



**TECHNICAL COMMUNICATIONS CORPORATION**

**100 Domino Drive  
Concord, Massachusetts 01742**

**Annual Meeting of Stockholders  
February 13, 2017**

## TECHNICAL COMMUNICATIONS CORPORATION

### Notice of Annual Meeting of Stockholders To Be Held February 13, 2017

To Our Stockholders:

NOTICE IS HEREBY GIVEN that the 2017 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 13, 2017, to:

1. Elect one Class II Director to serve on the Board of Directors for a term of three years expiring at the 2020 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. Hold a stockholder advisory vote to determine the frequency of voting by stockholders on the compensation of our named executive officers;
4. Approve an amendment to the Technical Communications Corporation 2010 Equity Incentive Plan to increase the number of shares of common stock authorized for issuance thereunder from 200,000 to 400,000 shares;
5. Ratify the appointment of Moody, Famiglietti and Andronico, LLP as the independent registered public accounting firm of the Company for the fiscal year ending September 30, 2017; and
6. 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 16, 2016 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 1, 2016, 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 9, 2017

***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 13, 2017**

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 2017 Annual Meeting of Stockholders to be held on Monday, February 13, 2017 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 II Director to serve on the Board of Directors for a term of three years expiring at the 2020 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;
- (3) a stockholder advisory vote to determine the frequency of voting by stockholders on the compensation of our named executive officers;
- (4) the approval of an amendment to the Technical Communications Corporation 2010 Equity Incentive Plan to increase the number of shares of common stock authorized for issuance thereunder from 200,000 to 400,000 shares; and
- (5) the ratification of Moody, Famiglietti and Andronico, LLP as the independent registered public accounting firm of the Company for the fiscal year ending September 30, 2017.

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 16, 2016 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 1, 2016.

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  
2017 Annual Meeting of Stockholders**

**February 13, 2017**

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 2017 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 13, 2017.

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 1, 2016 containing financial statements and other information of interest to stockholders, will be mailed to stockholders on or about January 9, 2017.

**Record Date and Outstanding Shares**

Only record holders of shares of the common stock, par value \$0.10 per share, of the Company (the “Common Stock”) as of the close of business on December 16, 2016 (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,
- in favor of the amendment to the 2010 Equity Incentive Plan, and
- in favor of ratification of the Company’s independent registered public accounting firm.

With respect to Proposal III, unmarked proxies will be voted in favor of holding a non-binding, advisory stockholder vote on executive compensation every year.

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.

As for the vote on the frequency with which stockholders shall vote on the compensation of our named executive officers, stockholders are given three choices: one year, two years or three years. The option that receives the plurality of the votes cast at the Meeting shall be considered by the Board when determining the frequency of voting by stockholders on such executive compensation. 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 to approve an amendment to the Technical Communications Corporation 2010 Equity Incentive Plan to increase the number of shares of common stock authorized for issuance under such plan from 200,000 to 400,000 shares. 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.

Lastly, 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 II Director to be elected at the Meeting expires at the 2020 annual meeting of stockholders; the term of the Class I Director expires at the 2019 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 II director. The Board of Directors, as recommended by its Compensation, Nominating and Governance Committee, has nominated Francisco F. Blanco for election as the Company's Class II Director. Mr. Blanco is currently and has been a director of the Company since 2011 and has consented to being named in this Proxy Statement and to serve if elected. If elected, the nominee will hold office until the 2020 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 16, 2016.

<u>Name and Address</u> <sup>(1)</sup>	<u>Year First Became a Director</u>	<u>Age</u>	<u>Positions and Offices with the Company</u>
Mitchell B. Briskin	1998	57	Class I Director
Francisco F. Blanco	2011	74	Class II Director
Carl H. Guild, Jr.	1997	72	Class III Director, Chairman of the Board, Chief Executive Officer and President
Thomas E. Peoples	1998	68	Class III Director
<u>Non-Director Executive Officers</u>			
Michael P. Malone	--	57	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 1, 2016. Each director attended at least 75% of the aggregate of (a) the total number of meetings of the Board of Directors he was eligible to attend, and (b) the total number of meetings of all committees of the Board of Directors on which he served that were held during fiscal year 2016.

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

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

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

## *Committees*

The Board of Directors currently has two committees, the Audit Committee and the Compensation, Nominating and Governance Committee, each as described below.

### Audit Committee

The Audit Committee of the Board, which consists of Messrs. Briskin (Chairman), Blanco and Peoples, held four meetings during fiscal year 2016. 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 2016, the Audit Committee's charter was reviewed and affirmed 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 and acted by written consent in lieu of a meeting once during the 2016 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 2016, the Governance Committee's charter was reviewed and affirmed without change. The Governance Committee must also annually evaluate its own performance.

The Board has approved policies and procedures for the Governance Committee with respect to the nomination of candidates to the Board and any committees thereof. These policies and procedures are available on the Company's website at <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 making the nomination 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 except Mr. Brislin attended the 2016 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 2016 fiscal year, or written representations from certain reporting persons that they were not required to file, the Company believes that during fiscal year 2016, 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 \$54,000 for fiscal year 2016 and approximately \$74,000 for fiscal year 2015. There were no other transactions during fiscal years 2016 or 2015, 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 1, 2016.

The Audit Committee has reviewed and discussed the 2016 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 1, 2016 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 and reflective of Company performance and financial condition, 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.

### **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 year 2016 or 2015 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 two plans that provide for the grant of equity incentive compensation to officers, directors and employees.

The Technical Communications Corporation 2005 Non-Statutory Stock Option Plan, as amended (the “2005 Plan”), was adopted by the Board of Directors in May 2005 and 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 16, 2016, the Company had issued a total of 208,500 options pursuant to the 2005 Plan. The 2005 Plan expired on May 5, 2015 and as of December 16, 2016, no shares remained available for awards under such plan, although options to purchase 89,900 shares granted under the 2005 Plan remained outstanding.

In December 2016, the Board of Directors approved and adopted an amendment to the Technical Communications Corporation 2010 Equity Incentive Plan (as amended, the “2010 Plan”) upon the recommendation of the Governance Committee, which amendment is subject to shareholder approval at the Meeting. The 2010 Equity Plan currently 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, and restricted stock to employees, directors and consultants to the Company. The amendment for which stockholder approval is being sought at the Meeting would increase the number of shares of Common Stock authorized for issuance upon grants and awards to 400,000 shares.

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 16, 2016, there were outstanding options to purchase an aggregate 153,781 shares pursuant to the 2010 Plan and 46,219 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 each of fiscal years 2016 and 2015 was \$285,000.

Mr. Guild did not receive a bonus with respect to the fiscal years ended October 1, 2016 and October 3, 2015 due to the Company’s financial condition at year-end and the lack of achievement by the Company and Mr. Guild of specified performance milestones for the periods.

In fiscal 2016, 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 February 8, 2016 under the 2010 Plan at an exercise price of \$2.90 per share with a term of 10 years, and 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 2015. 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 vest over a five year period. 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 each of fiscal years 2016 and 2015 was \$160,000.

Mr. Malone did not receive a bonus with respect to the fiscal years ended October 1, 2016 and October 3, 2015 due to the Company’s financial condition at year-end and the lack of achievement by the Company and Mr. Malone of specified performance milestones for the periods.

Mr. Malone was not awarded any stock options or other equity incentives during fiscal years 2016 or 2015.

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 2016, 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. At the Company's 2011 annual stockholders meeting, stockholders 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 implemented. Stockholders are being given the opportunity to vote again on the frequency of the say-on-pay vote at the Meeting.

## 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 2016 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 and Principal Position</u>	<u>Year</u>	<u>Salary (\$)</u>	<u>Bonus (\$)</u>	<u>Option Awards (\$)</u>	<u>All Other Compensation (\$)</u>	<u>Total (\$)</u>
<b>Carl H. Guild, Jr.</b> President, Chief Executive Officer and Chairman	2016	\$285,006(1)	--	\$5,846 (2)	\$6,386 (3)	\$297,238
	2015	\$285,006(1)	--	\$7,934 (4)	\$6,683 (3)	\$299,623
<b>Michael P. Malone</b> Chief Financial Officer, Treasurer and Assistant Secretary	2016	\$160,014(5)	--	--	\$6,000 (6)	\$166,014
	2015	\$160,014(5)	-	--	\$5,946 (6)	\$165,960

- (1) Mr. Guild’s annual base salary was set at \$285,000 effective March 1, 2012.
- (2) Amount represents an award on February 8, 2016 of a non-qualified option to purchase 3,500 shares of Common Stock at \$2.90 per share, which vests 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 2016: dividend yield of 0%, expected volatility of 60%, risk-free interest rate of 1.42%, 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 2016 and 2015. Also includes life insurance premiums paid by the Company of \$285 and \$333 for each of fiscal years 2016 and 2015, respectively.
- (4) 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 vests 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.

- (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 2016 and 2015. Also includes life insurance premiums paid by the Company of \$720 and \$666 for each of fiscal years 2016 and 2015, respectively.

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 set at \$285,000 effective March 1, 2012 and has not changed since such date. No performance awards were earned with respect to fiscal 2016 and 2015.

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 set at \$160,000 effective March 1, 2012 and has not changed since such date. No performance awards were earned with respect to fiscal 2016 and 2015.

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 2016 fiscal year, which date was October 1, 2016.

<u>Name</u>	<u>Option Awards</u>				
	<u>Number of Securities Underlying Unexercised Options</u> (#) Exercisable	<u>Number of Securities Underlying Unexercised Options</u> (#) Unexercisable	<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
	700 (7)	2,800 (7)	--	4.05	05/07/25
	--	3,500 (8)	--	2.90	02/08/26
Michael P. Malone	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 vested 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 February 8, 2016 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.

### *Equity Incentive Plans*

The Company currently administers two plans that provide for the grant of equity incentive compensation to officers, directors and employees: the Technical Communications Corporation 2010 Equity Incentive Plan and the 2005 Non-Statutory Stock Option Plan. At December 16, 2016, there were an aggregate of 400,000 shares authorized under these plans, of which options to purchase 243,681 shares were outstanding and 46,219 shares were available for issuance upon future grants and awards. 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 and in compliance with applicable law, including the Code. For more information about each plan, see “Equity Incentives” in the *Compensation Discussion and Analysis* section above and, with respect to the proposed amendment to the 2010 Plan, see the discussion under Proposal IV below. 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 2016*

On February 8, 2016, 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 \$2.90 per share, 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 2016 fiscal year.

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

No retirement, severance or similar compensation was paid to any employee during the 2016 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 1, 2016. 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 2016 fiscal year other than the option grant discussed above.

<b><u>Name</u></b>	<b><u>Fees Earned or Paid in Cash</u></b> (\$)	<b><u>Option Awards</u></b> (\$)	<b><u>All Other Compensation</u></b> (\$)	<b><u>Total</u></b> (\$)
Mitchell B. Briskin	\$30,100 (1)	\$5,846 (2)(3)	-	\$35,934
Thomas E. Peoples	\$24,500 (1)	\$5,846 (2)(3)	-	\$30,346
Francisco F. Blanco	\$24,500 (1)	\$5,846 (2)(3)	-	\$30,346

- (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 February 8, 2016 of a non-qualified option to purchase 3,500 shares of Common Stock at \$2.90 per share, which option vests 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 2016: dividend yield of 0%, expected volatility of 60%, risk-free interest rate of 1.42%, and expected life of 6.5 years.
- (3) Mr. Briskin had 31,500 options outstanding at the 2016 fiscal year-end, of which 25,200 were fully vested and exercisable. Mr. Peoples had 34,000 options outstanding at the 2016 fiscal year-end, of which 27,700 were fully vested and exercisable. Mr. Blanco had 14,000 options outstanding at the 2016 fiscal year-end, of which 7,700 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, beginning in fiscal year 2015, vest 20% per year commencing on the first anniversary of the date of grant; prior director option grants vested 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 2016 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 2016 fiscal year were \$2,523,000 with a net loss of \$2,472,000 or \$(1.34) 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 2016. Major domestic and international contracts also did not materialize during the fiscal year as expected due to long government procurement cycles. 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 2017 fiscal year and beyond.

Compensation actions taken with respect to fiscal 2016 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 2016.

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 currently 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. STOCKHOLDER ADVISORY VOTE TO DETERMINE  
FREQUENCY OF VOTING ON EXECUTIVE COMPENSATION**

The Reform Act also enables our stockholders to vote, on a non-binding, advisory basis, on the frequency of the Company's say on pay proposals. These proposals, often referred to as "say when on pay", permit stockholders to select whether say on pay advisory votes occur every year, every two years or every three years. Shareholders also must be given the opportunity, at least once every six years, to have a separate vote to re-determine the frequency of the say on pay vote. At our annual meeting of stockholders in 2011, shareholders voted to approve executive compensation on an annual basis. Shareholders are being given the opportunity at the Meeting to select the frequency of future votes.

TCC's Board of Directors and the Governance Committee have considered carefully the advantages and disadvantages of each frequency option, and have determined to again recommend to stockholders that they vote for an annual vote on executive compensation. The Board believes that having an annual vote makes compensation more responsive to and reflective of stockholders' interests and concerns, and decreases the chance that poor compensation decisions in one year will have a continuing, long-term effect.

Stockholders will have the opportunity to vote for one of three options with respect to this say when on pay proposal: one year, two years or three years. The option that receives the plurality of the votes cast at the Meeting shall be considered when determining the frequency of voting by stockholders on the compensation of our named executive officers. 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 when determining the frequency with which stockholders will vote on executive compensation.

To be clear, stockholders are choosing the frequency with which stockholders will cast their non-binding, advisory votes on the Company's executive compensation. The choices provided to stockholders are one year, two years and three years. Stockholders are voting on the actual frequency of the vote, not voting to approve or disapprove the Board of Directors' recommendation as discussed above.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR  
ONE YEAR FOR THE FREQUENCY OF THE SAY ON PAY VOTE.**

**PROPOSAL IV. AMENDMENT TO THE TECHNICAL COMMUNICATIONS  
CORPORATION 2010 EQUITY INCENTIVE PLAN**

On December 20, 2016, the Board of Directors, upon the recommendation of the Governance Committee, approved an amendment to the Technical Communications Corporation 2010 Equity Incentive Plan to increase the number of shares of Common Stock authorized for issuance under such plan from 200,000 to 400,000 shares. Specifically, the amendment replaces the number “200,000” in Section 4.1 of the 2010 Plan with the number “400,000.” This amendment is subject to stockholder approval at the Meeting.

The stated purpose of the 2010 Plan 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 and its subsidiaries through the grant of awards that are consistent with the Company’s goals and that link the personal interests of recipients to those of the Company’s stockholders. The 2010 Plan is further intended to enable the Company to attract, retain and motivate individuals whose services are critical to the success of the Company and align the interests of such individuals with those of the Company. The Board of Directors believes that the proposed increase in shares available under the 2010 Plan is necessary to ensure that the Company can continue to offer competitive levels of stock-based compensation to both new and existing employees as well as directors and consultants to the Company.

Set forth below is a summary of certain provisions of the 2010 Plan and a general description of the U.S. Federal income tax treatment applicable to the receipt of awards under the 2010 Plan. The text of the 2010 Plan, as proposed to be amended, is set forth in Appendix I to this Proxy Statement; the proposed text to be amended is set forth in **bold print**. The following is intended to be a summary, and does not purport to be a complete statement, of the principal terms of the 2010 Plan. This summary is subject to and qualified in its entirety by reference to the Appendix.

**General**

*Subject Shares; Awards.* The 2010 Plan currently provides for the issuance of up to 200,000 shares of Common Stock to employees, directors and consultants to the Company pursuant to the award of incentive stock options (“ISOs”), non-qualified stock options (“NQSOs”), stock appreciation rights (“SARs”) and restricted stock.

*Plan Adoption and Duration.* The 2010 Plan commenced on July 29, 2010 and awards may be granted under the plan up to July 29, 2020. Following the 10 year anniversary of adoption, no new awards may be made, although the 2010 Plan will remain in effect until all shares subject to awards outstanding as of July 29, 2020 have been purchased or acquired.

*Administration.* The 2010 Plan is administered by the Governance Committee of the Board which, subject to the terms of such plan, has the authority to determine the individuals to whom, and the time or times at which, awards are made, the type and size of each award, the fair market value of the Common Stock and, subject to the plan and applicable law, the exercise price per share, as well as the other terms and conditions of each award (which need not be identical across recipients).

*Eligible Participants.* Subject to certain limitations, awards under the 2010 Plan may be granted to any employee, non-employee director, or consultant of the Company and its parents and subsidiaries. Only employees of the Company and its parents and subsidiaries may be granted ISOs



under the 2010 Plan. As of December 16, 2016, the Company had 25 full-time employees, two of whom are also officers and/or directors, and two part-time employees, and utilized the services of several part-time consultants. As of December 16, 2016, there were three members of the Board of Directors who were not employees of the Company.

## **Options**

*In General.* Options may be granted at any time as determined by the Committee. The date of grant of an option shall be, for all purposes, the date on which the Board makes the determination to grant such option. The term of each option shall be as determined at the time of grant but no option may be exercised after the 10<sup>th</sup> anniversary date of its grant.

*Price.* The option price for any option granted under the 2010 Plan must be equal to at least 100% of the fair market value of the Common Stock as of the date of grant. The option price for any ISO granted under the 2010 Plan to an employee who at the time of grant owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any of its parents or subsidiaries may not be less than 110% of the fair market value on the date of grant.

*Fair Market Value.* The fair market value as of any given date shall be the closing sales price of a share of Common Stock on the Composite Tape, as reported by *The Wall Street Journal*, on such date on the principal national securities exchange on which the Common Stock is then traded (currently the NASDAQ Capital Market).

*Exercise and Payment for Stock.* Stock options are exercisable at such time or times and subject to such terms and conditions as shall be determined at the time of grant, which terms and conditions need not be the same across recipients. The option exercise price may be paid in cash, bank or cashier's check, other previously acquired shares or the withholding of shares of Common Stock otherwise issuable upon exercise having a fair market value on the date of surrender equal to the aggregate exercise price of the shares being purchased, or any combination of such methods of payment.

*Effect of Termination of Employment, Disability or Death.* Each option agreement will set forth the extent to which the recipient will be entitled to exercise such option following termination of the recipient's employment or consulting arrangement with the Company. ISOs may not be exercised unless, at the time of exercise, the recipient is and has been continuously since the date of grant an employee of the Company. However, (a) in the event of a recipient's termination of employment other than because of death or disability, the recipient may exercise the ISO within three months of the last day of employment, (b) in the event of a recipient's death while an employee or within three months after the recipient ceases to be an employee of TCC, the ISO may be exercised by the transferee of such ISO within one year of the date of death, and (c) in the event the recipient becomes disabled while an employee, the ISO may be exercised within one year of the date the recipient ceases to be an employee because of such disability. In all cases, the ISO may be exercised only if and to the extent the ISO was exercisable at the date of employment termination or death.

*Non-Transferability.* With certain exceptions, stock options issued under the 2010 Plan are not transferable except by will or the laws of descent and distribution and may be exercised, during the recipient's lifetime, only by the recipient or his or her legal representative.

### **Stock Appreciation Rights**

*In General.* SARs may be granted at any time and from time to time as determined by the Committee, which has complete discretion in determining the recipients of SARs, the size of any such award, and the other terms and conditions applicable to the award consistent with the 2010 Plan. The term of the SAR will be determined by the Committee and may not exceed 10 years from the date of grant.

*Price.* The grant price of a SAR must equal the fair market value of a share of Common Stock on the date of grant. Fair market value is determined in the same manner as described above for options.

*Exercise and Payment.* SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes. The payment upon exercise of a SAR may be in cash or stock of the Company. The amount of the payment is calculated by multiplying the difference between the fair market value on the date of exercise and the grant price by the number of shares with respect to which the SAR is being exercised.

*Effect of Termination of Employment, Disability or Death.* Each SAR agreement will set forth the extent to which the recipient will be entitled to exercise such SAR following termination of the recipient's employment or consulting arrangement with the Company.

*Non-Transferability.* With certain exceptions, SARs issued under the 2010 Plan are not transferable except by will or the laws of descent and distribution and may be exercised, during the recipient's lifetime, only by the recipient.

### **Restricted Stock**

*In General.* The Committee may grant shares of restricted stock at any time and from time to time in such amounts, at such prices and upon such terms and conditions as it determines, consistent with the 2010 Plan.

*Transferability.* The shares of restricted stock granted under the 2010 Plan may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated until the end of the applicable period of restriction established by the Committee, or upon earlier satisfaction of any other conditions, as specified by the Committee in its sole discretion.

*Effect of Termination of Employment, Disability or Death.* Each restricted stock agreement will set forth the extent to which the recipient will be entitled to receive unvested shares of restricted stock following termination of the recipient's employment or consulting arrangement with the Company, as determined in the sole discretion of the Committee, which need not treat recipients similarly. Notwithstanding the foregoing, except in the case of a termination due to death or disability of the recipient, the vesting of shares of restricted stock that qualify for the performance-based exception under Code Section 162(m) and that are held by "covered employees" shall occur at the time they otherwise would have vested but for the employment termination. "Covered employee" means a recipient who, as of the date of vesting and/or payout of an award, as applicable, is one of the group of "covered employees," as such term is defined in the regulations promulgated under Code Section 162(m), or any successor statute.

## **Retention Rights; Terminations for Cause**

*Employment.* Neither the 2010 Plan nor any award made under such plan confers any right upon a recipient with respect to the continuation of any employment, consulting or advisory relationship with the Company.

*Terminations for Cause.* In the event of the termination of a recipient's employment or consulting arrangement with the Company for "Cause", then such recipient's rights under any then-outstanding awards shall immediately terminate as of the time of such termination.

## **Change in Control**

In the event of a "change in control", as such term is defined in the 2010 Plan (including the merger or consolidation of the Company with or into another entity in which the Company is not the surviving entity, the sale of all or substantially all of the assets of the Company, or the acquisition by a person or group of beneficial ownership of securities representing more than 33% of the combined voting power of the Company), then the Committee may: (a) provide for the assumption of all outstanding awards, or the substitution of outstanding awards for new awards, for equity securities of the surviving, successor or purchasing person, or a parent or subsidiary thereof, with appropriate adjustments as to the number, kind and prices of shares subject to such awards as determined in good faith; (b) accelerate the vesting of all options and SARs that remain outstanding; (c) remove any restrictions and deferral limitations applicable to any restricted stock; (d) in the case of the proposed liquidation of the Company, terminate each outstanding award immediately prior to the consummation of such action or such other date as fixed by the Board and provide recipients the right to exercise such award prior to such date; and/or (e) make any and all other adjustments and/or settlements of outstanding awards as it deems appropriate and consistent with the purposes of the 2010 Plan.

## **Tax Provisions**

*Federal Income Tax Consequences to the Recipient.* In general, taxable income is recognized with respect to an ISO only upon the sale of Common Stock acquired through the exercise of the ISO ("ISO Stock") and not in connection with its grant or exercise. However, the exercise of an ISO may subject the recipient to the alternative minimum tax. The tax consequences of selling ISO Stock will vary with the length of time that the recipient has owned the ISO Stock at the time it is sold. If the recipient sells ISO Stock after having owned it for the greater of (a) two years from the date the option was granted, and (b) one year from the date the option was exercised, then the recipient will recognize long term capital gain in an amount equal to the excess of the amount realized by the recipient on the sale price of the ISO Stock over the exercise price. If the recipient sells ISO Stock for more than the exercise price prior to having owned it for at least two years from the grant date and one year from the exercise date (a "Disqualifying Disposition"), then all or a portion of the gain recognized by the recipient will be ordinary compensation income and the remaining gain, if any, will be a capital gain. Any capital gain realized by the recipient from the sale of ISO Stock will be a long-term capital gain if the recipient has held the ISO Stock for more than one year prior to the date of sale. If a recipient sells ISO stock for less than the exercise price, then the recipient will recognize capital loss equal to the excess of the exercise price over the sale price of the ISO Stock. This capital loss will be a long-term capital loss if the recipient has held the ISO Stock for more than one year to the date of sale.

As with ISOs, the grant of NQSOs does not result in the recognition of taxable income to the recipient. However, the exercise of an NQSO results in the recognition of ordinary income to

the recipient in the amount by which the fair market value of the Common Stock acquired through the exercise of the NQSO (“NQSO Stock”) on the exercise date exceeds the exercise price. Because of this tax consequence, NQSOs are typically exercised simultaneously with the sale of the NQSO Stock. If the NQSO stock is not sold upon exercise, the recipient acquires a tax basis in the NQSO Stock equal to the effective fair market value of the stock on the day of exercise. The sale of NQSO Stock generally will result in the recognition of capital gain or loss in an amount equal to the excess of the sale price of the NQSO Stock over the recipient’s tax basis in the NQSO Stock. This capital gain or loss will be a long-term gain or loss if the recipient has held the NQSO Stock for more than one year prior to the date of the sale and any such capital gain may be eligible for the lower capital gains rate if held for more than a year.

Generally, a recipient will not recognize taxable income upon the grant of a stock appreciation right, but will recognize ordinary income upon the exercise of the SAR in an amount equal to the cash received upon exercised (if settled in cash) or the difference between the fair market value of the Common Stock received upon exercise of the SAR and the amount, if any, paid by the recipient in connection with the exercise of the SAR (if settled in stock). The recipient will recognize ordinary income upon the exercise of a SAR settled in stock regardless of whether the shares received upon exercise are subject to further restrictions on sale or transferability. The recipient’s basis in the shares will be equal to the ordinary income attributable to the exercise and the amount, if any, paid in connection with the SAR exercise. The holding period for shares received upon settlement begins on the exercise date.

A recipient generally will not be taxed at the time of a restricted stock award but will recognize income in an amount equal to the excess of the fair market value of the shares of Common Stock over the purchase price (if any) when the award vests or is otherwise no longer subject to a substantial risk of forfeiture, unless the recipient elects to accelerate recognition as of the date of grant. Recipients receiving restricted stock may elect to be taxed at the time of grant by making an election under Section 83(b) of the Code; if a restricted stock award is subject to a Section 83(b) election, dividends will be taxable to the recipient as dividend income, which currently is subject to the same rate as capital gains income.

*Federal Income Tax Consequences to the Company.* The grant and exercise of ISOs and NQSOs generally have no direct tax consequences to the Company. The Company generally will be entitled to a compensation deduction with respect to any ordinary income recognized by a recipient, including income that results from the exercise of a NQSO or a Disqualifying Disposition of an ISO. Any such deduction will be subject to the limitations of Section 162(m) of the Code. The Company has a statutory obligation to withhold appropriate income taxes from the ordinary income that is realized from the exercise of NQSOs by employees. In the case of grants of SARs or restricted stock, the Company will generally have a corresponding deduction at the same time the recipient recognizes income.

The foregoing is only a summary of the effect of federal income taxation upon the recipient and the Company with respect to awards granted under the 2010 Plan. It does not purport to be complete and does not discuss the tax consequences arising in the event of a recipient’s death or the income tax laws of the municipality, state or foreign country under which the recipient’s income may be taxable.

## New Plan Benefits

Future equity grants and awards, if any, that will be made to eligible participants in the 2010 Plan are subject to the discretion of the Governance Committee and, therefore, are not determinable at this time. It is expected that each such grant or award will be made at an exercise price equal to the fair market value of the Common Stock on the day of grant. The value of each such award depends on the market value of the Company's Common Stock on the day of exercise and therefore cannot be determined or estimated at this time. The closing sales price of the Company's Common Stock on December 16, 2016 was \$2.30 per share.

## Equity Compensation Plan Information

In addition to the 2010 Plan, the Company maintains the Technical Communications Corporation 2005 Non-Statutory Stock Option Plan, which was adopted by the Board of Directors in May 2005. As noted in the Compensation section above, the 2005 Plan 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 16, 2016, the Company had issued a total of 208,500 options pursuant to the 2005 Plan. The 2005 Plan expired on May 5, 2015 and as of December 16, 2016, no shares remained available for awards under such plan, although options to purchase 89,900 shares granted under the 2005 Plan remained outstanding.

The following table presents information about both the 2010 Plan and the 2005 Plan, each as of the fiscal year ended October 1, 2006.

<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 . . .	153,781(1)	\$9.76	46,219
Equity compensation plans not approved by stockholders.	89,900(2)	\$6.87	-
Total . . . . .	243,681	\$8.69	46,219

(1) Of the 153,781 options outstanding as of October 1, 2016, 127,081 were exercisable as of such date at an average exercise price of \$9.76 per share.

(2) Of the 89,900 options outstanding as of October 1, 2016, all were exercisable as of such date at an average exercise price of \$6.87 per share.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE TO APPROVE THE  
AMENDMENT TO THE TECHNICAL COMMUNICATIONS CORPORATION 2010  
EQUITY INCENTIVE PLAN.  
PROPOSAL V. 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 September 30, 2017. MFA acted as the Company’s independent registered public accounting firm for the company’s 2016 and 2015 fiscal years. 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 2016, and the reviews of the financial statements included in the Company’s quarterly reports during fiscal year 2016, were approximately \$42,000 (of total audit fees for fiscal 2016 of \$87,000, the remainder of which will be billed in fiscal year 2017). The aggregate fees billed by MFA and 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 \$94,880, of which \$59,000 was billed by MFA and \$35,880 was billed by RSM.

*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 2016 and 2015.

*Tax Fees.* The aggregate fees billed by MFA for professional services rendered for tax compliance, tax advice and tax planning for the Company for fiscal year 2016 was approximately

\$16,500. 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 \$18,800. These amounts represent those billed for tax return preparation and tax advice for the Company and its subsidiary.

*All Other Fees.* No fees were billed by MFA or RSM for products or services provided other than those otherwise described above for fiscal years 2016 and 2015.

### **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 2016, the Audit Committee pre-approved all such services performed by MFA.

### **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 2017.**

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows, as of December 16, 2016, 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 16, 2016, 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	8,400 (2)	0.5%
Mitchell B. Briskin	32,677(3)	1.8%
Carl H. Guild, Jr.	335,759(4)	17.9%
Thomas E. Peoples	28,490(5)	1.5%
Michael P. Malone	90,756(6)	4.9%
<b>All current directors, executive officers and 5% holders as a group (5 persons)</b>	496,082(7)	25.4%

(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 16, 2016, 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 8,400 shares issuable upon the exercise of stock options.

(3) Includes 25,900 shares issuable upon the exercise of stock options.

(4) Includes 37,800 shares issuable upon the exercise of stock options, and 297,959 shares held jointly by Mr. Guild and his wife.

(5) Includes 28,400 shares issuable upon the exercise of stock options.

(6) Includes 10,501 shares issuable upon the exercise of stock options.

(7) Includes an aggregate 111,001 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 2018 Annual Meeting**

Proposals of stockholders for inclusion in the Proxy Statement and form of proxy, including director nominees, for the Company's 2018 Annual Meeting of Stockholders must be received by the Company at its principal executive offices no later than September 11, 2017, 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, 2017. 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, electronic mail, 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 2016 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 1, 2016. A request for copies of such report should be addressed to the Company at 100 Domino Drive, Concord, Massachusetts 01742, Attention: Investor Relations.

APPENDIX I

**TECHNICAL COMMUNICATIONS CORPORATION**

**2010 EQUITY INCENTIVE PLAN**  
(as amended and restated)

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## ARTICLE 1. ESTABLISHMENT, PURPOSE AND DURATION

1.1. Establishment of the Plan; Effective Date. Technical Communications Corporation, a Massachusetts corporation (the “Company”), hereby establishes an incentive compensation plan to be known as the “Technical Communications Corporation 2010 Equity Incentive Plan” (the “Plan”), as set forth in this document. The Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, and Restricted Stock. The Plan was originally adopted by the Board of Directors on July 29, 2010, subject to stockholder approval (the “Effective Date”), and shall remain in effect as provided in Section 1.3 hereof.

1.2. Purpose of the Plan. The purpose of the 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 and its Subsidiaries 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 Plan is further intended to enable the Company to attract, retain and motivate Participants whose services are critical to the success of the Company and align the interests of such individuals with those of the Company.

1.3. Duration of the Plan. The Plan shall commence on the Effective Date, as described in Section 1.1 hereof, and shall remain in effect, subject to the right of the Board of Directors of the Company to amend or terminate the Plan at any time pursuant to Article 13 hereof, until all Shares subject to the Plan shall have been purchased or acquired according to the Plan’s provisions. However, in no event may an Award be granted under the Plan on or after July 29, 2020.

## ARTICLE 2. DEFINITIONS

Whenever used in the Plan, the following terms shall have the meanings set forth below, and when that meaning is intended, the initial letter of the word shall be capitalized:

2.1. “Affiliate” shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations promulgated under the Exchange Act.

2.2. “Award” means, individually or collectively, a grant under the Plan of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights or Restricted Stock.

2.3. “Award Agreement” means an agreement entered into by the Company and a Participant setting forth the terms and provisions applicable to an Award granted to the Participant under this Plan.

2.4. “Beneficial Owner” or “Beneficial Ownership” shall have the meaning ascribed to such terms in Rule 13d-3 of the General Rules and Regulations promulgated under the Exchange Act.

2.5. “Benefit Arrangement” shall have the meaning set forth in Article 14 hereof.

2.6. “Board” or “Board of Directors” means the Board of Directors of the Company.

2.7. “Cause” shall have the meaning set forth in Section 12.3 hereof.

2.8. “Change in Control” shall have the meaning set forth in Section 15.1 hereof.

2.9. “Code” means the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto.

2.10. “Committee” means any committee appointed by the Board to administer the Plan in accordance with and as specified in Article 3 hereof.

2.11. “Common Stock” means the common stock, \$0.10 par value per share, of the Company.

2.12. “Company” shall have the meaning ascribed to such term in Section 1.1 hereof, and shall include any and all Subsidiaries and Affiliates, and any successor thereto as provided in Article 15 hereof.

2.13. “Consultant” means any person who is engaged by the Company or any Subsidiary as a consultant or advisor who provides bona fide services to the Company or any Subsidiary as an independent contractor. Service as a Consultant shall be considered employment for all purposes of the Plan, except for purposes of an ISO grant under Article 6 hereof.

2.14. “Covered Employee” means a Participant who, as of the date of vesting and/or payout of an Award, as applicable, is one of the group of “covered employees,” as such term is defined in the regulations promulgated under Code Section 162(m), or any successor statute.

2.15. “Director” means any individual who is a member of the Board of Directors of the Company or any Subsidiary or Affiliate.

2.16. “Disability” shall have the meaning ascribed to such term in the Participant’s governing long-term disability plan, or if no such plan exists, shall mean a disability described in Section 422(c)(6) of the Code, the existence of which is determined at the discretion of the Committee.

2.17. “Effective Date” shall have the meaning ascribed to such term in Section 1.1 hereof.

2.18. “Employee” means any full-time, active employee of the Company or its Subsidiaries or Affiliates, including officers and Directors.

2.19. “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, or any successor thereto.

2.20. “Fair Market Value” of a share of Common Stock means, as of any given date, (a) the closing sales price of a share of Common Stock on the Composite Tape, as reported by *The Wall Street Journal*, on such date on the principal national securities exchange on which the Common Stock is then traded or, (b) if the Common Stock is not then traded on a national securities exchange, the average of the closing bid and asked prices of the Common Stock on such date as furnished by the Over-the-Counter Bulletin Board (“OTCBB”) or Pink Sheets, LLC (the “Pink Sheets”); provided, however, that if there are no sales reported on such date, fair market value shall be computed as of the last trading date preceding such date on which a sale was reported; provided, further, that if any such exchange or quotation system is closed on the date of determination, fair market value shall be determined as of the first day immediately preceding such date on which such exchange or quotation system was open for trading. If the Common Stock is not admitted to trade on a securities exchange or quoted on the OTCBB or Pink Sheets, the fair market value shall be as determined in good faith by the Committee, taking into account such facts and circumstances deemed to be material to the value of the Common Stock.

2.21. “Freestanding SAR” means an SAR that is granted independently of any options, as described in Article 7 hereof.

2.22. “Incentive Stock Option” or “ISO” means an option to purchase Shares granted under Article 6 hereof that is designated as an Incentive Stock Option and that is intended to meet the requirements of Code Section 422.

2.23. “Non-Employee Director” shall mean a Director who is not also an Employee. Service as a Non-Employee Director shall be considered employment for all purposes of the Plan, except for purposes of an ISO grant under Article 6 hereof.

2.24. “Non-Qualified Stock Option” or “NQSO” means an option to purchase Shares granted under Article 6 hereof that is not intended to meet the requirements of Code Section 422 or otherwise qualify as an Incentive Stock Option.

2.25. “Option” means an Incentive Stock Option or a Nonqualified Stock Option, as described in Article 6 hereof.

2.26. “Option Price” means the price at which a Share may be purchased by a Participant pursuant to an Option.

2.27. “OTCBB” shall have the meaning set forth in the definition of Fair Market Value in Section 2.20 herein.

2.28. “Other Agreement” shall have the meaning set forth in Article 14 hereof.

2.29. “Parachute Payment” shall have the meaning set forth in Article 14 hereof.

2.30. “Participant” means an Employee, Non-Employee Director or Consultant who has been selected to receive an Award or who has outstanding an Award granted under the Plan.

2.31. “Performance-Based Exception” means the performance-based exception from the tax deductibility limitations of Code Section 162(m).

2.32. “Period of Restriction” means the period during which the transfer of Shares of Restricted Stock is limited in some way (based on the passage of time, the achievement of performance goals or upon the occurrence of other events as determined by the Committee, at its discretion), and the Shares are subject to a substantial risk of forfeiture, as provided in Article 8 hereof.

2.33. “Person” shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in Section 13(d) thereof.

2.34. “Pink Sheets” shall have the meaning set forth in the definition of Fair Market Value in Section 2.20 herein.

2.35. “Plan” shall have the meaning ascribed to such term in Section 1.1 hereof, as the same is amended from time to time.

2.36. “Restricted Stock” means an Award granted to a Participant pursuant to Article 8 hereof.

2.37. “Securities Act” means the Securities Act of 1933, as amended from time to time, or any successor thereto.

2.38. “Shares” means the shares of the Common Stock of the Company, as the same may be adjusted in accordance with Section 4.3 herein.

2.39. “Stock Appreciation Right” or “SAR” means an Award designated as an SAR pursuant to the terms of Article 7 hereof.

2.40. “Subsidiary” shall have the meaning given to the term “subsidiary corporation” in Section 424(f) of the Code.

### ARTICLE 3. ADMINISTRATION

3.1. The Committee. The Plan shall be administered by the Compensation, Nominating and Governance Committee of the Board (or any successor thereto) consisting of not less than two (2) members who meet the “non-employee director” requirements of Rule 16b-3 promulgated under the Exchange Act and the “outside director” requirements of Code Section 162(m); by any other committee appointed by the Board, provided the members of such committee meet such requirements; or by the full Board acting as the Committee with the powers and duties set forth herein. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any



Awards granted under the Plan. A majority of the members of the Committee shall constitute a quorum, and all determinations of the Committee under the Plan may be made at a meeting at which a quorum is present by the vote of a majority of the members of the Committee or by a writing in lieu of a meeting signed by all members of the Committee. Meetings may be held by telephone conference or similar communication equipment by means of which all persons participating can hear each other.

3.2. Authority of the Committee. Except as limited by law or by the Articles of Organization or Bylaws of the Company, and subject to the provisions hereof, the Committee shall have full power to (a) determine the Participants to whom Awards shall be granted under the Plan; (b) determine the timing, size and type of Awards; (c) determine the terms, conditions and restrictions applicable to Awards in a manner consistent with the Plan, including but not limited to price, method of payment, vesting, exercisability and termination; (d) establish the Fair Market Value of a Share in accordance with the Plan; (e) establish one or more form agreements to evidence and memorialize the grant of an Award; (f) construe and interpret the Plan and any agreement or instrument entered into under the Plan; (g) establish, amend or waive rules and regulations for the Plan's administration; and, (f) subject to the provisions of Article 13 and Section 19.6 hereof, amend, modify or adjust the terms and conditions of any outstanding Award, including acceleration of vesting and extension of exercise terms, to the extent such terms and conditions are within the discretion of the Committee as provided in the Plan. Further, the Committee shall make all other determinations that may be necessary or advisable for the administration of the Plan. As permitted by law, the Committee may delegate its authority as identified herein.

3.3. Decisions Binding. All determinations, decisions and interpretations made by the Committee pursuant to the provisions of the Plan and all related orders and resolutions of the Board and the Committee shall be final, conclusive and binding on all persons, including the Company, its stockholders, Employees, Participants and their estates and beneficiaries.

#### ARTICLE 4. SHARES SUBJECT TO THE PLAN AND MAXIMUM AWARDS

4.1. Number of Shares Available For Grant. Subject to Sections 4.2 and 4.3 hereof, the maximum number of Shares that may be issued in the aggregate pursuant to Awards granted to Participants under the Plan shall be **Four Hundred Thousand (400,000)** Shares. Shares issued under the Plan shall be authorized but unissued Common Stock. Unless the Committee determines that an Award to a Covered Employee shall not be designed to comply with the Performance-Based Exception, the following rules shall apply to all grants of such Awards under the Plan, subject to Sections 4.2 and 4.3 hereof:

(a) Stock Options and SARS: The maximum aggregate number of Shares that may be issued pursuant to Stock Options, with or without Freestanding SARs, granted in any one fiscal year to any one Participant shall be Forty Thousand (40,000).

(b) Restricted Stock: The maximum aggregate grant with respect to Awards of Restricted Stock that are intended to qualify for the Performance-Based Exception, and

that are granted in any one fiscal year to any one Participant shall be Forty Thousand (40,000) Shares.

4.2. Lapsed Awards. If any Award granted under this 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 shall be available for the future grant of an Award under the Plan. In addition, any Shares retained by the Company upon exercise of an Award in order to satisfy the exercise price of such Award, or any withholding taxes due with respect to such exercise, shall be treated as not issued and shall continue to be available under the Plan. Notwithstanding any other provision of the Plan, shares issued and later repurchased by the Company shall not become available for future grant or sale under the Plan.

4.3. Adjustments to Common Stock. In the event of any stock split, stock dividend, recapitalization, reorganization, merger, consolidation, combination of shares, exchange of shares, liquidation, spin-off, split-up, or other similar change in capitalization or event, (a) the number and class of securities available for Awards under the Plan and the per Participant share limit, (b) the number and class of securities, vesting schedule and exercise price per share subject to each outstanding Award, (iii) the repurchase price per security subject to repurchase, and (iv) the terms of each other outstanding stock-based Award shall be adjusted (or substituted Awards may be made) to the extent the Committee shall determine, in good faith, that such an adjustment (or substitution) is appropriate. Notwithstanding the foregoing, such adjustments shall be made to the extent necessary and in such a manner as to avoid any Award granted hereunder being classified as a deferral of compensation within the meaning of Code Section 409A, and the regulations and/or guidance issued thereunder.

## ARTICLE 5. ELIGIBILITY AND PARTICIPATION

5.1. Eligibility. Persons eligible to participate in this Plan include Consultants, Non-Employee Directors and Employees of the Company with the potential to contribute to the success of the Company or its Subsidiaries, including Employees who are members of the Board.

5.2. Actual Participation. Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible Participants those to whom Awards shall be granted, and shall determine the nature and amount of each Award. The Committee shall consider such factors as it deems relevant in selecting Participants to receive Awards and the terms, provisions and restrictions with respect thereto. The grant of an Award in one year or at any particular time shall not require the grant of an Award in any other year or at any other time. Notwithstanding the foregoing, Options that the Committee intends to be ISOs shall be granted only to Employees of the Company or any Subsidiary. Any Option or portion thereof that does not qualify as an ISO shall be and shall be treated as a NQSO.

## ARTICLE 6. STOCK OPTIONS

6.1. Grant of Options; Timing. Subject to the terms and provisions of the Plan, Options may be granted at any time and from time to time to Participants in such number, at such Option Price, and upon such terms and conditions as shall be determined by the Committee. The date of grant of an Option shall, for all purposes, be the date on which the Board makes the determination to grant such Option. Notice of the determination shall be given to the Participant within a reasonable time after the date of grant.

6.2. Option Award Agreement. Each Option grant shall be evidenced by an Award Agreement in such form or forms as the Committee shall approve, which shall specify the Option Price, the duration of the option, the number of Shares to which the option pertains, and such other provisions as the Committee shall determine, including but not limited to vesting periods, performance targets and restrictions on transfer. The Award Agreement shall also specify whether the option is intended to be an ISO within the meaning of Code Section 422, or an NQSO, whose grant is intended not to fall under the provisions of Code Section 422. In the event of a conflict between any Option Award Agreement and the Plan, the Plan shall control, and in no event shall the Committee have the power to grant an Option or execute an Option Award Agreement that is contrary to the provisions of the Plan.

6.3. Option Price. The Option Price for each grant of an Option under this Plan shall be at least equal to one hundred percent (100%) of the Fair Market Value of a Share on the date the Option is granted. If any Participant to whom an Incentive Stock Option is to be granted under the Plan is, at the time of the grant of such Incentive Stock Option, the owner of stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company (after taking into account the attribution of stock ownership rules of Section 424(d) of the Code), then the Option Price per Share subject to such ISO shall not be less than one hundred ten percent (110%) of the Fair Market Value of a share of Common Stock at the time of grant.

6.4. Duration of Options. Each Option granted to a Participant shall expire at such time as the Committee shall determine at the time of grant; provided, however, that no Option shall have a term greater than, or be exercisable after, the tenth anniversary date of its grant and provided further that no Option shall be exercisable later than the fifth anniversary date of its date of grant for an ISO granted to a Participant who at the time of such grant owns stock possessing more than ten percent (10%) or more of the total combined voting power of all classes of stock of the Company.

6.5. Exercise of Options. Options granted under this Article 6 shall be exercisable in whole or in part at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, subject to Section 6.10 herein, which restrictions and conditions need not be the same for each grant or for each Participant. Options granted under this Article 6 shall be deemed to be exercised when written notice of such exercise has been given to the Company at its principal office (Attention: Chief Financial Officer) in accordance with the terms of the Option Award Agreement by the person entitled to exercise the Option, setting forth the number of Shares

with respect to which the Option is to be exercised, full payment for such Shares in accordance with Section 6.6 herein has been received by the Company, and all conditions to exercise have been satisfied or waived.

6.6. Payment.

(a) The Option Price upon exercise of any Option shall be payable to the Company in full in a form as determined by the Committee either: (i) in cash (or its equivalent) or bank or cashier's check made payable to the Company; (ii) by tendering previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the total Option Price (provided that, under certain circumstances, the Shares that are tendered must have been held by the Participant for at least six (6) months prior to their tender); (iii) by withholding Shares that otherwise would be acquired on exercise having an aggregate Fair Market Value at the time of exercise equal to the total Option Price; or (iv) by any combination of the foregoing methods of payment. If the Company is then allowing the exercise of Options pursuant to a same-day sale/cashless exercise program, the consideration received by the Company from a broker pursuant to such program (provided that such program shall not involve the Company's extending or arranging for the extension of credit to a Participant) may also be acceptable consideration hereunder. In no circumstance shall a Participant be entitled to pay the Option Price with a promissory note.

(b) Subject to any governing laws, rules or regulations, as soon as practicable after receipt of a written notification of exercise and full payment, the Company shall deliver to the Participant, in the Participant's name, Share certificates in an appropriate amount based upon the number of Shares purchased under the Option(s). Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate or certificates representing such Shares, no right to vote or receive dividends or any other right of a shareholder shall exist with respect to the Shares, notwithstanding the exercise of the Option. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as otherwise provided in this Plan.

6.7. Restrictions on Share Transferability. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option granted under this Article 6 as it may deem advisable, including, without limitation, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed and/or traded, and under any blue sky or state securities laws applicable to such Shares.

6.8. Termination of Employment or Consulting Arrangement. Subject to Sections 6.10 below with respect to ISOs and Section 12.3 generally, each Option Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the Option following termination of the Participant's employment or consulting arrangement with the Company. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each

Participant, need not be uniform among all Options issued pursuant to this Article 6, and may reflect distinctions based on the reasons for termination of employment.

6.9. Non-transferability of Options.

(a) Incentive Stock Options. No ISO granted under the Plan may be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all ISOs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant or the Participant's legal representative (to the extent permitted under Code Section 422).

(b) Nonqualified Stock Options. No NQSO granted under this Article 6 may be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all NQSOs granted to a Participant under this Article 6 shall be exercisable during his or her lifetime only by such Participant or the Participant's legal representative. Notwithstanding the foregoing, the Committee may in its sole discretion permit a Participant to transfer all or some of such Participant's NQSOs to such Participant's immediate family members or a trust or trusts for the benefit of such immediate family members. For purposes hereof, "immediate family members" means a Participant's spouse, children and grandchildren.

6.10. Incentive Stock Options.

(a) Limitations. For as long as the Code shall so provide, Options granted to any Participant under the Plan which are intended to constitute Incentive Stock Options shall not constitute Incentive Stock Options to the extent that such Options, in the aggregate, become exercisable for the first time in any one (1) calendar year for shares of Common Stock with an aggregate Fair Market Value (determined as of the respective date or dates of grant) of more than \$100,000 (or such other maximum limit imposed from time to time under Code Section 422), but rather Options in excess of such limit shall be treated as NQSOs. In such an event, the determination of which Options shall remain ISOs and which shall be treated as NQSOs shall be based on the order in which such Options were granted. All other terms and conditions of such Options that are deemed to be NQSOs shall remain unchanged.

(b) Employment Rules. No Incentive Stock Option may be exercised unless, at the time of such exercise, the Participant is, and has been continuously since the date of grant of his or her Option, an Employee of the Company, except that:

(i) an Incentive Stock Option may be exercised within the period of three (3) months after the date the Participant ceases to be an Employee of the Company (or within such lesser period as may be specified in the applicable Award Agreement) if and only to the extent that the Incentive Stock Option was exercisable at the date of employment termination, provided that the Option Award Agreement with respect to such Option may designate a longer exercise period, and any exercise after such three-month period shall be treated as the exercise of a NQSO under the Plan;

(ii) if the Participant dies while an Employee of the Company, or within three (3) months after the Participant ceases to be an Employee, the Incentive Stock Option may be exercised by the person to whom it is transferred by will or the laws of descent and distribution within the period of one year after the date of death (or within such lesser period as may be specified in the applicable Option Award Agreement) if and only to the extent that the ISO was exercisable at the date of death; and

(iii) if the Participant becomes disabled (within the meaning of Section 22(e)(3) or any successor section of the Code) while an Employee of the Company, the Incentive Stock Option may be exercised within the period of one (1) year after the date the Participant ceases to be an Employee because of such Disability (or within such lesser period as may be specified in the applicable Option Award Agreement) if and only to the extent that the ISO was exercisable at the date of employment termination.

## ARTICLE 7. STOCK APPRECIATION RIGHTS

7.1. Grant of SARs. Subject to the terms and conditions of the Plan, SARs may be granted to Participants at any time and from time to time as shall be determined by the Committee. The Committee shall have complete discretion in determining the number of SARs granted to each Participant (subject to Article 4 hereof) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such SARs. The grant price of a Freestanding SAR shall equal the Fair Market Value of a Share on the date of grant of the SAR.

7.2. Exercise of SARs. Freestanding SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon them. SARs shall be deemed to be exercised when written notice of such exercise has been given to the Company at its principal office (Attention: Chief Financial Officer) in accordance with the terms of the SAR Award Agreement by the person entitled to exercise the SAR, setting forth the number of Shares with respect to which the SAR is to be exercised, and the other provisions of this Article 7 with respect to exercise have been satisfied or waived.

7.3. SAR Agreements. Each SAR grant shall be evidenced by an Award Agreement in such form or forms as the Committee shall approve, which shall specify the grant price, the term of the SAR, and such other provisions as the Committee shall determine. In the event of a conflict between any SAR Award Agreement and the Plan, the Plan shall control, and in no event shall the Committee have the power to grant a SAR or execute a SAR Award Agreement that is contrary to the provisions of the Plan.

7.4. Term of SARs. The term of an SAR granted under the Plan shall be determined by the Committee, in its sole discretion; provided, however, that such term shall not exceed ten (10) years from the date of grant.

7.5. Payment of SAR Amount. Upon exercise of an SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

(a) the difference between the Fair Market Value of a Share on the date of exercise and the grant price; by

- (b) the number of Shares with respect to which the SAR is exercised.

At the discretion of the Committee, the payment upon SAR exercise may be in cash, in Shares of equivalent value or in some combination thereof. The Committee's determination regarding the form of SAR payout shall be set forth in the Award Agreement pertaining to the grant of the SAR.

7.6. Termination of Employment or Consulting Arrangement. Each SAR Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the SAR following termination of the Participant's employment or consulting arrangement with the Company and/or its Subsidiaries. Subject to Section 12.3 herein, such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with Participants, need not be uniform among all SARs issued pursuant to the Plan and may reflect distinctions based on the reasons for termination of employment.

7.7. Non-transferability of SARs. No SAR granted under the Plan may be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all SARs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant or the Participant's legal representative. Notwithstanding the foregoing, the Committee may in its sole discretion permit a Participant to transfer all or some of such Participant's SARs to such Participant's immediate family members or a trust or trusts for the benefit of such immediate family members. Following any such transfer, any transferred SARs shall continue to be subject to the same terms and conditions as were applicable immediately prior to the transfer.

## ARTICLE 8. RESTRICTED STOCK

8.1. Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock to Participants in such amounts, at such prices and upon such terms and conditions as the Committee shall determine.

8.2. Restricted Stock Agreement. Each Restricted Stock grant shall be evidenced by a Restricted Stock Award Agreement in such form or forms as the Committee shall approve, which shall specify the Period(s) of Restriction, the number of Shares of Restricted Stock granted and such other provisions as the Committee shall determine. In the event of a conflict between any Restricted Stock Award Agreement and the Plan, the Plan shall control, and in no event shall the Committee have the power to grant Shares of Restricted Stock or execute a Restricted Stock Award Agreement that is contrary to the provisions of the Plan.

8.3. Transferability. The Shares of Restricted Stock granted under the Plan may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated until the end of the applicable Period of Restriction established by the Committee and specified in the Restricted Stock Award Agreement, or upon earlier satisfaction of any other conditions,

as specified by the Committee in its sole discretion and set forth in the Restricted Stock Award Agreement. All rights with respect to the Restricted Stock granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant or the Participant's legal representatives.

8.4. Other Restrictions. Subject to Article 9 hereof, the Committee shall impose such other conditions and/or restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including, without limitation, a requirement that Participants pay a stipulated purchase price for each share of Restricted Stock, restrictions based upon the achievement of specific performance goals (Company-wide, divisional and/or individual), time-based restrictions on vesting following the attainment of the performance goals and/or restrictions under applicable federal or state securities laws. The Company may retain the certificates representing Shares of Restricted Stock in the Company's possession, along with a stock power endorsed in blank, until such time as all conditions and/or restrictions applicable to such Shares have been satisfied and may imprint on such certificates appropriate legends referring to the term, conditions and restrictions applicable to such Shares. Except as otherwise provided in this Article 8, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall become freely transferable by the Participant after the last day of the applicable Period of Restriction. Upon the expiration of the Period of Restriction or other lapse or waiver of any restrictions relating to Shares of Restricted Stock, the Company shall deliver certificates without legends (other than those required by applicable securities laws) to the Participant.

8.5. Voting Rights; Dividends and other Distributions. The Participant shall have the right to vote all Shares of Restricted Stock during the Period of Restriction. During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder may be credited with dividends and distributions paid with respect to the underlying Shares while they are so held. The Committee may apply any restrictions to the dividends and distributions that the Committee deems appropriate. Without limiting the generality of the preceding sentence, if the grant or vesting of Restricted Shares granted to a Covered Employee is designed to comply with the requirements of the Performance-Based Exception, the Committee may apply any restrictions it deems appropriate to the payment of dividends declared with respect to such Restricted Shares, such that the dividends and/or the Restricted Shares maintain eligibility for the Performance-Based Exception.

8.6. Termination of Employment or Consulting Arrangement. Each Restricted Stock Award Agreement shall set forth the extent to which the Participant shall have the right to receive unvested Restricted Shares following termination of the Participant's employment or consulting arrangement with the Company. Subject to Section 12.3 herein, such provisions shall be determined in the sole discretion of the Committee, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Shares of Restricted Stock issued pursuant to the Plan and may reflect distinctions based on the reasons for termination of employment; provided, however, that except in the cases of terminations by reason of death or Disability, the vesting of Shares of Restricted Stock that qualify for the Performance-Based Exception and that are held by



Covered Employees shall occur at the time they otherwise would have, but for the employment termination.

#### ARTICLE 9. PERFORMANCE MEASURES

Unless and until the Committee proposes for stockholder vote and stockholders approve a change in the general performance measures set forth in this Article 9, the attainment of which may determine the degree of payout and/or vesting with respect to Awards to Covered Employees that are designed to qualify for the Performance-Based Exception, the performance measure(s) to be used for purposes of such grants shall be chosen from among net income either before or after taxes, market share, customer satisfaction, profits, share price, earnings per share, total stockholder return, return on assets, return on equity, operating income, return on capital or investments, or economic value added (including, but not limited to, any or all of such measures in comparison to the Company's competitors, the industry or some other comparable group).

The Committee shall have the discretion to adjust the determinations of the degree of attainment of the pre-established performance goals; provided, however, that Awards that are designed to qualify for the Performance-Based Exception, and that are held by Covered Employees, may not be adjusted upward (the Committee shall retain the discretion to adjust such Awards downward, however).

In the event that applicable tax and/or securities laws change to permit Committee discretion to alter the governing performance measures without obtaining stockholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining stockholder approval. In addition, in the event that the Committee determines that it is advisable to grant Awards that shall not qualify for the Performance-Based Exception, the Committee may make such grants without satisfying the requirements of Code Section 162(m).

#### ARTICLE 10. BENEFICIARY DESIGNATION

Each Participant under the Plan may, from time to time, designate any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such designation, the Participant's benefits shall be paid to the Participant's estate.

#### ARTICLE 11. DEFERRALS

The Committee may permit or require a Participant to defer such Participant's receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant by virtue of the exercise of an Option or SAR, or the lapse or waiver of restrictions with respect to Restricted Stock. If any such deferral election is required or permitted, the Committee shall, in its sole discretion, establish rules and procedures for

such payment deferrals. Any such deferrals shall be made in a manner that complies with Code Section 409A.

## ARTICLE 12. RETENTION RIGHTS; TERMINATION FOR CAUSE

12.1. Employment. Neither the Plan nor any Award granted hereunder shall confer upon any Participant any right with respect to continuation of employment, consulting or advisory relationship or directorship with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate his or her employment, consulting or advisory relationship or directorship at any time.

12.2. Participation. No Participant shall have the right, in and of itself, to be selected to receive an Award under this Plan or, having been so selected, to be selected to receive a future Award.

12.3. Terminations for Cause. Notwithstanding anything herein to the contrary, in the event of the termination of a Participant's employment or consulting arrangement with the Company for Cause (as defined herein), then such Participant's rights under any then-outstanding Awards shall immediately terminate as of the time of such termination. Termination for Cause shall mean any termination for Cause as defined in any employment or similar agreement by and between the Company and the Participant and, if no such agreement is then in effect, shall include but not be limited to Participant's (a) commission of an act of fraud, embezzlement, misappropriation or theft or a felony, (b) gross negligence, willful misconduct, insubordination or habitual neglect of duty in carrying out his or her duties as a Employee, Consultant or Non-Employee Director; (c) non-compliance with any policy of the Company or the Company's Code of Business Conduct and Ethics and failure to cure such noncompliance within 15 days of notice thereof from the Company, or (d) breach of any material term of any agreement, contract or other arrangement between the Participant and the Company regarding Participant's employment by or engagement with the Company, or breach of any duty owed by the Participant to the Company and/or its stockholders, in each case as determined by the Board. In addition to and not in lieu of the foregoing, if the Board reasonably believes that a Participant has engaged in any of the activities described in clauses (a) – (d) of this Section 12.3, the Board may suspend the Participant's right to exercise or receive any Award pending a determination by the Board.

## ARTICLE 13. AMENDMENT, MODIFICATION, TERMINATION AND ADJUSTMENTS

13.1. Amendment, Modification and Termination. Subject to the terms of the Plan, the Board, upon recommendation of the Committee, may at any time and from time to time, alter, amend, suspend or terminate the Plan in whole or in part; provided, that the Board shall not amend the Plan in any manner that requires stockholder, regulatory or other approval(s) under applicable law, rule or regulation without obtaining such approval(s).

13.2. Adjustment of Awards Upon the Occurrence of Certain Unusual or Non-recurring Events. The Committee may make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or non-recurring events (including, without limitation, the events described in Section 4.3 hereof) affecting the Company or the financial statements of the Company or of changes in applicable laws, rules, regulations or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan; provided that unless the Committee determines otherwise, no such adjustment shall be authorized to the extent that such authority would be inconsistent with the Plan or Awards meeting the requirements of Code Section 162(m), as from time to time amended.

13.3. Awards Previously Granted. Notwithstanding any other provision of the Plan to the contrary (but subject to Section 13.2 hereof), no termination, amendment or modification of the Plan shall adversely affect or impair in any material way any Award previously granted under the Plan without the written consent of the Participant holding such Award, except that the Plan may be amended in a manner that does not affect Awards granted prior to the date of amendment or termination if such amendment is necessary to retain the benefits of Rule 16b-3 or Section 162(m) of the Code or to otherwise comply with applicable law, or such amendment does not adversely affect the rights of the Participant.

13.4. Compliance with Code Section 162(m). At all times when Code Section 162(m) is applicable, all Awards granted under this Plan shall comply with the requirements of Code Section 162(m); provided, however, that in the event the Committee determines that such compliance is not desired with respect to any Award or Awards available for grant under the Plan, then compliance with Code Section 162(m) will not be required. In addition, in the event that changes are made to Code Section 162(m) to permit greater flexibility with respect to any Award or Awards available under the Plan, or in the event that modifications are necessary to the Plan or any Awards to comply with Section 162(m), the Committee may, subject to this Article 13, make any adjustments and amendments to the Plan and any Awards that the Committee deems appropriate. If any provision of the Plan would be in violation of Section 162(m) if applied as written, such provision shall not have effect as written and shall be given effect so as to comply with Section 162(m) as determined by the Committee in its discretion.

#### ARTICLE 14. PARACHUTE LIMITATIONS

Notwithstanding any other provision of this Plan or of any other agreement, contract or understanding heretofore or hereafter entered into by a Participant with the Company or any Subsidiary or Affiliate, except an agreement, contract or understanding hereafter entered into that expressly modifies or excludes application of this Article 14 (hereinafter referred to as an “Other Agreement”), and notwithstanding any formal or informal plan or other arrangement for the direct or indirect provision of compensation to the Participant (including groups or classes of Participants or beneficiaries of which the Participant is a member), whether or not such compensation is deferred, is in cash or is in

the form of a benefit to or for the Participant (hereinafter referred to as a “Benefit Arrangement”), if the Participant is a “disqualified individual,” as defined in Code Section 280G(c), any Option or Restricted Stock held by the Participant and any right to receive any payment or other benefit under this Plan shall not become exercisable or vested (i) to the extent that such right to exercise, vesting, payment or benefit, taking into account all other rights, payments or benefits to or for the Participant under this Plan, all Other Agreements and all Benefit Arrangements, would cause any payment or benefit to the Participant under this Plan to be considered a “parachute payment” within the meaning of Code Section 280G(b) as then in effect (a “Parachute Payment”), and (ii) if, as a result of receiving a Parachute Payment, the aggregate after-tax amounts received by the Participant from the Company under this Plan, all Other Agreements and all Benefit Arrangements would be less than the maximum after-tax amount that could be received by the Participant without causing any such payment or benefit to be considered a Parachute Payment. In the event that the receipt of any such right to exercise, vesting, payment or benefit under this Plan, in conjunction with all other rights, payments or benefits to or for the Participant under any Other Agreements or any Benefit Arrangement would cause the Participant to be considered to have received a Parachute Payment under this Plan that would have the effect of decreasing the after-tax amount received by the Participant as described in clause (ii) of the preceding sentence, then the Participant shall have the right, in the Participant’s sole discretion, to designate those rights, payments or benefits under this Plan, any Other Agreements and any Benefit Arrangements that should be reduced or eliminated so as to avoid having the payment or benefit to the Participant under this Plan be deemed to be a Parachute Payment.

#### ARTICLE 15. CHANGE IN CONTROL

15.1. Definition. For purposes of this Plan, a “Change in Control” of the Company shall mean any of the following:

(a) the Beneficial Ownership of securities representing more than thirty-three percent (33%) of the combined voting power of the Company is acquired by any “person” or “group”, as such terms are defined in Section 13(d) and 14(d) of the Exchange Act, other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company; or

(b) the stockholders of the Company approve a definitive agreement to merge or consolidate the Company with or into another entity (other than a merger or consolidation which would result in the voting securities of the Company immediately prior to such transaction continuing to represent 50% or more of the combined voting power of the surviving entity immediately after such transaction), or to sell, exchange, transfer or otherwise dispose of all or substantially all of the Company’s assets, or adopt a plan of liquidation; or

(c) during any period of three (3) consecutive years, individuals who at the beginning of such period were members of the Board cease for any reason to constitute at

least a majority thereof (unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least a majority of the directors then still in office who were directors at the beginning of such period or whose election or nomination was previously so approved).

15.2. Treatment of Outstanding Awards. Subject to Section 15.3 hereof, upon the occurrence of a Change in Control, the Committee may:

(a) provide for the assumption of all outstanding Awards, or the substitution of outstanding Awards for new Awards, for equity securities of the surviving, successor or purchasing Person, or a parent or Subsidiary thereof, with appropriate adjustments as to the number, kind and prices of Shares subject to such Awards as determined in good faith by the Board;

(b) provide that the vesting of any and all Options and SARs granted hereunder that remain outstanding shall be accelerated that such Awards shall become fully and immediately exercisable;

(c) provide that any restrictions and deferral limitations applicable to any Restricted Stock shall lapse and all such shares shall be deemed fully vested and free of all restrictions;

(d) in the case of the proposed liquidation of the Company, provide that each outstanding Award shall terminate immediately prior to the consummation of such action or such other date as fixed by the Board and provide Participants the right to exercise such Award prior to such date; and/or

(e) make any and all other adjustments and/or settlements of outstanding Awards as it deems appropriate and consistent with the Plan's purposes.

15.3. Termination, Amendment and Modifications of Change-in-Control Provisions. Notwithstanding any other provision of the Plan or any Award Agreement provision, the provisions of this Article 15 may not be terminated, amended or modified on or after the date of an event that is likely to give rise to a Change in Control to affect adversely any Award theretofore granted under the Plan without the prior written consent of the Participant with respect to said Participant's outstanding Awards.

## ARTICLE 16. WITHHOLDING

16.1. Tax Withholding. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company in lieu of withholding, an amount sufficient to satisfy federal, state and local taxes, domestic or foreign, required by law or regulation to be withheld or paid with respect to any taxable event arising as a result of this Plan, and the Company may defer issuance of Common Stock upon the grant or exercise of an Award unless indemnified to its satisfaction against any liability for any such tax.

16.2. Share Withholding. With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock, or upon any other taxable event arising as a result of Awards granted hereunder, Participants may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the total tax that could be imposed with respect to said transaction. All such elections shall be irrevocable, made in writing, and signed by the Participant, and shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

16.3. Determinations; Procedure. The amount of withholding or tax payment shall be determined by the Committee or its delegate and shall be payable by the Participant at such time or times as the Board determines. An Participant shall be permitted to satisfy his or her tax or withholding obligation by (a) having cash withheld from the Participant's salary or other compensation payable by the Company or a Subsidiary, (b) the payment of cash by the Participant to the Company, (c) the payment in shares of Common Stock already owned by the Participant valued at Fair Market Value, and/or (d) the withholding from the Award, at the appropriate time, of a number of shares of Common Stock sufficient, based upon the Fair Market Value of such Common Stock, to satisfy such tax or withholding requirements as set forth in Section 16.2 above. The Committee shall be authorized, in its sole and absolute discretion, to establish rules and procedures relating to any such withholding methods it deems necessary or appropriate (including, without limitation, rules and procedures relating to elections by Participants who are subject to the provisions of Section 16 of the Exchange Act to have shares of Common Stock withheld from an award to meet those withholding obligations).

## ARTICLE 17. INDEMNIFICATION

Each person who is or shall have been a member of the Committee, or of the Board, shall be indemnified and held harmless by the Company against and from any loss, cost, liability or expense (including attorneys' fees) that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf and provided further that indemnification shall not be available for any action taken or failure to act by such person in bad faith or any fraud on the part of such person. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Articles of Organization or Bylaws, as a matter of law or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

## ARTICLE 18. SUCCESSORS

All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect acquisition by purchase, merger, consolidation or otherwise, of the Company or all or substantially all of its business or assets.

## ARTICLE 19. LEGAL CONSTRUCTION

19.1. Reservation of Shares. The Company, during the term of the Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan and outstanding Awards granted under the Plan. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

19.2. Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

19.3. Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

### 19.4. Requirements of Law.

(a) The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required. Shares shall not be issued pursuant to the exercise or receipt of an Award unless the exercise or receipt of such Award and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of applicable law, including, without limitation, the Securities Act, the Exchange Act, the rules and regulations promulgated thereunder, the so-called state "blue sky" or securities laws, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. As a condition to the exercise or receipt of an Award, the Company may require the person exercising or receiving such Award to represent and warrant at the time of any such exercise or receipt that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

(b) In addition to and not in lieu of subsection (a) above, each Award shall be subject to the requirement that if at any time the Committee shall determine, in its discretion, that the listing, registration or qualification of the Shares subject to the Award

upon any securities exchange or under any federal, state or foreign securities or other law or regulation, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition to or in connection with the granting of such Award or the issue or purchase of shares thereunder, no such Award may be exercised or paid in shares of Common Stock in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained, and the holder of each such Award will supply the Company with such certificates, representations and information as the Company shall request which are reasonably necessary or desirable in order for the Company to obtain such required listing, and shall otherwise cooperate with the Company in obtaining such required listing.

19.5. Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan, the Plan, and any Award granted or awarded to any Participant who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 under the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

19.6. Code Section 409A Compliance. The Company, acting through the Board or the Committee, intends to comply with Code Section 409A, or an exemption to Code Section 409A, with regard to Awards hereunder that constitute nonqualified deferred compensation within the meaning of Code Section 409A, and any ambiguities in construction shall be interpreted in order to effectuate such intent. To the extent that the Board or Committee determines that a Participant would be subject to the additional tax imposed on certain nonqualified deferred compensation plans pursuant to Code Section 409A as a result of any provision of any Award granted under this Plan, such provision shall be deemed amended to the minimum extent necessary to avoid application of such additional tax. The nature of any such amendment shall be determined by the Board or the Committee. Notwithstanding the foregoing, neither the Company nor any Affiliate makes any representation with respect to the application of Code Section 409A to any Award hereunder and, by acceptance of any such Award, the Participant agrees to accept the potential application of Code Section 409A to the Award and any tax consequences associated therewith. In the event that, after the issuance of an Award under the Plan, Section 409A of the Code or the regulations thereunder are amended, or the Internal Revenue Service or Treasury Department issues additional guidance interpreting Section 409A of the Code, the Committee (or, in the absence of the Committee, the Board) may modify the terms of any such previously issued Award to the extent the Committee (or, in the absence of the Committee, the Board) determines that such modification is necessary to comply with the requirements of Section 409A of the Code. The Committee shall also have the authority to amend and administer the Plan and amend any Award issued hereunder in order to assure that such Awards do not provide a deferral of compensation that would be subject to Code Section 409A.

19.7. Governing Law. To the extent not preempted by federal law, the Plan, and all agreements entered into, actions taken and determinations made hereunder, shall be



construed in accordance with and governed by the laws of the Commonwealth of Massachusetts, without regard to such jurisdiction's conflicts of laws principles.

19.8. Stockholder Approval. The Plan shall have been approved by the stockholders of the Company within twelve (12) months of the Effective Date. Awards may be granted under the Plan at any time prior to the receipt of such stockholder approval, provided that each such grant shall be subject to such approval. Without limitation of the foregoing, no Award may be exercised by a Participant, and no share certificates shall be issued by the Company, prior to the receipt of such approval. If the Plan is not approved by July 29, 2011, then the Plan and all Awards then outstanding shall automatically terminate and be of no force or effect.

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 1, 2016

- ( ) 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)

NO  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

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 April 1, 2016, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$4,044,333.

The number of shares of the registrant's common stock, par value \$ 0.10 per share, outstanding as of December 16, 2016 was 1,839,877.

Portions of the Company's Definitive Proxy Statement to be delivered to shareholders in connection with the Company's 2017 Annual Meeting of Shareholders to be held February 13, 2017 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 1, 2016

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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 harbors 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 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, fax 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 ("OEMs") 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.

### 2016 Highlights and Recent Events

In fiscal 2016, TCC completed delivery of several foreign and domestic contracts for its DSP 9000 radio encryption product family and services received in fiscal 2015, and provided engineering services under contracts received in fiscal 2015 and fiscal 2016. The Company also sold its 10.8% ownership stake in PulsedLight, Inc., an early-stage start-up company, which resulted in a gain on the sale of \$462,000. Additionally, in early fiscal 2017, the Company received an order valued at approximately \$2,373,000 from Datron World Communications, Inc. for our military-grade DSP 9000 radio encryption equipment. Follow-on orders are expected as part of Datron's five-year, \$495 million Foreign Military Sales Indefinite Delivery Indefinite Quantity contract from the US Army Communications Electronic Command.

Revenue in fiscal 2016 was \$2,523,000 with a net loss of \$(2,472,000) or \$(1.34) per share. Major domestic and international contracts did not materialize during the fiscal year as expected due to long government procurement cycles. TCC's backlog at the end of fiscal 2016 was \$313,000, as compared to \$717,000 at the end of fiscal 2015. However with the order from Datron indicated above, TCC began fiscal 2017 with a backlog of \$2.7 million.

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 2016, custom TCC equipment and services continued to provide recurring revenue opportunities within the Company's established government systems product line, primarily the DSP 9000 radio encryption product family and engineering services. The Company also has several significant opportunities it is pursuing for foreign government custom network security systems.

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 2016, TCC continued to closely monitor and reduce operating expenses as appropriate, while strategically investing in business development efforts.

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 2016:

- Development to enhance the ability of the DSD 72B-SP fiber optic network encryption family to integrate national algorithms. TCC believes custom algorithm integration is a competitive differentiator for the Company in foreign markets.
- Custom development and feature expansion of our HSE 6000 radio encryption product.
- Custom engineering services for government applications.
- Production readiness of TCC products.

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 typically generates more than 80% of the Company's revenue. During fiscal 2016 there was a shift in business whereby 60% of the Company's revenue was generated by our engineering services. Although we expect engineering services to remain strong we also expect that sales of our Government Systems products will constitute the majority of our revenue in the future. 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 had primarily consisted of products that were originally acquired through an asset and rights purchase from a subsidiary of AT&T in 1995. These products are no longer being marketed. While one of these products, the CSD4100 secure executive telephone, is still available and remains profitable, demand for it has diminished in recent years. We will continue to offer this product from existing inventory, which we anticipate will be sufficient for several more years.

Offering CipherTalk® 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.

### **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.

### **Secure Office Systems**

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.

### 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, Omnisecc 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 2016, the Company had three customers representing 90% of total net sales. These sales consisted primarily of our engineering services representing 60% of sales and shipments of our narrowband radio encryptors to a domestic customer for deployment into Afghanistan representing 18% of sales and additional sales of our narrowband radio encryptors to a domestic customer for deployment into North Africa representing 10% of sales. In fiscal 2015, the Company had three customers representing 81% of total net sales. These sales consisted primarily 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.

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 1, 2016 and October 3, 2015 was approximately \$313,000 and \$717,000, 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 2016 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 1, 2016 and October 3, 2015, the Company spent \$828,000 and \$2,300,000, respectively, on internal product development. The Company also spent \$1,178,000 and \$223,000, on billable development efforts during fiscal 2016 and 2015, respectively. In fiscal 2016, the Company's total product development costs were 20% lower than fiscal 2015 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 product development expenses in fiscal 2017 will be in line with fiscal 2016 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 2016:

- Development to enhance the ability of the DSD 72B-SP fiber optic network encryption family to integrate national algorithms.
- Custom development and feature expansion of our HSE 6000 radio encryption product.
- Custom engineering services for government applications.
- Production readiness of TCC products.

### 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 2016 and 2015 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 2016 and 2015, sales directly to international customers accounted for approximately 8.4% and 63.1%, respectively, of our net sales. During those periods a significant portion of domestic sales (20% and 34%, respectively) were made to a domestic radio manufacturer that shipped our radio encryption products overseas for use in Afghanistan. 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 1, 2016, the Company employed 26 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 1, 2016 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 make estimating 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 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 2016 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 2015. 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 1, 2016.

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 16, 2016, we employed 25 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 1, 2016 and October 3, 2015 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, \$0.10 par value	10/1/2016	\$ 2.26	\$ 7.75
	7/2/2016	2.36	2.78
	4/2/2016	2.41	3.17
	1/2/2016	2.51	4.50
	10/3/2015	\$ 2.40	\$ 3.71
	6/27/2015	3.38	4.49
	3/28/2015	4.00	5.00
	12/27/2014	3.71	6.51

#### Holders

As of December 16, 2016, there were 68 record holders of our Common Stock. We believe there are approximately 1,100 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 and the Technical Communications Corporation 2005 Non-Statutory Stock Option Plan, as of the fiscal year ended October 1, 2016. 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 1, 2016, 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 . . . . .	153,781(1)	\$9.76	46,219
Equity compensation plans not approved by stockholders . . . . .	89,900(2)	\$6.87	-
Total . . . . .	243,681	\$8.69	46,219

(1) Of the 153,781 options outstanding as of October 1, 2016, 127,081 were exercisable as of such date at an average exercise price of \$9.76 per share.

(2) Of the 89,900 options outstanding as of October 1, 2016, all were exercisable as of such date at an average exercise price of \$6.87 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 2016 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 2016 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 1, 2016 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 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, or other acceptance criteria exist, all revenue related to the product is deferred and recognized upon completion of the installation or satisfaction of the customer acceptance criteria. 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 to TCC, 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 \$4.1 million as of October 1, 2016 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 1, 2016 as compared to year ended October 3, 2015*

### **Net Sales**

Net sales for the years ended October 1, 2016 and October 3, 2015 were \$2,523,000 and \$5,942,000, respectively, a decrease of \$3,419,000 or 58%. Sales for fiscal 2016 consisted of \$2,312,000, or 92%, from domestic sources and \$211,000, or 8%, from international customers as compared to fiscal 2015, in which sales consisted of \$2,192,000, or 37%, from domestic sources and \$3,750,000, or 63%, from international customers.

Foreign sales consisted of shipments to four different countries during the year ended October 1, 2016 and six different countries during the year ended October 3, 2015. 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>2016</u>	<u>2015</u>
Saudi Arabia	\$ 104,000	\$ 101,000
Egypt	38,000	3,477,000
Philippines	44,000	5,000
Serbia	25,000	-
Other	-	167,000
	<u>\$ 211,000</u>	<u>\$ 3,750,000</u>

For the year ended October 1, 2016, revenue was derived primarily from our engineering services amounting to \$1,504,000 and shipments of our narrowband radio encryptors to a domestic customer for deployment into Afghanistan amounting to \$465,000 and additional sales of our narrowband radio encryptors to a domestic customer for deployment into North Africa amounting to \$243,000. We also sold our internet protocol encryptor to an international customer amounting to \$92,000 during our 2016 fiscal year.

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.

### **Gross Profit**

Gross profit for fiscal year 2016 was \$509,000, a decrease of \$2,856,000 from gross profit of \$3,365,000 for fiscal year 2015. Gross profit expressed as a percentage of sales was 20% in fiscal year 2016 compared to 57% in the prior year. This decrease is primarily the result of 62% of annual income being derived from lower margin engineering services in fiscal 2016.

### **Operating Costs and Expenses**

#### *Selling, General and Administrative*

Selling, general and administrative expenses for fiscal 2016 were \$2,671,000, compared to \$2,940,000 for fiscal 2015. This decrease of \$269,000 was attributable to a decrease in general and administrative expenses of \$153,000 and a decrease in selling and marketing expenses of \$116,000 during the 2016 fiscal year.

The decrease in general and administrative costs for the year ended October 1, 2016 was primarily attributable to decreases in personnel-related costs of \$140,000 and legal fees and other public company expenses of \$36,000. These decreases were offset by a decrease in bad debt recovery of \$25,000 for the period.

The decrease in selling and marketing expenses for the year ended October 1, 2016 was primarily attributable to decreases in outside consulting costs of \$81,000, engineering support of \$128,000, sales and marketing agreements of \$53,000, personnel-related costs of \$14,000 and travel costs of \$9,000. These decreases were offset by increases in product evaluation costs of \$92,000, product demonstration costs of \$35,000, bid and proposal efforts of \$31,000 and marketing development efforts of \$8,000 during the period.

#### *Product Development Costs*

Product development costs for fiscal years 2016 and 2015 were \$828,000 and \$2,300,000, respectively. This decrease of \$1,472,000, or 64%, was primarily attributable to decreases in personnel-related costs of \$488,000 and outside contractor costs of \$132,000. In addition, there were billable engineering services contracts that resulted in decreased product development costs of \$840,000 during the period.

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 \$1,504,000 of billable engineering services revenue generated during fiscal 2016 and \$555,000 of billable engineering services revenue generated during fiscal 2015.

#### **Net Loss**

The Company generated a net loss of \$2,472,000 for fiscal 2016, as compared to a net loss of \$1,822,000 for fiscal 2015. This \$650,000, or 36%, increase in net loss is primarily attributable to decreased gross profit of \$2,856,000, which was partially offset by a decrease in operating expenses of \$1,741,000 and the gain on sale of a cost method investment of \$462,000.

The effects of inflation and changing costs have not had a significant impact on sales or earnings in recent years. As of October 1, 2016, 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 1, 2016 totaled \$3,352,000 and we continue to have no 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 2017. 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 1, 2016 and October 3, 2015:

	<u>2016</u>	<u>2015</u>
Net loss	\$ (2,472,000)	\$ (1,822,000)
Changes not affecting cash	(43,000)	1,037,000
Changes in assets and liabilities	<u>1,562,000</u>	<u>(1,203,000)</u>
Cash used in operating activities	(954,000)	(1,988,000)
Cash provided by investing activities	1,266,000	1,403,000
Cash used in financing activities	<u>-</u>	<u>-</u>
Net change in cash and cash equivalents	312,000	(585,000)
Cash and cash equivalents - beginning of period	<u>2,277,000</u>	<u>2,862,000</u>
Cash and cash equivalents - end of period	<u>\$ 2,589,000</u>	<u>\$ 2,277,000</u>

#### *Operating Activities*

The Company used approximately \$1,034,000 less cash from operating activities in fiscal 2016 compared to fiscal 2015. This decreased use was primarily attributable to lower collections of accounts of \$3 million in fiscal 2016 as compared to fiscal 2015. This use was offset by a reduction of inventories as a result of a write-down associated with older slow moving products of approximately \$475,000 and a general reduction in inventory levels of \$209,000 in fiscal 2016 as compared to fiscal year 2015.

#### *Investing Activities*

Cash provided by investing activities during fiscal 2016 decreased by approximately \$137,000 to \$1,266,000, compared to cash provided by investing activities of \$1,403,000 during fiscal 2015. This change is primarily attributable to the maturity of short-term investments in marketable securities of \$300,000 in fiscal 2016 as compared to \$1,718,000 of maturities in fiscal 2015. This was partially offset by the cash proceeds from the sale of the Company's investment in PulsedLight, Inc. of \$661,000 and the reduction restricted cash of \$336,000 in fiscal 2016.

#### *Financing Activities*

There were no financing activities during either fiscal 2016 or 2015.

#### *Debt Instruments*

The Company currently maintains no debt instruments.

#### *Backlog*

Backlog at October 1, 2016 and October 3, 2015 amounted to \$313,000 and \$717,000, respectively. The orders in backlog at October 1, 2016 are expected to ship over the next six to nine 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 1, 2016, the Company had three outstanding letters of credit in the amounts of \$15,000, \$12,000 and \$1,000, which are secured by collateralized bank accounts totaling \$28,000. 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, totaling \$363,000. 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 1, 2016 and October 3, 2015, the Company spent \$828,000 and \$2,300,000, respectively, on internal product development. The Company also spent \$1,178,000 and \$223,000 on billable development efforts during fiscal 2016 and 2015, respectively. In fiscal 2016, the Company's total product development costs were 20% lower than fiscal 2015 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 2017 will be in line with fiscal 2016 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 2016:

- Development to enhance the ability of the DSD 72B-SP fiber optic network encryption family to integrate national algorithms. TCC believes custom algorithm integration is a competitive differentiator for the Company in foreign markets.
- Custom development and feature expansion of our HSE 6000 radio encryption product.
- Custom engineering services for government applications.
- Production readiness of TCC products.

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 2017. 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 2017.

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

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

## New Accounting Pronouncements

*ASU 2014-09, Revenue from Contracts with Customers, amended by ASU 2015-14 (Topic 606), ASU 2016-10, ASU 2016-11 and ASU 2016-12*

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 regarding disclosure of uncertainties about an entity's ability to continue as a going concern. 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. 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 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 and the adoption of this standard is not expected to have a material impact on our financial statements.

*ASU No. 2016-02, Leases*

In February 2016, the FASB issued guidance with respect to leases. This ASU requires entities to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. This guidance offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. We are currently evaluating the potential impact this standard will have on our financial statements and related disclosure.

In March 2016, the FASB issued guidance that simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance is effective for annual periods beginning after December 15, 2016, including interim periods within those fiscal years. This guidance is applicable for the Company beginning in the first quarter of our 2018 fiscal year. We are currently evaluating the method of adoption and the potential impact this standard will have on our financial statements and related disclosure.

Other recent accounting pronouncements were issued by the FASB (including its Emerging Issues Task Force), the AICPA and the SEC during the 2016 and 2015 fiscal years 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 1, 2016. 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 2016, management identified a control deficiency that was also identified during its assessments for the Company's 2008 through 2015 fiscal years. During the course of the previous years' evaluations, and again during the evaluation for the 2016 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 1, 2016.

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 2017 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 2016 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 2017 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 2016 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.aspx](http://www.tccsecure.com/investors.aspx).

#### **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 2017 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 2016 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 2017 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 2016 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 2017 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 2016 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 V – Ratification of Selection of Independent Registered Public Accounting Firm with respect to our 2017 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 2016 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 October 1, 2016 and October 3, 2015	30
Consolidated Statements of Operations for the Years Ended October 1, 2016 and October 3, 2015	31
Consolidated Statements of Cash Flows for the Years Ended October 1, 2016 and October 3, 2015	32
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended October 1, 2016 and October 3, 2015	33
Notes to Consolidated Financial Statements	34-48

- (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)
- 10.14\* Purchase Order from Datron World Communications originally received on October 13, 2016 and updated on December 15, 2016 (Confidential portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.)
- 14 Code of Business Conduct and Ethics (incorporated by reference to the Company's Annual Report for 2003 on Form 10-KSB, filed with the Securities and Exchange Commission on December 22, 2004.)
- 21\* List of Subsidiaries of the Company
- 23\* Consent of Independent Registered Public Accounting Firm
- 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

Item 16. **FORM 10-K SUMMARY**

Not applicable.

## 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 23, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Carl H. Guild, Jr.</u> Carl H. Guild, Jr.	Chief Executive Officer and President Chairman of the Board, Director (Principal Executive Officer)	December 23, 2016
<u>/s/ Michael P. Malone</u> Michael P. Malone	Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	December 23, 2016
<u>/s/ Mitchell B. Briskin</u> Mitchell B. Briskin	Director	December 23, 2016
<u>/s/ Thomas E. Peoples</u> Thomas E. Peoples	Director	December 23, 2016
<u>/s/ Francisco F. Blanco</u> Francisco F. Blanco	Director	December 23, 2016



**Technical Communications Corporation and Subsidiary**  
**Consolidated Balance Sheets**  
**October 1, 2016 and October 3, 2015**

<b>ASSETS</b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Current assets:		
Cash and cash equivalents	\$ 2,589,036	\$ 2,276,511
Restricted cash	27,592	363,358
Marketable securities:		
Held to maturity securities	362,170	307,673
Accounts receivable - trade	111,849	1,790,856
Inventories, net	1,643,922	1,850,885
Other current assets	214,047	132,792
Total current assets	4,948,616	6,722,075
Marketable securities:		
Held to maturity securities	373,668	761,842
Equipment and leasehold improvements	4,531,264	4,480,343
Less accumulated depreciation and amortization	(4,382,335)	(4,223,497)
Equipment and leasehold improvements, net	148,929	256,846
Cost method investment	-	275,000
	\$ 5,471,213	\$ 8,015,763
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 119,087	\$ 179,584
Accrued liabilities:		
Compensation and related expenses	238,144	244,290
Customer deposits	118,983	41,220
Other current liabilities	80,635	136,810
Income taxes payable	-	41,117
Total current liabilities	556,849	643,021
Commitments and contingencies (Note 11)		
Stockholders' equity		
Common stock - par value \$0.10 per share; 7,000,000 shares authorized, 1,839,877 issued and outstanding at October 1, 2016 and October 3, 2015	183,988	183,988
Additional paid-in capital	4,124,006	4,110,096
Retained earnings	606,370	3,078,658
Total stockholders' equity	4,914,364	7,372,742
	\$ 5,471,213	\$ 8,015,763

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

**Technical Communications Corporation and Subsidiary**  
**Consolidated Statements of Operations**  
**Years ended October 1, 2016 and October 3, 2015**

	<u>2016</u>	<u>2015</u>
Net sales	\$ 2,522,934	\$ 5,942,160
Cost of sales	2,013,653	2,577,131
Gross profit	<u>509,281</u>	<u>3,365,029</u>
Operating expenses:		
Selling, general and administrative	2,670,622	2,940,147
Product development	827,987	2,299,671
Total operating expenses	<u>3,498,609</u>	<u>5,239,818</u>
Operating loss	(2,989,328)	(1,874,789)
Other income		
Gain on sale of cost method investment	462,283	-
Investment income	11,293	18,263
Total other income	<u>473,576</u>	<u>18,263</u>
Loss before benefit for income taxes	(2,515,752)	(1,856,526)
Benefit for income taxes	(43,464)	(34,625)
Net loss	<u>\$ (2,472,288)</u>	<u>\$ (1,821,901)</u>
Net loss per common share		
Basic	\$ (1.34)	\$ (0.99)
Diluted	\$ (1.34)	\$ (0.99)
Weighted average shares		
Basic	1,839,877	1,839,327
Diluted	1,839,877	1,839,327

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 1, 2016 and October 3, 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating activities:</b>		
Net loss	\$ (2,472,288)	\$ (1,821,901)
Adjustments to reconcile net loss to cash (used in) provided by operating activities:		
Depreciation and amortization	158,838	199,251
Stock-based compensation	13,910	124,918
Adjustments to reduce inventory to net realizable value	212,753	687,843
Bad debt recovery	-	(25,000)
Amortization of premium on held to maturity securities	33,677	51,739
Unrealized loss on available for sale securities	-	(3,598)
Gain on sale of cost method investment	(462,283)	-
Changes in current assets and current liabilities:		
Accounts receivable	1,679,007	(1,362,717)
Inventories	(25,711)	182,585
Other current assets	(5,438)	77,587
Customer deposits	77,763	(128,723)
Accounts payable and accrued liabilities	(163,935)	30,196
Cash used in operating activities	(953,707)	(1,987,820)
<b>Investing activities:</b>		
Additions to equipment and leasehold improvements	(31,000)	(25,957)
Decrease (increase) in restricted cash	335,766	(14,663)
Purchase of cost method investment	-	(275,000)
Proceeds from maturities of marketable securities	300,000	1,718,409
Proceeds from sale of cost method investment	661,466	-
Cash provided by investing activities	1,266,232	1,402,789
Net increase (decrease) in cash and cash equivalents	312,525	(585,031)
Cash and cash equivalents at beginning of year	2,276,511	2,861,542
Cash and cash equivalents at end of year	\$ 2,589,036	\$ 2,276,511
<b>Supplemental disclosures:</b>		
Escrow deposit held on sale of cost method investment	\$ 75,817	\$ -
Transfer of inventory to equipment and leasehold improvements	19,920	-
Income taxes paid	1,856	982

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 1, 2016 and October 3, 2015**

	<u>2016</u>	<u>2015</u>
<b>Stockholders' Equity</b>		
Shares of common stock:		
Beginning balance	1,839,877	1,838,921
Cashless exercise of stock options	-	956
Ending balance	1,839,877	1,839,877
Common stock at par value:		
Beginning balance	\$ 183,988	\$ 183,892
Cashless exercise of stock options	-	96
Ending balance	183,988	183,988
Additional paid-in capital:		
Beginning balance	\$ 4,110,096	\$ 3,986,996
Cashless exercise of stock options	-	(1,818)
Stock-based compensation	13,910	124,918
Ending balance	4,124,006	4,110,096
Other comprehensive income (loss):		
Beginning balance	-	(3,598)
Unrealized gain (loss) on available for sale securities	-	3,598
Ending balance	-	-
Retained earnings:		
Beginning balance	\$ 3,078,658	\$ 4,900,559
Net loss	(2,472,288)	(1,821,901)
Ending balance	606,370	3,078,658
Total stockholders' equity	\$ 4,914,364	\$ 7,372,742

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, video, 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 extent and 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 \$8.4 million and negative cash flow from operations of approximately \$4.5 million during the past five years, though we believe we will have sufficient cash resources for operations through at least the end of fiscal year 2017.

### (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 1, 2016 and October 3, 2015, the Company had restrictions on the use of cash which was used as collateral to secure outstanding letters of credit totaling \$27,592 and \$363,358, respectively.

## 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 to TCC, 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 1, 2016 and 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.

## Notes to Consolidated Financial Statements (continued)

### *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 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 or other acceptance criteria exist, all revenue related to the product is deferred and recognized upon completion of the installation or satisfaction of the customer acceptance criteria. 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 1, 2016 and October 3, 2015.

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:

	<b>October 1, 2016</b>	<b>October 3, 2015</b>
<u>Assumptions:</u>		
Option life	6.5 years	6.5 years
Risk-free interest rate	1.4%	1.8%
Stock volatility	60%	57%
Dividend yield	0%	0%

There were 14,000 options granted during each of the years ended October 1, 2016 and October 3, 2015. The weighted average grant date fair value of options granted during the years ended October 1, 2016 and October 3, 2015 was \$1.67 and \$2.27, respectively. The following table summarizes stock-based compensation costs included in the Company's consolidated statements of operations for the years ended October 1, 2016 and October 3, 2015:

	<b>2016</b>	<b>2015</b>
Cost of sales	\$ -	\$ 12,849
Selling, general and administrative	11,549	43,231
Product development	<u>2,361</u>	<u>68,838</u>
Total stock-based compensation expense before taxes	<u>\$ 13,910</u>	<u>\$ 124,918</u>

A summary of the status of the Company's nonvested options as of October 1, 2016 and changes during the year ended October 1, 2016, is presented below:

	<b>Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested options at October 3, 2015	<u>18,060</u>	\$ 2.68
Grants	14,000	1.67
Vested	(4,640)	5.89
Cancellations/forfeitures	<u>(720)</u>	3.52
Nonvested options at October 1, 2016	<u>26,700</u>	\$ 2.02

As of October 1, 2016, there was \$47,412 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 3.95 years.

The Technical Communications Corporation 2005 Non-Statutory Stock Option Plan and 2010 Equity Incentive Plan were outstanding at October 1, 2016. There were an aggregate of 400,000 shares authorized for issuance under these plans, of which options to purchase 243,681 shares were outstanding at October 1, 2016. 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 1, 2016, there were 46,219 shares available for grant under the 2010 Equity Incentive Plan. On May 5, 2015 the 2005 Non-Statutory Stock Option Plan expired and options are no longer available for grant under such plan.



## Notes to Consolidated Financial Statements (continued)

The following tables summarize stock option activity during fiscal years 2015 and 2016:

	<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 27, 2014</b>	32,739	236,746	269,485	\$ 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	(4,383)	(18,833)	(23,216)	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
Grants	14,000	-	14,000	2.90	
Vested	(4,640)	4,640	-	5.89	
Exercises	-	-	-	-	
Cancellations/forfeitures	(720)	(24,580)	(25,300)	3.46	
<b>Outstanding, October 1, 2016</b>	<u>26,700</u>	<u>216,981</u>	<u>243,681</u>	\$ 8.69	4.57 years

Information related to the stock options vested or expected to vest as of October 1, 2016 is as follows:

Range of Exercise Prices	Number of Shares	Weighted- Average Remaining Contractual Life (years)	Weighted- Average Exercise Price	Exercisable Number of Shares	Exercisable Weighted- Average Exercise Price
\$2.01 - \$3.00	14,000	9.36	\$ 2.90	-	\$ -
\$3.01 - \$4.00	2,500	0.37	4.00	2,500	4.00
\$4.01 - \$5.00	42,000	5.90	4.54	30,200	4.71
\$5.01 - \$10.00	61,400	3.90	7.56	60,500	7.59
\$10.01 - \$15.00	<u>123,781</u>	3.99	11.41	<u>123,781</u>	11.41
	<u>243,681</u>	4.57	\$ 8.69	<u>216,981</u>	\$ 9.33

The aggregate intrinsic value of the Company's "in-the-money" outstanding and exercisable options was \$0 as of October 1, 2016 and October 3, 2015. There were no stock options exercised during the year ended October 1, 2016. There were 5,288 options exercised during the year ended October 3, 2015 with a total intrinsic value of \$5,605. 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. There were no uncertain tax positions for fiscal year 2016. For fiscal year 2015 the Company had \$45,631 of uncertain tax positions, which expired in fiscal year 2016 as the statute of limitation was surpassed.

## 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 each of the years ended October 1, 2016 and October 3, 2015 the Company recorded \$1,100 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 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 1, 2016 and October 3, 2015, 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 1, 2016 and October 3, 2015, in accordance with the fair value hierarchy as defined above. As of October 1, 2016 and October 3, 2015, the Company did not hold any assets classified as Level 2 or Level 3.

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
<b><u>October 3, 2015</u></b>			
<b><u>Cash Equivalents</u></b>			
<b><u>Mutual funds:</u></b>			
Money market funds	\$ 1,385,201	\$ 1,385,201	-
Total mutual funds	<u>1,385,201</u>	<u>1,385,201</u>	<u>-</u>
Total assets	<u>\$ 1,385,201</u>	<u>\$ 1,385,201</u>	<u>\$ -</u>

### **October 1, 2016**

#### **Cash Equivalents**

##### **Mutual funds:**

Money market funds	\$ 978,746	\$ 978,746	-
Total mutual funds	<u>978,746</u>	<u>978,746</u>	<u>-</u>
Total assets	<u>\$ 978,746</u>	<u>\$ 978,746</u>	<u>\$ -</u>

There were no assets or liabilities measured at fair value on a nonrecurring basis at October 1, 2016 and October 3, 2015.

#### *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 \$827,987 and \$2,299,671 in 2016 and 2015, 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; such amounts were \$1,177,734 and \$222,569 in 2016 and 2015, respectively.

#### *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 2016 fiscal year ended on October 1, 2016 and included 52 weeks. The 2015 fiscal year ended on October 3, 2015 and included 53 weeks.

## Notes to Consolidated Financial Statements (continued)

### *New Accounting Pronouncements*

*ASU 2014-09, Revenue from Contracts with Customers, amended by ASU 2015-14 (Topic 606), ASU 2016-10, ASU 2016-11 and ASU 2016-12*

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 regarding disclosure of uncertainties about an entity's ability to continue as a going concern. 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. 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 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 and the adoption of this standard is not expected to have a material impact on our financial statements.

## Notes to Consolidated Financial Statements (continued)

### *ASU No. 2016-02, Leases*

In February 2016, the FASB issued guidance with respect to leases. This ASU requires entities to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. This guidance offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. We are currently evaluating the potential impact this standard will have on our financial statements and related disclosure.

### *ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting,*

In March 2016, the FASB issued guidance that simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance is effective for annual periods beginning after December 15, 2016, including interim periods within those fiscal years. This guidance is applicable for the Company beginning in the first quarter of our 2018 fiscal year. We are currently evaluating the method of adoption and the potential impact this standard will have on our financial statements and related disclosure.

Other recent accounting pronouncements were issued by the FASB (including its Emerging Issues Task Force), the AICPA and the SEC during the 2016 and 2015 fiscal years 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: 243,681 shares in fiscal year 2016 and 254,981 shares in fiscal year 2015.

### **(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.

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

As of October 1, 2016, available for sale securities consisted of the following:

	<u>Cost</u>	<u>Accrued Interest</u>	<u>Gross Gains</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>
Money market mutual funds	\$ 978,746	\$ -	\$ -	\$ -	\$ 978,746

As of October 1, 2016, 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	\$ 823,730	\$ 11,569	\$ 99,461	\$ 735,838	\$ 2,503	\$ 738,341

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

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

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

The contractual maturities of held to maturity investments as of October 1, 2016 were as follows:

	<u>Cost</u>	<u>Amortized Cost</u>
Within 1 year	\$ 411,364	\$ 362,170
After 1 year through 5 years	<u>412,366</u>	<u>373,668</u>
	<u>\$ 823,730</u>	<u>\$ 735,838</u>

The Company's available for sale securities were included in the cash and cash equivalents caption in the consolidated balance sheets.

**(5) Inventories**

Inventories consist of the following:

	<u>October 1, 2016</u>	<u>October 3, 2015</u>
Finished goods	\$ 19,167	\$ 8,015
Work in process	360,738	662,575
Raw materials and supplies	<u>1,264,017</u>	<u>1,180,295</u>
Total inventories	<u>\$ 1,643,922</u>	<u>\$ 1,850,885</u>

As a result of changes in the market for certain Company products and the resulting excess quantities, carrying amounts for those inventories were reduced by approximately \$213,000 and \$667,000, during the years ended October 1, 2016 and October 3, 2015, respectively. Management believes that these reductions properly reflect inventory at lower of cost or market, and no additional losses 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.

## Notes to Consolidated Financial Statements (continued)

### (6) Equipment and Leasehold Improvements

Equipment and leasehold improvements consist of the following:

	<b>October 1, 2016</b>	<b>October 3, 2015</b>	<b>Estimated Useful Life</b>
Engineering and manufacturing equipment	\$ 2,124,486	\$ 2,093,485	3-8 years
Demonstration equipment	841,966	828,306	3 years
Furniture and fixtures	1,020,862	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 or term of lease
Total equipment and leasehold improvements	4,531,264	4,480,343	
Less accumulated depreciation and amortization	<u>(4,382,335)</u>	<u>(4,223,497)</u>	
Equipment and leasehold improvements, net	<u>\$ 148,929</u>	<u>\$ 256,846</u>	

Depreciation expense was \$158,838 and \$199,251 for the fiscal years ended October 1, 2016 and October 3, 2015, 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 \$427,500 at October 1, 2016. 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 1, 2016 and October 3, 2015 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 1, 2016</b>	<b>October 3, 2015</b>
Beginning balance	\$ 30,483	\$ 41,532
Plus: accruals related to new sales	4,530	26,426
Less: payments and adjustments to prior period accruals	<u>(28,413)</u>	<u>(37,475)</u>
Ending balance	<u>\$ 6,600</u>	<u>\$ 30,483</u>

## Notes to Consolidated Financial Statements (continued)

### (9) Income Taxes

The benefit for income taxes consists of the following:

	October 1, 2016	October 3, 2015
Current:		
Federal	\$ (44,376)	\$ (35,537)
State	<u>912</u>	<u>912</u>
Total current taxes	<u>(43,464)</u>	<u>(34,625)</u>
Total benefit for income taxes	<u>\$ (43,464)</u>	<u>\$ (34,625)</u>

The benefit 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:

	October 1, 2016		October 3, 2015	
	Amount	Percent	Amount	Percent
Tax benefit at U.S. statutory rate	\$ (855,356)	(34.0%)	\$ (631,219)	(34.0%)
State income tax provision, net of federal benefit	(126,318)	(5.0%)	(29,977)	(1.6%)
Change in state effective rate	(127,485)	(5.0%)	(42,538)	(2.3%)
Stock compensation	1,208	0.1%	33,912	1.8%
Prior year true-up	(3,737)	(0.2%)	42,596	2.3%
Uncertain tax positions	(44,376)	(1.8%)	(35,198)	(1.9%)
Other	2,331	0.1%	12,939	0.7%
Valuation allowance	<u>1,110,269</u>	<u>44.1%</u>	<u>614,860</u>	<u>33.1%</u>
Total benefit for income taxes	<u>\$ (43,464)</u>	<u>(1.7%)</u>	<u>\$ (34,625)</u>	<u>(1.9%)</u>

Deferred income taxes consist of the following:

	October 1, 2016	October 3, 2015
Inventory differences	\$ 1,497,123	\$ 1,301,847
Net operating losses	1,973,189	1,110,378
Stock based compensation	213,506	219,454
Tax credits	186,180	148,893
Other	<u>240,359</u>	<u>219,516</u>
Total	4,110,357	3,000,088
Less: valuation allowance	<u>(4,110,357)</u>	<u>(3,000,088)</u>
Total	<u>\$ -</u>	<u>\$ -</u>

During fiscal year 2016 the change in the valuation allowance was \$1,110,269 and related primarily to the net operating loss and inventory differences. During fiscal year 2014 the Company established a valuation allowance against deferred tax assets. 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 2015 the change in the valuation allowance was \$614,860 and related primarily to the net operating loss and inventory differences.

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.



## Notes to Consolidated Financial Statements (continued)

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 2013 through 2015 and for state purposes 2012 through 2015 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 \$128,080 available through fiscal year 2034 and net operating loss carryforwards of \$5,164,740 available through fiscal year 2036. In addition, the Company has Massachusetts research credits of \$97,708 available through fiscal year 2028 and net operating loss carryforwards of \$4,475,077 available through fiscal year 2036.

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

Balance at October 3, 2015	\$ 45,631
Addition related to prior year positions	1,100
Reduction in uncertain tax positions, arising from lapses in statutes of limitation	(46,731)
Balance at October 1, 2016	\$ <u>          -</u>

The additions to the Company's total uncertain tax positions relates to accrued interest and penalties on 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 2016 or 2015. The Company's matching contributions were \$76,821 and \$89,924 in fiscal years 2016 and 2015, 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 1, 2016 and October 3, 2015 or paid for those fiscal years.

### (11) Commitments and contingencies

At October 1, 2016, the Company had three outstanding letters of credit in the amounts of \$14,662, \$11,730 and \$1,200, which are secured by collateralized bank accounts totaling \$27,592. 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.

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.

## Notes to Consolidated Financial Statements (continued)

### (12) Major Customers and Export Sales

In fiscal year 2016, the Company had three customers representing 90% (62%, 18% and 10%) of total net sales and at October 1, 2016 had two customers representing 100% (99% and 1%) of accounts receivable. 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.

A breakdown of net sales is as follows:

	October 1, 2016	October 3, 2015
Domestic	\$ 2,311,877	\$ 2,192,660
Foreign	<u>211,057</u>	<u>3,749,500</u>
Total Sales	<u>\$ 2,522,934</u>	<u>\$ 5,942,160</u>

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

	October 1, 2016	October 3, 2015
Europe	11.7%	-
Mid-East and Africa	67.6%	95.5%
Far East	20.7%	4.5%

The Company sold products to four different countries during the year ended October 1, 2016 and six different countries during the year ended October 3, 2015. 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 1, 2016	October 3, 2015
Saudi Arabia	49.4%	2.7%
Philippines	20.7%	0.1%
Egypt	18.2%	92.7%
Serbia	11.7%	-
Other	-	4.5%

### (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 the company at the time of purchase and was accounted for utilizing the cost method of accounting. On January 12, 2016, the Company entered into an agreement to sell its shares in PulsedLight. The net proceeds to the Company after closing costs and certain liabilities amounted to \$737,283, of which the Company received \$661,466 at closing and of which \$75,817 was deposited in an escrow account in accordance with the terms of the sale that required 10% of the proceeds to be held in escrow for one year. The escrow balance as of October 1, 2016 is included in other current assets within the accompanying consolidated balance sheet.

## 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 sheets of Technical Communications Corporation and subsidiary (the "Company") as of October 1, 2016 and October 3, 2015, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Technical Communications Corporation and subsidiary as of October 1, 2016 and 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 23, 2016

**CORPORATE INFORMATION  
AS OF DECEMBER 2016**

**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 REGISTEED 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 13, 2017 at 10:00 a.m. at TCC's facilities in Concord, Massachusetts. The shareholder record date is December 16, 2016.

**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 2016, 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 1, 2016 and the "Risk Factors" section included herein.

**Technical Communications Corporation**  
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