

TECHNICAL COMMUNICATIONS CORP
Form 10-K
December 23, 2016

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

Not applicable

(Title of Class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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, Omnisec 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 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. 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.

Title of Class	Quarter Ending	Price	
		Low	High
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

Holdings

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.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
Equity compensation plans approved by stockholders	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:

	2016	2015
Saudi Arabia	\$ 104,000	\$ 101,000
Egypt	38,000	3,477,000
Philippines	44,000	5,000
Serbia	25,000	-
Other	-	167,000
	\$211,000	\$3,750,000

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:

	2016	2015
Net loss	\$(2,472,000)	\$(1,822,000)
Changes not affecting cash	(43,000)	1,037,000
Changes in assets and liabilities	1,562,000	(1,203,000)
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	-	-
Net change in cash and cash equivalents	312,000	(585,000)
Cash and cash equivalents - beginning of period	2,277,000	2,862,000
Cash and cash equivalents - end of period	\$2,589,000	\$2,277,000

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.

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.

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.

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:

	Page
<u>Consolidated Balance Sheets as of October 1, 2016 and October 3, 2015</u>	30
<u>Consolidated Statements of Operations for the Years Ended October 1, 2016 and October 3, 2015</u>	31
<u>Consolidated Statements of Cash Flows for the Years Ended October 1, 2016 and October 3, 2015</u>	32
<u>Consolidated Statements of Changes in Stockholders' Equity for the Years Ended October 1, 2016 and October 3, 2015</u>	33
<u>Notes to Consolidated Financial Statements</u>	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+ Employment Agreement, effective November 19, 1998, with Carl H. Guild, Jr. (incorporated by reference to the Company's Annual Report for 1998 on Form 10-K, as amended, filed with the Securities and Exchange Commission on December 21, 1998)
- 10.2+ Employment Agreement, effective February 12, 2001, with Michael P. Malone (incorporated by reference to the Company's Form 10-QSB filed with the Securities and Exchange Commission on May 15, 2001)
- 10.3+ Amendment to Employment Agreement between the Company and Carl H. Guild Jr., as of November 8, 2001 (incorporated by reference to the Company's Form 10-QSB filed with the Securities and Exchange Commission on August 13, 2002)
- 10.4+ 1995 Employee Stock Purchase Plan (incorporated by reference to the Company's Registration Statement on Form S-8, filed with the Securities and Exchange Commission on May 23, 1996)
- 10.5+ 2001 Stock Option Plan (incorporated by reference to the Company's Registration Statement on Form S-8, filed with the Securities and Exchange Commission on December 28, 2001)

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- 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+ 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+ 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.)

- Contract with U.S. Army Contracting Command, dated May 2, 2013, contract No. W15P7T-13-C-D519
10.11 (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.)
Purchase Order from Datron World Communications dated October 8, 2013 (Confidential portions of this
10.12 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.)
Contract with the Egyptian Armament Authority with an effective date of November 25, 2014 (Confidential
10.13 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)
Purchase Order from Datron World Communications originally received on October 13, 2016 and updated on
10.14*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.)
Code of Business Conduct and Ethics (incorporated by reference to the Company's Annual Report for 2003 on
14 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.INSXBRL Report Instance Document
101.SCHXBRL Taxonomy Extension Schema Document
101.CALXBRL Taxonomy Calculation Linkbase Document
101.DEF XBRL Taxonomy Extension Definition Linkbase Document
101.LABXBRL Taxonomy Label Linkbase Document
101.PREXBRL Presentation Linkbase Document

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.

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

/s/ Francisco F. Blanco Director
Francisco F. Blanco

December
23, 2016

Technical Communications Corporation and Subsidiary

Consolidated Balance Sheets

October 1, 2016 and October 3, 2015

	2016	2015
ASSETS		
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
LIABILITIES AND STOCKHOLDERS' EQUITY		
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

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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**

	2016	2015
Net sales	\$2,522,934	\$5,942,160
Cost of sales	2,013,653	2,577,131
Gross profit	509,281	3,365,029
Operating expenses:		
Selling, general and administrative	2,670,622	2,940,147
Product development	827,987	2,299,671
Total operating expenses	3,498,609	5,239,818
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	473,576	18,263
Loss before benefit for income taxes	(2,515,752)	(1,856,526)
Benefit for income taxes	(43,464)	(34,625)
Net loss	\$(2,472,288)	\$(1,821,901)
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**

	2016	2015
Operating activities:		
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)
Investing activities:		
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
Supplemental disclosures:		
Escrow deposit held on sale of cost method investment	\$75,817	\$-

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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**

	2016	2015
Stockholders' Equity		
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 flows 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*TM, 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:

	October 1, 2016		October 3, 2015	
Assumptions:				
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:

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

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:

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

	Options Outstanding			Weighted Average Exercise Price	Weighted Average Contractual Life
	Number of Shares Unvested	Vested	Total		
Outstanding, September 27, 2014	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	
Outstanding, October 3, 2015	18,060	236,921	254,981	\$ 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	
Outstanding, October 1, 2016	26,700	216,981	243,681	\$ 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	123,781	3.99	11.41	123,781	11.41
	243,681	4.57	\$ 8.69	216,981	\$ 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.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
October 3, 2015			
Cash Equivalents			
Mutual funds:			
Money market funds	\$ 1,385,201	\$ 1,385,201	-
Total mutual funds	1,385,201	1,385,201	-
Total assets	\$ 1,385,201	\$ 1,385,201	\$ -
October 1, 2016			
Cash Equivalents			
Mutual funds:			
Money market funds	\$ 978,746	\$ 978,746	-
Total mutual funds	978,746	978,746	-
Total assets	\$ 978,746	\$ 978,746	\$ -

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:

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

As of October 1, 2016, held to maturity securities consisted of the following:

	Cost	Accrued Interest	Amortization Bond Premium	Amortized Cost	Unrealized Gains	Estimated Fair Value
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:

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

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

	Cost	Accrued Interest	Amortization Bond Premium	Amortized Cost	Unrealized Gains	Estimated Fair Value
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:

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

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:

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

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:

	October 1, 2016	October 3, 2015	Estimated Useful Life
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	494,509	494,509	Lesser of useful life or term of lease
Total 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	

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:

	October 1, 2016	October 3, 2015
Beginning balance	\$ 30,483	\$ 41,532
Plus: accruals related to new sales	4,530	26,426
Less: payments and adjustments to prior period accruals	(28,413)	(37,475)
Ending balance	\$ 6,600	\$ 30,483

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	912	912
Total current taxes	(43,464)	(34,625)
Total benefit for income taxes	\$ (43,464)	\$ (34,625)

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	1,110,269	44.1 %	614,860	33.1 %
Total benefit for income taxes	\$ (43,464)	(1.7)%	\$ (34,625)	(1.9)%

Deferred income taxes consist of the following:

	October 1, 2016	October 3, 2015
Inventory differences	\$ 1,497,123	\$ 1,301,847

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Net operating losses	1,973,189	1,110,378
Stock based compensation	213,506	219,454
Tax credits	186,180	148,893
Other	240,359	219,516
Total	4,110,357	3,000,088
Less: valuation allowance	(4,110,357)	(3,000,088)
Total	\$ -	\$ -

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	\$-

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	211,057	3,749,500
Total Sales	\$ 2,522,934	\$ 5,942,160

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