three customers representing 69% (38%, 19% and 12%) of accounts receivable.

A breakdown of net sales is as follows:

|             | October 3, 2015     | September 27, 2014  |
|-------------|---------------------|---------------------|
| Domestic    | \$ 2,192,660        | \$ 4,574,733        |
| Foreign     | <u>3,749,500</u>    | <u>1,563,842</u>    |
| Total Sales | <u>\$ 5,942,160</u> | <u>\$ 6,138,575</u> |

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

|                           | October 3, 2015 | September 27, 2014 |
|---------------------------|-----------------|--------------------|
| Central and South America | -               | 15.7%              |
| Mid-East and Africa       | 95.5%           | 84.3%              |
| Far East                  | 4.5%            | -                  |

The Company sold products to six different countries during the year ended October 3, 2015 and three different countries during the year ended September 27, 2014. 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.

|              | October 3, 2015 | September 27, 2014 |
|--------------|-----------------|--------------------|
| Saudi Arabia | 2.7%            | 73.8%              |
| Colombia     | -               | 15.7%              |
| Egypt        | 92.7%           | 10.5%              |
| Other        | 4.6%            | -                  |

### (13) Shareholder Rights Plan

On August 7, 2014, the Board of Directors of the Company adopted a Stockholder Rights Plan to replace the Company's former plan, which had expired on August 5, 2014. The new plan is substantially similar to the former plan, and was not adopted in response to any specific takeover threat. In adopting the plan, the Board 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 18, 2014. Until the rights become exercisable, which occurs with certain exceptions when a person or affiliated group acquires 15% or more of TCC's common stock, they will trade automatically with the common stock and separate rights certificates will not be issued. Each right, once exercisable, will entitle the holder (other than rights owned by the acquiring person or group) to buy one share of the common stock at a price of \$25 per share, subject to certain adjustments. The rights can generally be redeemed by the Company at \$.001 per right at any time prior to the close of business on the 10th business day after there has been a public announcement of the acquisition of beneficial ownership by any person or group of 15% or more of the company's outstanding common stock, subject to certain exceptions. The rights will expire on August 6, 2024 unless earlier redeemed.



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

**(14) Cost Method Investment**

On October 30, 2014 the Company made an investment of \$275,000 to purchase 11,000 shares of common stock of PulsedLight, Inc., an early stage start-up company located in Bend, Oregon. Our investment represented a 10.8% ownership stake in PulsedLight, Inc. at the time of the investment and is accounted for utilizing the cost method of accounting. This investment was not evaluated for impairment because (a) it is not practicable to estimate its fair value due to insufficient information being available and (b) management did not identify any events or changes in circumstances that might have a significant adverse effect on the fair value of the investment.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Technical Communications Corporation:  
Concord, Massachusetts

We have audited the accompanying consolidated balance sheet of Technical Communications Corporation and subsidiary (the "Company") as of October 3, 2015, and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 consolidated 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 audit 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides 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 October 3, 2015 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Moody, Famiglietti & Andronico, LLP  
Tewksbury, Massachusetts  
December 18, 2015

## Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheet of Technical Communications Corporation and subsidiary (the "Company") as of September 27, 2014 and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit 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 audit 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 27, 2014 and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ RSM US LLP

Boston, Massachusetts  
December 22, 2014

**CORPORATE INFORMATION  
AS OF DECEMBER 2015**

**OFFICERS**

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

Michael P. Malone  
Chief Financial Officer  
and Treasurer

David A. White, Esquire  
Secretary  
Partner, White, White & Van Etten PC

**DIRECTORS**

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

Mitchell B. Briskin  
Consultant

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

Thomas E. Peoples  
President of International Executive Counselors, LLC

**INDEPENDENT PUBLIC ACCOUNTANTS**

Moody, Famiglietti & Andronico, LLP  
Tewksbury, Massachusetts

**GENERAL COUNSEL**

White, White & Van Etten PC  
Cambridge, Massachusetts

**ANNUAL STOCKHOLDERS MEETING**

This year's annual meeting will be held Monday, February 8, 2016 at 10:00 a.m. at TCC's facilities in Concord, Massachusetts. The shareholder record date is December 11, 2015.

**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 2015, 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 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; domestic and foreign government policies and economic conditions; 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 October 3, 2015 and the "Risk Factors" section included herein.

ISO 9001:2008 Certified  Quality Management System

Technical Communications Corporation  
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