



TECHNICAL COMMUNICATIONS CORPORATION

**100 Domino Drive
Concord, MA 01742**

**Annual Meeting of Shareholders
February 10, 2020**

TECHNICAL COMMUNICATIONS CORPORATION

Notice Of Annual Meeting Of Stockholders To Be Held February 10, 2020

To Our Stockholders:

NOTICE IS HEREBY GIVEN that the 2020 Annual Meeting of Stockholders (the "Meeting") of Technical Communications Corporation, a Massachusetts corporation (the "Company"), will be held at 10:00 a.m. (local time) on Monday February 10, 2020 at the offices of the Company, 100 Domino Drive, Concord, Massachusetts 01742, to:

1. Elect one Class II Director to serve on the Board of Directors for a term of three years expiring at the 2023 Annual Meeting of Stockholders;
2. Hold a stockholder advisory vote on the compensation of the Company's named executive officers as disclosed in the proxy statement for the Meeting;
3. Ratify the appointment of Stowe & Degon, LLC as the independent registered public accounting firm of the Company for the fiscal year ending September 26, 2020; and
4. Consider and act upon such other business and matters as may properly come before the Meeting or any adjournments thereof.

The Board of Directors knows of no other matters to be presented at the Meeting. Only stockholders of record of the Company at the close of business on the record date of December 13, 2019 are entitled to notice of and to vote at the Meeting or any adjournments thereof.

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

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended September 28, 2019, which contains financial statements and other information of interest to stockholders, accompanies this Notice and the attached Proxy Statement.

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

Concord, Massachusetts
January 10, 2020

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

**Important Notice Regarding the Availability of Proxy Materials
for the Annual Shareholder Meeting to be Held on February 10, 2020**

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

This Proxy Statement relates to the Company's 2020 Annual Meeting of Stockholders to be held on Monday, February 10, 2020 at 10:00 a.m. (local time) at the Company's offices located at 100 Domino Drive, Concord, Massachusetts 01742.

The matters to be voted upon at such meeting are:

- (1) the election of one Class II Director to serve on the Board of Directors for a term of three years expiring at the 2023 Annual Meeting of Stockholders;
- (2) a stockholder advisory vote on the compensation of the Company's named executive officers as disclosed in the proxy statement for the meeting; and
- (3) the ratification of Stowe & Degon, LLC as the independent registered public accounting firm of the Company for the fiscal year ending September 26, 2020.

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

Only stockholders of record at the close of business on December 13, 2019 are entitled to notice of and to vote at the meeting and any adjournments thereof.

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

- the Notice of Annual Meeting of Stockholders;
- the Proxy Statement for the meeting;
- the form of proxy card; and
- the Company's Annual Report on Form 10-K for the fiscal year ended September 28, 2019.

If you wish to attend the meeting in person and need directions, please contact TCC Investor Relations at (978) 287-5100. Instructions on how to complete, sign, date and return the proxy card are provided on the card, as well as a stockholder's control/identification number(s).

TECHNICAL COMMUNICATIONS CORPORATION

100 Domino Drive
Concord, MA 01742

**PROXY STATEMENT
for the
2020 Annual Meeting of Stockholders**

February 10, 2020

This Proxy Statement is being furnished in connection with the solicitation of proxies by the Board of Directors of Technical Communications Corporation, a Massachusetts corporation (“TCC” or the “Company”), for use at the Company’s 2020 Annual Meeting of Stockholders and any adjournments thereof (the “Meeting”), being held at 10:00 a.m. (local time) on Monday, February 10, 2020 at the offices of the Company, 100 Domino Drive, Concord, Massachusetts 01742.

It is expected that the Notice of Meeting, this Proxy Statement and the accompanying proxy card, and an Annual Report on Form 10-K for the fiscal year ended September 28, 2019 containing financial statements and other information of interest to stockholders, will be mailed to stockholders on or about January 10, 2020.

Record Date and Outstanding Shares

Only record holders of shares of the common stock, par value \$0.10 per share, of the Company (the “Common Stock”) as of the close of business on December 13, 2019 (the “Record Date”) are entitled to notice of and to vote at the Meeting.

As of the Record Date, there were 1,850,403 shares of the Company’s Common Stock outstanding and entitled to vote. The shares of Common Stock are the only voting securities of the Company. Stockholders are entitled to cast one vote for each share held of record.

Proxies

If the enclosed proxy card is properly marked, signed, and returned in time to be voted at the Meeting, and is not subsequently revoked, the shares represented will be voted in accordance with the instructions marked thereon. SIGNED PROXIES RETURNED TO THE COMPANY AND NOT MARKED TO THE CONTRARY WILL BE VOTED AS RECOMMENDED BY THE BOARD OF DIRECTORS. Thus, proxies not marked to the contrary will be voted:

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

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

proxy and vote in person.

Quorum and Approval

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

Abstentions and broker non-votes will count in determining whether a quorum is present at the Meeting and any adjourned Meeting. A broker non-vote occurs if the broker or other nominee who holds shares represented by a proxy has not received instructions with respect to a particular proposal and does not have discretionary authority with respect to such proposal. Matters as to which brokers do not have discretionary authority include the election of directors, even in uncontested elections, and the “say on pay” proposal.

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

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

Lastly, the affirmative vote of the holders of a majority of the shares of Common Stock voting on the matter is required for the ratification of the selection of the Company’s independent registered public accounting firm. Abstentions and broker non-votes will not be included in the totals for the proposal, and will have no effect on the outcome of the vote.

Other Matters

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

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

PROPOSAL I. ELECTION OF DIRECTORS

The business corporation statute of Massachusetts requires, unless a company opts out, that the terms of directors of public companies be staggered by dividing the number of directors into three groups, as nearly equal in number as possible, with the number of directors subject to such requirement being fixed by a vote of the board. Pursuant to the statute and the Company's By-laws, the members of the Company's Board of Directors are divided into three classes, designated Class I, Class II and Class III, each serving staggered three-year terms. The term of the Class I director expires at the 2022 annual meeting of stockholders; the term of the Class II director to be elected at the Meeting expires at the 2023 annual meeting of stockholders; and the term of the Class III directors will expire at the 2021 annual meeting of stockholders.

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

Nominee for Director

One director is to be elected at the Meeting as the Class II director. The Board of Directors, as recommended by its Compensation, Nominating and Governance Committee, has nominated Francisco F. Blanco for election as the Company's Class II Director. Mr. Blanco is currently and has been a director of the Company since 2011 and has consented to being named in this Proxy Statement and to serve if elected. If elected, the nominee will hold office until the 2023 Annual Meeting of Stockholders and until his successor is duly elected and qualified. The Board of Directors knows of no reason why such nominee should be unable or unwilling to serve, but, if such should be the case, proxies may be voted for the election of some other person.

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

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

Members of the Board of Directors, Nominees and Executive Officers

The following table sets forth the name and address of each director, nominee and executive officer of the Company, the year each current director first became a director, and the age and positions currently held by each such individual with the Company. The following table is as of December 13, 2019.

<u>Name and Address</u> ⁽¹⁾	<u>Year First Became a Director</u>	<u>Age</u>	<u>Positions and Offices with the Company</u>
Ralph M. Norwood	2019	76	Class I Director
Francisco F. Blanco	2011	77	Class II Director
Carl H. Guild, Jr.	1997	76	Class III Director, Chairman of the Board, Chief Executive Officer and President
Thomas E. Peoples	1998	71	Class III Director
<u>Non-Director Executive Officers</u>			
Michael P. Malone	--	60	Chief Financial Officer, Treasurer and Assistant Secretary

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

Directors and Nominees

Ralph M. Norwood. Mr. Norwood served as Chief Financial Officer of CPS Technologies Corp. (“CPS”), a Nasdaq-listed manufacturer of electronic components, from 2011 until his retirement in May 2019; in August 2019, Mr. Norwood was elected to the Board of Directors of CPS. He joined CPS from Navigator Advisors LLC, a financial consulting company, where he had served as President since he founded the firm in 2006. From 2002 until 2005 he served as Vice President and Chief Financial Officer of SatCon Technology Corporation, a clean energy company headquartered in Boston, MA. Previously, he served for over 20 years at Polaroid Corporation in various capacities including Vice President and Treasurer, Vice President and Controller, and Worldwide Manufacturing Controller. Mr. Norwood is a CPA and earned a B.S. from the University of New Hampshire and an M.B.A from the Darden School at the University of Virginia.

Mr. Norwood’s qualifications for election to and service on the Board of Directors include his significant financial expertise and experience, as well as his experience in international business. Mr. Norwood’s experience as a financial executive also enhances the ability and functioning of the Board and in particular the Audit Committee in discharging its responsibilities to assist the Board with overseeing management’s conduct of TCC’s financial reporting processes.

Francisco F. Blanco. Mr. Blanco is President and CEO of The Pola Group, LLC, a consulting firm focused on providing advice and assistance, strategic direction and creative business development solutions for commercial and government clients, where he has worked since 2010. From 2001 to 2010, Mr. Blanco was Executive Vice President of the Intelligence and National Security Alliance (“INSA”), a member-based non-profit, non-partisan, public-private organization that works to promote and recognize the highest standards within the national security and intelligence communities. Prior to joining INSA, Mr. Blanco was employed in a variety of senior management and leadership positions during his 30-year tenure at the U.S. Department of Defense.

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

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

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

Thomas E. Peoples. Mr. Peoples currently serves as President of International Executive Counselors, LLC, a consulting company he established in Virginia in 2005. Mr. Peoples was Vice President and Managing Director of The SPECTRUM Group, a Washington, DC area-based consulting firm, from 2004 to February 2015. Between 2001 and 2004, Mr. Peoples was retired. From 1999 to 2001, Mr. Peoples was the Senior Vice President for International and Washington Operations of Gencorp, Inc., a publicly-held manufacturer of automotive, polymer, aerospace, and defense products. From 1992 to 1999, Mr. Peoples was a Vice President of Aerojet, a privately-held aerospace and defense contractor. Prior to 1992, Mr. Peoples served as Manager of Business Development for Smart Munitions Programs at Raytheon Company. He served in the U.S. Army between August 1966 and February 1987, retiring from service as a Lieutenant Colonel. He is also a former Board member and Treasurer of the National Guard Youth Foundation and was an appointed member of the U.S. Department of Defense Science Board from 2000 to 2002.

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

Officers

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

Corporate Governance

Board Composition and Independence; Meetings

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

The Board of Directors held four meetings during the fiscal year ended September 28, 2019. Each director attended 100% of the aggregate of (a) the total number of meetings of the Board of Directors he was eligible to attend, and (b) the total number of meetings of all committees of the Board of Directors on which he served that were held during the Company’s 2019 fiscal year.

Board Structure; Role in Risk Oversight

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

The Board of Directors oversees the business of the Company, including management performance and risk management, to assure that the long-term interests of TCC’s stockholders are being served. The process to identify, analyze, report and manage risks has been developed informally over time and involves managers reporting to the Chief Executive Officer and Chief Financial Officer, who in turn report to the Board on the significant risks facing the Company. Each risk is discussed and quantified when possible and a plan is developed to address and mitigate identified risks. Each committee of the Board is also responsible for reviewing the risk

exposure of the Company related to the committee's areas of responsibility and providing input to management and the Board on such risks. The Audit Committee is especially critical in this process, and such committee's responsibilities include reviewing risk management and compliance programs and consulting with management and the Board on risk identification, measurement and mitigation.

Committees

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

Audit Committee

The Audit Committee of the Board, which currently consists of Messrs. Peoples (Chairman), Blanco and Norwood, held four meetings and acted once by unanimous written consent during fiscal year 2019.

The Audit Committee's primary function is to assist the Board of Directors in fulfilling its oversight responsibilities by:

- reviewing the financial reports and other financial information of the Company,
- reviewing the Company's system of internal controls regarding finance and accounting and the Company's auditing, accounting and financial reporting processes,
- serving as an independent and objective party to monitor the Company's financial reporting processes and internal control systems,
- reviewing and appraising the audit efforts of the Company's independent registered public accounting firm,
- reviewing, approving and/or ratifying related person transactions, and
- providing an open avenue of communication among the independent accountants, financial and senior management, and the Board of Directors.

The Audit Committee acts pursuant to an Audit Committee Charter, a copy of which is posted on the Company's website at <https://www.tccsecure.com/Investors.aspx>. The Audit Committee's charter requires that the committee review and update the charter periodically as conditions dictate. In August 2019, the Audit Committee's charter was reviewed and affirmed without change.

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

Compensation, Nominating and Governance Committee

The Company's Compensation, Nominating and Governance Committee (the "Governance Committee") currently consists of Messrs. Blanco (Chairman), Peoples and Norwood, and held three meetings during the 2019 fiscal year. As noted above, the Board has

determined that each of these individuals satisfies applicable independence requirements for directors as well as members of such committee under Nasdaq Rules 5605(d) and (e).

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

The Governance Committee acts pursuant to the Compensation, Nominating and Governance Committee Charter, a copy of which is posted on the Company's website at <https://www.tccsecure.com/Investors.aspx>. The Governance Committee's charter requires that the committee review and reassess the adequacy of the charter annually and recommend any proposed changes to the Board for approval. In August 2019, the Governance Committee's charter was reviewed and affirmed without change. The Governance Committee must also annually evaluate its own performance.

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

Nomination Policies and Procedures

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

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

The notice must set forth as to each proposed nominee:

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

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

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

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

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

In addition to the above criteria (which may be modified from time to time), the Governance Committee may consider such other factors as it deems in the best interests of the Company and its stockholders, including a candidate's independence, financial sophistication and special competencies. The Governance Committee does not have a formal policy with regard to the consideration of diversity when identifying and evaluating nominees but diversity may be considered when making nominations, including racial and ethnic diversity, gender, and diversity of personal and professional experiences, backgrounds, skills and qualifications.

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

Current members of the Board with the requisite skills and experience are considered for re-nomination, balancing the value of the member's continuity of service and familiarity with the Company with that of obtaining a new perspective, and considering each individual's contributions, performance and level of participation, the current composition of the Board, and the Company's needs. If any existing members do not want to continue in service or if it is decided not to re-nominate a director, new candidates are identified in accordance with those skills, experience and characteristics deemed necessary for new nominees, and are evaluated based on the qualifications set forth above. In every case, the Governance Committee meets (in

person or telephonically) to discuss each candidate, and may require personal interviews before final approval. Once a slate is selected, the Governance Committee presents it to the full Board.

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

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

Stockholder Communications and Director Attendance at Annual Stockholder Meetings

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

Recognizing that director attendance at the Company's annual meetings of stockholders can provide stockholders with an opportunity to communicate with members of the Board of Directors, it is the policy of the Board of Directors to strongly encourage, but not require, the members of the Board to attend such meetings. All members of the Board except Mr. Blanco attended the 2019 Annual Meeting of Stockholders.

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

Certain Relationships and Related Person Transactions; Legal Proceedings

On August 29, 2019, Carl H. Guild, Jr., the Company's CEO, President and Chairman of the Board, made a loan to the Company of \$300,000 to provide working capital, which loan was evidenced by a demand promissory note bearing interest at the then-applicable federal rate. This loan was repaid by the Company in full on September 23, 2019.

David A. White, the Company's Secretary, is a member of a law firm that provides legal services to the Company. Fees paid to Mr. White's law firm during the Company's 2019 fiscal year were approximately \$142,000, which included work done in connection with the restatement, and approximately \$51,000 for fiscal year 2018.

There were no other transactions during fiscal years 2019 or 2018, and there are no currently proposed transactions, to which the Company was or is to be a participant and in which any related person had or will have a direct or indirect material interest. There are no family relationships among the directors, executive officers or any nominee therefor, and to the Company's knowledge no arrangements or understandings exist between any director or nominee and any other person pursuant to which such director or nominee was or is to be selected as a

director or executive officer.

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

Code of Ethics

The Company has a Code of Business Conduct and Ethics, which applies to all of its employees, officers and directors. A copy of this code can be found on the Company's website at <https://www.tccsecure.com/Investors.aspx>.

REPORT OF THE AUDIT COMMITTEE

The following is the report of the Audit Committee with respect to the Company's audited financial statements for the fiscal year ended September 28, 2019.

The Audit Committee has reviewed and discussed the 2019 fiscal year audited financial statements with management. The Audit Committee has also discussed with the Company's independent registered public accounting firm for fiscal 2019, Stowe & Degon LLC, the matters required to be discussed by the applicable requirements of the Public Company Accounting Oversight Board and the U.S. Securities and Exchange Commission; received and reviewed the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence; and discussed with the independent registered public accounting firm its independence and any relationships that may impact its objectivity and independence.

Based upon the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements for the fiscal year ended September 28, 2019 be included in the Company's Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

Audit Committee
Thomas E. Peoples (Chair)
Ralph M. Norwood
Francisco F. Blanco

COMPENSATION DISCUSSION AND ANALYSIS

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

The Governance Committee operates under a written charter, which is available at <https://www.tccsecure.com/Investors.aspx>. As set forth in the charter, the committee’s authority and responsibilities with respect to compensation include:

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

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

Compensation Philosophy and Objectives

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

Procedure

Compensation decisions are made annually and are tied to the Company’s fiscal year-end. For each employee, a performance evaluation is conducted by his or her supervisor, the results of which are shared with the employee. The evaluation encompasses a review of the employee’s individual performance over the course of the fiscal year, and includes recognition of the achievement by TCC of its strategic objectives and priorities. Compensation decisions for non-officer employees are made after the results of the performance evaluations have been considered and an informal analysis is completed that considers the goals of market

competitiveness and enhancement of stockholder value. No upward adjustment is made to an employee's compensation if the individual's performance does not merit, or if the Company's financial condition and performance do not support, such an adjustment.

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

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

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

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

Compensation Components

The components of compensation provided to named executive officers (as well as non-officer employees) typically include base salary, annual discretionary bonuses and equity incentives. Bonuses and equity incentives have historically been granted in periods during which the Company's financial performance have supported such awards. Executive officers have not received these components of compensation when the Company's operating results have not been positive and/or the recipients have not achieved specified performance milestones. No bonuses were paid with respect to fiscal year 2019 or 2018 to any named executive officer due to the financial performance of the Company.

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

Base Salary

Base salary levels for the Company's named executive officers are based on an informal review of compensation for competitive positions in the market and reflect job responsibilities

and skills, level of experience, individual performance, judgments as to past and future contributions to the Company, and the Company's compensation budget. Specific weight is not given to any particular factor when establishing base salaries, although most weight is typically given to individual performance. The Company's practice has been to review base salaries at the fiscal year-end as noted above, although salaries may be reviewed more frequently if circumstances dictate.

Annual Bonuses

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

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

Equity Incentives

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

In selecting employees eligible to receive equity compensation grants (whether at the initial hire date or through periodic grants) and determining the size of such grants, a variety of factors are considered, including the job and responsibility level and past, current and prospective services rendered, or to be rendered, to the Company by the employee. Determination of the employees eligible to receive awards and the size of such awards is based on a subjective analysis by the Governance Committee, with input and recommendations from Mr. Guild, of each individual's position within the Company, his or her performance, and his or her growth potential and that of the Company.

Equity Plans

The Company currently administers two plans that provide for the grant of equity incentive compensation to officers, directors and employees.

The Technical Communications Corporation 2005 Non-Statutory Stock Option Plan, as amended (the “2005 Plan”), was adopted by the Board of Directors in May 2005 and permitted the grant of non-statutory stock options to purchase up to 200,000 shares of Common Stock to employees, directors and consultants. The stated purpose of the 2005 Plan was to promote the success and interests of the Company and its stockholders by permitting and encouraging employees, directors and consultants of the Company to obtain a proprietary interest in the Company or its subsidiaries through the grant of non-statutory options to purchase shares of the Company. Determinations as to recipients of awards, option term, vesting period and exercise price were made by the Governance Committee in its discretion. As of December 13, 2019, the Company had issued a total of 208,500 options pursuant to the 2005 Plan. The 2005 Plan expired on May 5, 2015. As of December 13, 2019, no shares remained available for awards under such plan, although options to purchase 35,000 shares granted under the 2005 Plan remained outstanding.

In December 2016, the Board of Directors approved and adopted an amendment to the Technical Communications Corporation 2010 Equity Incentive Plan (as amended, the “2010 Plan”) upon the recommendation of the Governance Committee to increase the number of shares of Common Stock authorized for issuance upon grants and awards to 400,000 shares. Such amendment was approved by stockholders at the 2017 annual meeting. The 2010 Equity Plan now provides for the issuance of up to 400,000 shares of Common Stock pursuant to awards of stock options (incentive and non-qualified), stock appreciation rights, and restricted stock to employees, directors and consultants to the Company.

The stated purpose of the 2010 Plan is to promote the success and interests of the Company and its stockholders by permitting and encouraging participants to obtain a proprietary interest in the Company through the grant of awards that are consistent with the Company’s goals and that link the personal interests of participants to those of the Company’s stockholders. The 2010 Plan is further intended to enable the Company to attract, retain and motivate those whose services are deemed critical to the success of the Company and align the interests of such individuals with those of the Company. Determinations as to award recipients, duration, price, vesting and performance requirements and other material terms are made by the Governance Committee, although there are specific requirements as to the price and term of certain awards depending on the award type and recipient. If any award under the 2010 Plan is canceled, terminates, expires or lapses for any reason without having been exercised in full, any shares subject to such award that remain unpurchased are available for future grant. In addition, any shares retained by the Company upon exercise of an award in order to satisfy the exercise price of such award, or any withholding taxes due with respect to such exercise, are treated as not issued and shall continue to be available. At the same time, shares issued under the 2010 Plan and later repurchased by the Company are not available for future grant or sale. As of December 13, 2019, there were outstanding options to purchase an aggregate 196,337 shares pursuant to the 2010 Plan and 193,863 shares were still available for awards.

Retirement, Severance, Change in Control and Similar Compensation

The Company does not offer or have in place any formal retirement, severance or similar compensation programs other than its 401(k) plan. Rather, the Company individually negotiates

with those employees for whom retirement, severance or similar compensation is deemed necessary. A description of the severance arrangements with the Company's named executive officers follows.

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

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

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

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

In the event of a change in control of the Company where Mr. Guild resigns or is terminated without cause by the Company within 24 months after such an event, any unvested options held shall automatically vest and become immediately exercisable. In addition, Mr. Guild would be entitled to receive severance pay in an amount equal to 24 months' base salary at the then-current level, less applicable taxes and other withholdings and amounts due and plus all accrued and unpaid expenses and vacation time. In the event that any payment to be received pursuant to such change in control or the value of any acceleration right in any Company stock options held in connection with the change in control of the Company would be subject to an excise tax pursuant to Section 4999 of the Code, whether in whole or in part as a result of being an "excess parachute payment" within the meaning of such terms in Section 280G(b) of the Code, the amount payable will be increased (grossed up) to cover the excise tax liability due under Section 4999 of the Code, if otherwise permitted under the Code.

"Change in control" is defined as the occurrence of any one of the following: (a) any person or entity, including a "group" as defined in Section 13(d) of the Exchange Act (other than the Company, a wholly-owned subsidiary of the Company, or any employee benefit plan of the Company or its subsidiaries), becoming the beneficial owner of the Company's securities having 51% or more of the combined voting power of the then-outstanding securities of the Company that may be cast for the election of directors of the Company; or (b) as the result of, or in connection with, any cash tender or exchange offer, merger or other business combination, sale of

assets or contested election or any combination of the foregoing transactions, less than a majority of the combined voting power of the then-outstanding securities of the Company or any successor corporation or entity entitled to vote generally in the election of directors of the Company or such other corporation or entity after such transaction, are held in the aggregate by holders of the Company's securities entitled to vote generally in the election of directors of the Company immediately prior to such transaction; or (c) the approval of the stockholders of the Company of a plan of liquidation.

Michael P. Malone, Treasurer and Chief Financial Officer

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

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

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

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

Perquisites and Other Benefits

The Company generally does not provide its officers with "perks" or similar types of benefits. Messrs. Guild and Malone have life insurance policies for which the Company pays the

premium, and the Company also typically matches up to a certain percentage of their contributions to the Company's 401(k) plan. Both of these benefits are generally available to all Company employees, subject to certain limitations and restrictions. Messrs. Guild and Malone, like other employees, also are entitled to participate in TCC's employee benefit plans offering group disability insurance, group medical and hospitalization plans, and retirement and profit-sharing plans.

Chief Executive Officer Compensation

Mr. Guild has been President and Chief Executive Officer of the Company since 1998 and Chairman of the Board of Directors since 2001. His base salary for each of fiscal years 2019 and 2018 was \$285,000.

Mr. Guild did not receive a bonus with respect to the fiscal years ended September 28, 2019 and September 29, 2018 due to the Company's financial condition at year-end and the lack of achievement by the Company and Mr. Guild of specified performance milestones for the periods.

In fiscal 2019, the Board awarded Mr. Guild an option to purchase 3,500 shares of Common Stock for his service as a director, as it did for all other directors. These non-qualified options were granted on May 15, 2019 under the 2010 Plan at an exercise price of \$3.58 per share with a term of 10 years, and vest over a five year period. Mr. Guild also was awarded a non-qualified option to purchase 3,500 shares of Common Stock for his service as a director during fiscal 2018. These non-qualified options were granted on February 12, 2018 under the 2010 Plan at an exercise price of \$7.25 per share with a term of 10 years, and vest over a five year period. See "Director Compensation" in the *Compensation* section below for more information regarding such director option grants.

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

Chief Financial Officer Compensation

Mr. Malone has been Chief Financial Officer of the Company since 2000 and Treasurer since 1998. His base salary for each of fiscal years 2019 and 2018 was \$160,000.

Mr. Malone did not receive a bonus with respect to the fiscal years ended September 28, 2019 and September 29, 2018 due to the Company's financial condition at year-end and the lack of achievement by the Company and Mr. Malone of specified performance milestones for the periods. Mr. Malone also was not awarded any stock options or other equity incentives during fiscal years 2019 or 2018.

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

Tax Considerations

Section 162(m) of the Code generally disallows a tax deduction to public companies for compensation over \$1,000,000 paid to certain employees, generally the Chief Executive Officer

and the four other most highly compensated executive officers. Qualifying performance-based compensation is not subject to the deduction limit if certain requirements are met. In fiscal 2019, no compensation paid by the Company was nondeductible as a result of the \$1,000,000 limitation. Furthermore, the Board of Directors believes that, given the general range of salaries and bonuses for executive officers of the Company, the \$1,000,000 threshold of Section 162(m) will not be reached by any executive officer of the Company in the foreseeable future. Accordingly, the Board has not formulated a policy to address non-qualifying compensation.

Say on Pay Proposal and Vote

As discussed under Proposal II below, stockholders will have the opportunity to cast their vote on the compensation of TCC's named executive officers as described in this Proxy Statement at the Meeting. The advisory vote will not be binding on the Governance Committee or the Board of Directors. However, the Governance Committee and the Board will review the voting results and any concerns raised by stockholders will be considered when determining future compensation arrangements and making decisions about future compensation programs and practices. The Board and Governance Committee also may consult directly with stockholders to better understand any issues and concerns. Stockholders (not including broker non-votes) have voted in favor of the compensation of the Company's named executive officers every year since being given the opportunity to do so. At the Company's 2011 annual meeting of stockholders and again at the 2017 annual meeting of stockholders, stockholders voted in favor of including an advisory vote on executive compensation in the Company's proxy materials every year as recommended by the Board, which annual vote the Board implemented.

COMPENSATION

Named Executive Officers

The following tables set forth all plan and non-plan compensation awarded to, earned by or paid to the Chief Executive Officer and Chief Financial Officer of the Company, who were the only “named executive officers” of the Company during its 2019 fiscal year, for all services rendered by such officers to the Company and its subsidiary in all capacities for the periods presented.

Summary Compensation Table

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary (\$)</u>	<u>Bonus (\$)</u>	<u>Option Awards (\$)</u>	<u>All Other Compensation (\$)</u>	<u>Total (\$)</u>
Carl H. Guild, Jr. President, Chief Executive Officer and Chairman	2019	\$285,006(1)	--	\$9,366(2)	\$7,816(3)	\$302,188
	2018	\$285,006(1)	--	\$18,524(4)	\$6,910(3)	\$310,440
Michael P. Malone Chief Financial Officer, Treasurer and Assistant Secretary	2019	\$160,014(5)	--	--	\$6,217(6)	\$166,231
	2018	\$160,014(5)	-	--	\$6,109(6)	\$166,123

- (1) Mr. Guild’s annual base salary was set at \$285,000 effective March 1, 2012.
- (2) Amount represents an award on May 15, 2019 of a non-qualified option to purchase 3,500 shares of Common Stock at \$3.58 per share, which vests over a five year period and has a 10 year term. Such award was made to Mr. Guild for his service as a director of the Company. The dollar amount presented includes the aggregate fair value of the award on the date of grant. The fair value of the option was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 0%, expected volatility of 86%, risk-free interest rate of 2.0%, and expected life of 6.5 years.
- (3) Includes the Company’s 25% match on the first 6%, and 30% match on the second 6%, of Mr. Guild’s 401(k) contributions for fiscal 2019 and 2018. Also includes life insurance premiums paid by the Company of \$468 and \$414 for each of fiscal years 2019 and 2018, respectively. The 2019 amount also includes \$411 of interest paid to Mr. Guild in connection with his \$300,000 loan to the Company in August 2019, which loan was repaid in full on September 23, 2019.
- (4) Amount represents an award on February 12, 2018 of a non-qualified option to purchase 3,500 shares of Common Stock at \$7.25 per share, which vests over a five year period and has a 10 year term. Such award was made to Mr. Guild for his service as a director of the Company. The dollar amount presented includes the

aggregate fair value of the award on the date of grant. The fair value of the option was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 0%, expected volatility of 82%, risk-free interest rate of 2.5%, and expected life of 6.5 years.

- (5) Mr. Malone's annual base salary was set at \$160,000 effective March 1, 2012.
- (6) Includes the Company's 25% match on the first 6%, and 30% match on the second 6%, of Mr. Malone's 401(k) contributions for fiscal 2019 and 2018. Also includes life insurance premiums paid by the Company of \$936 and \$828 for each of fiscal years 2019 and 2018, respectively.

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

Employment Agreements

Carl H. Guild, Jr.

The Company entered into an employment agreement with Carl H. Guild, Jr., its President and Chief Executive Officer, effective as of November 19, 1998 and amended November 8, 2001. The original term of the agreement expired September 30, 2000; the agreement renews automatically thereafter for successive periods of one year unless earlier terminated or not renewed. Mr. Guild's agreement contains provisions specifying his annual compensation, subject to an annual merit review by the Board of Directors. The agreement also provides for performance awards to be paid at the discretion of the Company's Board of Directors, based on an assessment of exceptional performance. Mr. Guild's base salary was set at \$285,000 effective March 1, 2012 and has not changed since such date. No performance awards were earned with respect to fiscal 2019 or 2018.

For a more in-depth discussion of Mr. Guild's right to receive annual performance bonuses and his right to severance and change in control payments, see the *Compensation Discussion and Analysis* section above. For information on stock options granted to Mr. Guild, see "Outstanding Equity Awards at Fiscal Year-End" below.

Michael P. Malone

The Company entered into an employment agreement with Michael P. Malone, its Chief Financial Officer, effective as of February 12, 2001. The original term of the agreement was 12 months, and the agreement renews automatically for successive periods of one year unless earlier terminated or not renewed. Mr. Malone's agreement contains provisions specifying his annual base salary, subject to an annual merit review by the Board of Directors. The agreement also provides for performance awards to be paid at the discretion of the Company's Board of Directors, based on an exceptional performance assessment. Mr. Malone's base salary was set at \$160,000 effective March 1, 2012 and has not changed since such date. No performance awards were earned with respect to fiscal 2019 or 2018.

For a more in-depth discussion of Mr. Malone's right to receive annual performance bonuses and his right to severance and change in control payments, see the *Compensation*

Discussion and Analysis section above. For information on stock options granted to Mr. Malone, see “Outstanding Equity Awards at Fiscal Year-End” below.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth certain information regarding unexercised options held by our named executive officers outstanding as of the end of the Company’s 2019 fiscal year, which date was September 28, 2019.

<u>Name</u>	<u>Option Awards</u>				
	<u>Number of Securities Underlying Unexercised Options (#) Exercisable</u>	<u>Number of Securities Underlying Unexercised Options (#) Unexercisable</u>	<u>Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)</u>	<u>Option Exercise Price (\$)</u>	<u>Option Expiration Date</u>
Carl H. Guild, Jr.	3,500 (1)	--	--	7.02	02/08/20
	18,900 (2)	--	--	11.51	07/29/20
	3,500 (3)	--	--	9.77	05/05/21
	3,500 (4)	--	--	10.20	05/03/22
	3,500 (5)	--	--	4.67	02/11/23
	3,500 (6)	--	--	7.65	02/12/24
	2,800 (7)	700 (7)	--	4.05	05/07/25
	2,100 (8)	1,400 (8)	--	2.90	02/08/26
	1,400 (9)	2,100 (9)	--	2.50	02/13/27
	700 (10)	2,800 (10)	--	7.25	02/12/28
	--	3,500 (11)	--	3.58	05/15/29
Michael P. Malone	10,501 (2)	--	--	11.51	07/29/20

- (1) Granted on February 8, 2010 under the 2005 Plan; options have 10 year term and were fully vested as of February 8, 2010.
- (2) Granted on July 29, 2010 under the 2010 Plan; options have 10 year term and vested as to 20% of the shares on each of the first five anniversaries of the date of grant.
- (3) Granted on May 5, 2011 under the 2010 Plan; options have 10 year term and were fully vested as of May 5, 2011.
- (4) Granted on May 3, 2012 under the 2005 Plan; options have 10 year term and were fully vested as of May 3, 2012.
- (5) Granted on February 11, 2013 under the 2005 Plan; options have 10 year term and were fully vested as of February 11, 2013.
- (6) Granted on February 12, 2014 under the 2005 Plan; options have 10 year term and were fully vested as of February 12, 2014.
- (7) Granted on May 7, 2015 under the 2010 Plan; options have 10 year term and vest as to 20% of the shares on each of the first five anniversaries of the date of grant.
- (8) Granted on February 8, 2016 under the 2010 Plan; options have 10 year term and vest as to 20% of the shares on each of the first five anniversaries of the date of grant.
- (9) Granted on February 13, 2017 under the 2010 Plan; options have 10 year term and vest as to 20% of the shares on each of the first five anniversaries of the date of grant.
- (10) Granted on February 12, 2018 under the 2010 Plan; options have 10 year term and

- vest as to 20% of the shares on each of the first five anniversaries of the date of grant.
- (11) Granted on May 15, 2019 under the 2010 Plan; options have 10 year term and vest as to 20% of the shares on each of the first five anniversaries of the date of grant.

Equity Incentive Plans

The Company currently administers two plans that provide for the grant of equity incentive compensation to officers, directors and employees: the Technical Communications Corporation 2010 Equity Incentive Plan and the Technical Communications Corporation 2005 Non-Statutory Stock Option Plan. At December 13 2019, there were an aggregate of 600,000 shares authorized under these plans, of which options to purchase 231,337 shares were outstanding and 193,863 shares were available for issuance upon future grants and awards. Generally, these plans provide for the grant of equity awards to employees, officers, directors and consultants of the Company, in each case in amounts, at prices and subject to such restrictions and limitations as determined by the Board of Directors or a committee thereof and in compliance with applicable law, including the Code. For more information about each plan, see “Equity Incentives” in the Compensation Discussion and Analysis section above. The goal of the Company’s equity incentive awards is to promote the success and interests of the Company and its stockholders by permitting and encouraging recipients to obtain a proprietary interest in the Company or its subsidiaries through the grant and exercise of such awards, and motivating such recipients to remain with the Company and work towards its success.

Grants in Fiscal 2019

On May 15, 2019, the Board of Directors granted to each of the then-current members of the Company’s Board of Directors options under the 2010 Plan to purchase 3,500 shares of Common Stock, for an aggregate 10,500 shares; Mr. Norwood was not eligible to receive such options because he was elected to the Board following the grant. These non-qualified stock options, which are exercisable at \$3.58 per share, vest 20% per year commencing the first anniversary of the date of grant and have a term of 10 years. Such grants were the only grants of stock options made to executive officers and directors of the Company during the 2019 fiscal year.

Retirement, Severance and Similar Compensation

No retirement, severance or similar compensation was paid to any employee during the 2019 fiscal year. For a description of the amounts that may be payable to our named executive officers upon their resignation, retirement, termination or a change in control, please see “Retirement, Severance, Change in Control and Similar Compensation” above in the *Compensation Discussion and Analysis* section. The Company also provides to all employees a 401(k) tax qualified plan.

Compensation of Directors

The following table sets forth all compensation paid to the Company’s directors for the fiscal year ended September 28, 2019. Mr. Guild, our President, CEO and Chairman of the Board of Directors, did not receive any compensation for his service as a director during the 2019 fiscal year other than the option grant discussed above.

<u>Name</u>	<u>Fees Earned or Paid in Cash</u> (<u>\$</u>)	<u>Option Awards</u> (<u>\$</u>)	<u>All Other Compensation</u> (<u>\$</u>)	<u>Total</u> (<u>\$</u>)
Thomas E. Peoples	\$30,100(1)	\$9,366(2)(3)	-	\$39,466
Francisco F. Blanco	\$24,500(1)	\$9,366(2)(3)	-	\$33,866
Ralph M. Norwood	\$6,000(1)(4)	-	-	\$6,000

- (1) Includes quarterly stipend and fees paid for Board of Directors and committee meetings attended during the fiscal year. For Mr. Peoples, also includes quarterly stipend received for serving as Chairman of the Audit Committee beginning in May 2018.
- (2) Amount represents an award on May 15, 2019 of a non-qualified option to purchase 3,500 shares of Common Stock at \$3.58 per share, which vests over a five year period and has a 10 year term. The dollar amount presented includes the aggregate fair value of the award on the date of grant. The fair value of the option was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 0%, expected volatility of 86%, risk-free interest rate of 2.0%, and expected life of 6.5 years.
- (3) Mr. Peoples had 29,400 options outstanding at the 2019 fiscal year-end, of which 18,900 were fully vested and exercisable. Mr. Blanco had 24,500 options outstanding at the 2019 fiscal year-end, of which 14,000 were fully vested and exercisable.
- (4) Mr. Norwood became a director effective May 15, 2019.

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

Directors are annually granted options to purchase 3,500 shares of Common Stock at an exercise price equal to the closing price of the Common Stock on the date of grant. Stock options granted to directors are considered non-qualified and, beginning in fiscal year 2015, vest 20% per year commencing on the first anniversary of the date of grant; prior director option grants vested immediately. Each grant expires 10 years after the date of grant, except that if a director ceases to be a director, the option terminates at the earlier of 10 years from the date of grant or three years from the last day as a director.

TCC reimburses members of the Board of Directors for their reasonable out-of-pocket expenses incurred in attending Board and committee meetings. The Company believes that members of the Board of Directors received compensation during fiscal year 2019 commensurate with their responsibilities to the Company and appropriate for a company of TCC's size and revenues.

PROPOSAL II. STOCKHOLDER ADVISORY VOTE
ON EXECUTIVE COMPENSATION

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

The Company’s guiding compensation philosophy, as discussed above in *Compensation Discussion and Analysis*, is to provide compensation that rewards individual and organizational performance and align such compensation with the interests of long-term stockholders. The Company aims to make executive compensation sensitive to Company performance, which is defined in terms of revenue growth and profitability. Compensation also must be competitive, thereby enabling the Company to attract, retain and motivate highly-qualified individuals who contribute to the Company’s success.

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

Revenues for the Company’s 2019 fiscal year were \$7,024,000 with net income of \$631,000 or \$0.34 per share. However, for the prior seven year period from fiscal 2012 to fiscal 2018, the Company suffered recurring losses from operations and had an accumulated deficit of \$2,155,000 at September 28, 2019.

Compensation actions taken with respect to fiscal 2019 for TCC’s named executive officers reflected the Company’s current and historical results. Specifically, in recognition of both the Company’s disappointing financial performance and poor individual achievement of performance milestones, no annual performance bonuses related to company performance were awarded to our CEO or CFO. Stockholders are encouraged to read the *Compensation Discussion and Analysis* and *Compensation* sections of this Proxy Statement for a more detailed discussion of how the Company’s compensation programs reflect our overarching compensation philosophy and core principles and how such philosophy and principles were implemented when making compensation decisions for the 2019 fiscal year.

Our Board values constructive dialogue on compensation and other governance topics, and recognizes the interest that investors have in executive compensation. In response to the passage of the Reform Act and in recognition of growing support for advisory votes on compensation and our stockholders’ say-on-pay and say-when-on-pay votes, stockholders currently have the opportunity to vote on an advisory resolution concerning the compensation of our executives on an annual basis. Stockholders approved such frequency at the 2017 annual meeting of stockholders.

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

RESOLVED, that the compensation paid to the Company’s named executive officers as disclosed in the *Compensation* section (including the tables and

narrative discussion therein) of this Proxy Statement be hereby APPROVED.

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

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

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

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

Stowe & Degon, LLC (“Stowe and Degon”) acted as TCC’s independent registered public accounting firm for the Company’s 2019 fiscal year, effective July 22, 2019. CohnReznick LLP (“CohnReznick”) acted as TCC’s independent registered public accounting firm for the Company’s 2018 fiscal year through July 23, 2019. The Audit Committee participated in and approved the decision to change independent registered public accounting firms.

The report of CohnReznick on the Company’s financial statements for the fiscal year immediately preceding its resignation did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope, or accounting principles, except that the report disclosed an uncertainty that raised substantial doubt as to the Company’s ability to continue as a going concern. Moreover, in connection with the audit of the Company’s financial statements for the fiscal year prior to resignation and through July 23, 2019, there were no disagreements between the Company and CohnReznick on any matter of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which disagreement(s), if not resolved to the satisfaction of CohnReznick, would have caused it to make reference to the subject matter of such disagreement(s) in connection with its report on the financial statements for such periods. Finally, during the Company’s fiscal year prior to resignation and through July 23, 2019, there were no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K) with CohnReznick.

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

Fees

Audit Fees. The aggregate fees billed by Stowe & Degon for professional services rendered for the audit of the Company’s annual financial statements for fiscal year 2019 and for the reviews of the financial statements included in the Company’s quarterly reports during fiscal year 2019 were approximately \$12,000. There are unbilled audit fees of approximately \$75,000 for fiscal year 2019.

The aggregate fees billed by CohnReznick for professional services rendered for the reviews of the financial statements included in the Company’s quarterly reports during fiscal year 2019 were approximately \$32,000. The aggregate fees billed by CohnReznick for professional services rendered for the audit of the Company’s annual financial statements for fiscal year 2018, and the reviews of the financial statements included in the Company’s quarterly reports during fiscal year 2018, were approximately \$300,000, which includes fees related to services rendered in connection with the restatement of the Company’s financial statements for the fiscal year ended September 30, 2017.

Audit-Related Fees. No fees were billed by Stowe & Degon or CohnReznick for assurance and related services that were reasonably related to the performance of such firm’s audit or review of the Company’s financial statements for fiscal years 2019 and 2018.

Tax Fees. The aggregate fees billed by Andersen Tax LLC for professional services rendered for tax compliance, tax advice and tax planning for the Company for fiscal years 2019 and 2018 was approximately \$29,000 and \$10,300, respectively.

All Other Fees. No fees were billed by Stowe & Degon or CohnReznick for products or services provided other than those otherwise described above for fiscal years 2019 and 2018.

Pre-Approval Policies

It is the policy of the Audit Committee to pre-approve the audit and permissible non-audit services performed by the Company's independent registered public accounting firm in order to ensure that the provision of such services does not impair such firm's independence, in appearance or fact. In fiscal year 2019, the Audit Committee pre-approved all such services performed by Stowe & Degon and CohnReznick.

Ratification

Stockholder ratification of the appointment of the Company's independent registered public accounting firm is not required by the Company's By-laws or otherwise, but is being done as a matter of good corporate governance. If stockholders fail to ratify the selection, the Audit Committee will reconsider this selection. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

The affirmative vote of the holders of a majority of the shares of Common Stock voting on the matter is required for the ratification of the selection of the independent registered public accounting firm. Abstentions and broker non-votes will not be included in the totals for the proposal, and will have no effect on the outcome of the vote.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE RATIFICATION
OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
FOR FISCAL YEAR 2020.**

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

The following table shows, as of December 13, 2019, the beneficial ownership of Common Stock of the Company by (i) any person or group who is known to the Company to be the beneficial owner of more than 5% of the Company's Common Stock, (ii) each of TCC's current directors and nominees, (iii) each of the Company's named executive officers, and (iv) all current directors and executive officers of the Company as a group. As of December 13, 2019, there were 1,850,403 shares of Common Stock outstanding.

<u>Name and Address of Beneficial Owner⁽¹⁾</u>	<u>Amount and Nature of Beneficial Ownership⁽¹⁾</u>	<u>Percent of Class</u>
Francisco F. Blanco	14,700 (2)	0.8%
Carl H. Guild, Jr.	342,059(3)	18.0%
Thomas E. Peoples	24,390(4)	1.3%
Ralph M. Norwood	-	-
Michael P. Malone	90,756(5)	4.9%
All current directors, executive officers and 5% holders as a group (5 persons)	471,905(6)	24.3%

(1) Unless otherwise indicated, each of the persons named in the table has sole voting and investment power with respect to the shares set forth opposite such person's name. With respect to each person or group, percentages are calculated based on the number of shares beneficially owned, including shares that may be acquired by such person or group, within 60 days of December 13, 2019, upon the exercise of stock options or other purchase rights, but not the exercise of options or warrants held by any other person. The address of Messrs. Blanco, Guild, Peoples, Norwood and Malone is c/o Technical Communications Corporation, 100 Domino Drive, Concord, Massachusetts 01742.

(2) Represents 14,700 shares issuable upon the exercise of stock options.

(3) Includes 44,100 shares issuable upon the exercise of stock options, and 297,959 shares held jointly by Mr. Guild and his wife.

(4) Includes 19,600 shares issuable upon the exercise of stock options.

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

(6) Includes an aggregate 88,901 shares issuable upon the exercise of stock options.

Change in Control

The Company knows of no arrangements (including any pledge by any person of securities of TCC) that may result or have resulted in a change in control of the Company.

ADDITIONAL INFORMATION

Other Matters

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

Stockholder Proposals for 2021 Annual Meeting

Proposals of stockholders for inclusion in the Proxy Statement and form of proxy, including director nominees, for the Company's 2021 Annual Meeting of Stockholders (which is expected to be held on Monday, February 8, 2021) must be received by the Company at its principal executive offices no later than September 12, 2020, and must comply with the applicable requirements of federal securities laws and the Company's nomination procedures as discussed herein. Stockholder proposals received outside this process will be considered untimely if the Company is not provided written notice thereof at least 45 days prior to the first anniversary of the date of mailing of this year's proxy materials, as set forth on the first page of this Proxy Statement, or November 26, 2020. In order to curtail controversy as to the date on which the Company received a proposal, it is suggested that proponents submit their proposals by certified mail, return receipt requested.

Expenses and Solicitations

The cost of the solicitation of proxies will be borne by the Company. Proxies will be solicited principally through the mail. Further solicitation of proxies from some stockholders may be personally made by directors, officers and regular employees of the Company, by telephone, electronic mail, facsimile or special letter. No additional compensation, except for reimbursement of reasonable out-of-pocket expenses, will be paid for any such further solicitation by such individuals.

In addition, the Company may request banks, brokers, custodians, nominees, and fiduciaries to forward copies of the Company's proxy materials to those persons for whom they hold shares to request instructions for voting the proxies. The Company will reimburse any such persons for their reasonable out-of-pocket costs.

Householding

Certain stockholders who share the same address may receive only one copy of this Proxy Statement (which includes the Notice of Internet Availability of Proxy Materials) and the 2019 Annual Report on Form 10-K in accordance with a notice delivered from such stockholders' bank, broker or other holder of record, unless the applicable bank, broker or other holder of record received contrary instructions. This practice, known as "householding," is designed to reduce printing and postage costs. If you own your shares through a bank, broker or other holder of record and wish to either stop or begin householding, you may do so, or you may request a separate copy of this Proxy Statement (which includes the Notice of Internet Availability of Proxy Materials) or the Annual Report, either by contacting your bank, broker or other holder of record at the telephone number or address provided in the above referenced notice, or by contacting TCC via telephone at (978) 287-5100 or in writing at Technical Communications Corporation, 100 Domino Drive, Concord, Massachusetts, 01742, Attention: Investor Relations.

The Company will promptly provide separate copies of the requested materials. If you request to begin or stop householding, you should provide your name, the name of your broker, bank or other record holder, and your account information.

Annual Report on Form 10-K

The Company will provide, promptly upon written request and without charge to each stockholder entitled to vote at the Meeting, a copy of the Company's Annual Report on Form 10-K as filed with the Commission for the fiscal year ended September 28, 2019. A request for copies of such report should be addressed to the Company at 100 Domino Drive, Concord, Massachusetts 01742, Attention: Investor Relations.

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

- (X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 28, 2019

- () 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:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common	TCCO	NASDAQ Capital Market

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 every Interactive Data File required to be submitted 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>
Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>
Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Based on the closing price as of March 29, 2019, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was \$5,108,710.

The number of shares of the registrant’s common stock, par value \$0.10 per share, outstanding as of December 6, 2019 was 1,850,403.

Portions of the Company’s Definitive Proxy Statement to be delivered to shareholders in connection with the Company’s 2020 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

TECHNICAL COMMUNICATIONS CORPORATION

Annual Report on Form 10-K For the Year Ended September 28, 2019

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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 (the "Exchange Act"), and are subject to the safe harbors created by those sections. We refer you to the disclosure 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 subsidiary. 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 Government Systems product line has traditionally been the Company's core product base and typically generates the majority of the Company's revenue. During fiscal 2019, 52% of revenue was generated from our Government Systems product line and 46% was generated by our engineering services. Fiscal 2018 was unusual in that only 6% of the Company's revenue was generated by our Government Systems product line; 85% of the Company's revenue during fiscal year 2018 was generated by our engineering services. Although we expect engineering services to remain strong, we also expect that revenue from our Government Systems products will constitute the majority of our revenue in the future. These products, such as the internet protocol data encryption systems and the DSP 9000/HSE 6000 radio encryption system, have proven to be highly durable, and have 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 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, landline 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 entities, law enforcement and military agencies, telecommunications carriers, 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 markets and meet new requirements of our existing customers.

2019 Highlights and Recent Events

Revenues for fiscal 2019 were \$7,024,000, with net income of \$631,000 or \$0.34 per share, consisting of \$3,785,000 generated by product sales and \$3,239,000 generated from the sale of engineering services. While certain expected major domestic and international contracts did not materialize during the fiscal year due to protracted government procurement cycles, the Company did complete delivery of several foreign and domestic contracts for its DSP 9000/HSE 6000 radio encryption products and its CX digital encryption product line. It also provided significant engineering services under a contract received in fiscal 2018. TCC had backlog at the end of fiscal 2019 of \$1,154,000 and no deferred revenue, as compared to \$2,118,000 and \$2,107,000 of backlog and deferred revenue, respectively, at the end of fiscal 2018.

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 2019, custom TCC equipment and services continued to provide recurring revenue opportunities within the Company's established Government Systems product line. Such equipment sales consisted primarily of our DSP 9000/HSE 6000 radio encryption and digital encryption CX72XX products, along with custom solution engineering services.

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 2019, 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 focusing 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 2019:

- Continuation of the development of the next generation IP encryptors, the Cipher X 7220 and 7210;
- Continuation of the development of the aircraft-compatible HSE 6000 radio encryption product variants; and
- Provision of custom engineering services.

Escalating and continued turmoil around the world presents both significant opportunities and challenges for TCC. The threat of terrorism and political unrest increase 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 challenge 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, fax 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 the majority of the Company's revenue, although in recent years the sale of our engineering services has also been a significant source of revenue for the Company. Although we expect engineering services sales to remain strong, we also expect that revenue from our Government Systems products will constitute the majority of our revenue in the future. These products, such as our internet protocol data encryption systems and DSP 9000/HSE 6000 radio encryption system, have proven to be highly durable, and have 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.

With the availability of our next-generation IP encryptors and the 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 expects that future derivatives of its IP encryptor and KEYNET IP Manager system will expand the market opportunity for these products.

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 CSD 4100 secure executive telephone, is still available and remains profitable, demand for it has diminished. We will continue to offer this product from existing inventory, which we anticipate will be sufficient for several more years. Remaining available is the CSD 3324 SE, our encrypted office telephone that offers secure voice, fax and radio communications. TCC also continues to offer CipherTalk[®] secure mobile phone communication solutions. The Cipher Talk 8500, a secure mobile IP-based phone that targets the high-end secure wireless mobile phone market, is competitive but product demand has not developed as expected. We will continue to market this product with reduced expectations.

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 system 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. As noted above, fiscal year 2018 was a significant year for sales of our engineering services and we expect demand for such services to remain strong in the future.

Government Systems

The Company's DSP 9000 and HSE 6000 secure radio product lines offer 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 man-pack 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 embedded 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.

Government customers can also utilize the Company's Cipher X 7211 IP encryption systems, described below, to achieve superior-grade network encryption and secure communications.

The Government Systems product line also includes the Company's DSD 72A-SP Military Bulk Ciphering System, a rugged military system that provides a high level of cryptographic security for military 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. Due to diminished demand in recent years, this product is no longer being marketed. However, we will continue to support a large installed base of such equipment still in use with our customers, as there remains a demand for spare parts and small network upgrades. Foreign military requirements for the DSD 72A-SP are expected to transition over time to the data encryption systems product line using the Internet Protocol, described below.

Network Security Systems

TCC offers network encryption systems with 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. TCC's KEYNET IP Manager is designed to centrally configure and manage a network of encryption appliances for secure communications and can be used globally. 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, use, 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 global 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.

Secure Office Systems

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. TCC also offers a server-based, network management system that provides the customer with total control of network connectivity.

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. Due to diminished demand in recent years, this product is no longer being marketed but we continue to provide support to existing customers that have installed equipment bases requiring expansion or modification.

Services

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. 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. The Company typically receives periodic progress payments on these types of contracts.

TCC offers general communications security education for businesses and other users, including military and government entities, as well as product-specific training for its customers. TCC also specializes in developing and designing custom cryptographic solutions for customers' unique secure voice, data and video communications requirements and integrating such solutions into existing systems. The Company has designed embedded secure radio encryption solutions, national algorithms for military data applications, cryptographic modules for National Secure Mode Identification Friend or Foe (IFF) systems, as well as rocket-borne telemetry encryption modules, and country-unique secure telephone and fax algorithms. In addition, TCC has partnered with network and telecommunications equipment providers to add security in unique applications.

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, Codan Limited, Omnisec AG, Certes Networks, Inc., and Gemalto N.V..

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. We believe the ability of TCC to custom-tailor cryptographic functions and systems to satisfy unique customer requirements is an important competitive differentiator, and will meet a growing demand as customers become more sophisticated in defining their communications security needs.

Net Revenue and Backlog

In fiscal 2019, the Company had three customers representing 96% of total net revenue. This revenue was derived primarily from sales of our engineering services amounting to \$3,239,000 and shipments of our narrowband radio encryptors to a domestic customer for deployment into a Middle Eastern country amounting to \$2,499,000 and to a domestic customer for deployment into a North African country amounting to \$936,000. In fiscal 2018, the Company had one customer representing 87% of total net revenue. This revenue consisted primarily of our engineering services.

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 orders received where the anticipated shipping date or services to be performed are 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 revenue in any future period. Our backlog as of September 28, 2019 and September 29, 2018 was approximately \$1,154,000 and \$2,118,000, respectively.

For certain services contracts, the Company will bill customers in accordance with the terms of the contract, but recognize revenue as the services are performed. The billings in excess of revenue are recorded as deferred revenue on the balance sheet. These deferred revenues will be recognized in future periods as we perform the services. Our deferred revenue as of September 29, 2018 was approximately \$2,107,000. There was no deferred revenue at September 28, 2019.

Consistent with TCC's historical experience, 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, although we can give no assurances. 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 U.S. 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 that 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 2019 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, system burn-in, quality control and testing. 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. 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 are 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 revenue 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.

TCC's existing intellectual property portfolio includes a number of registered and unregistered trademarks; while eight patents have been issued to the Company, such patents have expired. Management is of the opinion that, while patent protection was desirable with respect to certain products, none of the Company's patents are currently material to the conduct of its business and the expiration of such patents is not expected to have any significant impact.

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.

With the exception of the technology license referred to above, TCC has no material third party rights upon which the Company relies. Revenue from the sale of products associated with this license has not been and is 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 improve existing products and develop new products as well as attract and retain qualified personnel. 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 September 28, 2019 and September 29, 2018, the Company spent \$333,000 and \$521,000, respectively, on internal product development. The Company also spent \$2,218,000 and \$2,028,000 on billable development efforts during fiscal 2019 and 2018, respectively. In fiscal 2019, the Company's total product development costs were consistent with fiscal 2018 levels and reflected the costs of custom development, product capability enhancements and production readiness. It is expected that product development expenses in fiscal 2020 will again be consistent with fiscal 2019 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 focusing 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 2019:

- Continuation of the development of the next generation IP encryptors, the Cipher X 7220 and 7210;
- Completion of the development of the aircraft-compatible HSE 6000 radio encryption product variants; and
- Provision of custom engineering services.

Foreign Operations

The Company's results of operations are dependent upon its foreign revenue, including domestic sales shipped to foreign end-users. 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. 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 U.S. Department of State under the Arms Export Control Act of 1976, as amended, or by the U.S. 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 2019 and 2018, sales directly to international customers accounted for approximately 4% and 7%, respectively, of our net revenue. During fiscal 2019, a significant portion of domestic revenue (36%) was made to a domestic logistics company that shipped our radio encryption products overseas for use in Saudi Arabia. Based on our historical results we expect that international revenue, 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,
- delays in placing orders,
- fluctuations in foreign currency exchange rates,
- the complexity and necessity of using foreign representatives, consultants and distributors,
- the uncertainty of the ability of foreign customers to finance purchases,
- uncertainties and restrictions concerning the availability of funding credit or guarantees,
- imposition of tariffs or embargoes, export controls and other trade restrictions,
- the difficulty of managing and operating an enterprise spanning several countries,
- compliance with a variety of foreign laws, as well as U.S. laws affecting the activities of U.S. companies abroad, and
- economic and geopolitical developments and conditions, including international hostilities, acts of terrorism and governmental reactions, inflation, trade relationships and military and political alliances.

While these factors and their impact are difficult to predict, any one or more of these factors could adversely affect our operations in the future.

We also may not be successful in obtaining the necessary licenses to conduct operations abroad, and the U.S. government may prevent proposed sales to foreign governments or other end-users.

Employees

As of September 28, 2019, the Company employed 22 full-time employees and two part-time employees, as well as several consultants. The Company believes that its relationship with its employees is good.

Available Information

The U.S. Securities and Exchange Commission (the "SEC") maintains an Internet site that contains current and periodic reports, proxy and information statements, and other information regarding issuers, including TCC, that file electronically with the SEC at www.sec.gov. Additional information about TCC's filings can also be obtained at our website at www.tcsecure.com under "Investor Relations." We make available free of charge on our website the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and

amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Item 1A. **RISK FACTORS**

You should carefully consider the following risk factors that affect our business. Such risks could cause our actual results to differ materially from those that are expressed or implied by forward-looking statements contained herein. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks occur, our business, financial condition or results of operations could be materially and adversely affected. You should also consider the other information included in this Annual Report on Form 10-K for the fiscal year ended September 28, 2019 and subsequent quarterly reports filed with the SEC.

We have suffered recurring operating losses from operations and there is doubt about our ability to continue as a going concern.

Although the Company generated a modest profit for fiscal year 2019, for a seven year period from 2012 to 2018, the Company suffered recurring losses from operations and had an accumulated deficit of \$2,155,000 at September 28, 2019. In addition, prior to this year we experienced negative cash flows from operations. Due to the losses we have incurred and our current limited financial resources, management has concluded that these conditions raise substantial doubt as to our ability to continue as a going concern within one year of the issuance date of the financial statements included in this Annual Report on Form 10-K. Such financial statements do not include any adjustments to reflect the uncertainty about the Company's ability to continue as a going concern. Moreover, the going concern explanatory paragraph included in the report of our independent registered public accounting firm may make obtaining financing more difficult or costly, which financing may be required should our efforts to raise capital resources from operations prove unsuccessful.

Our management has determined that the Company's disclosure control and procedures and internal control over financial reporting were not effective at fiscal year-end.

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 disclosure controls and procedures and internal control over financial reporting as of the end of the Company's 2019 fiscal year. As previously reported for the fiscal year ended September 29, 2018, as well as prior fiscal years, management had concluded that the Company did not maintain effective internal control over financial reporting due to the misapplication of generally accepted accounting principles associated with revenue recognition, inventory reserves, accruals and the preparation of the consolidated financial statements, as well as the classification and disclosure of financial information, all caused by a lack of adequate skills and experience within the accounting department. In addition, management identified a material weakness due to a lack of sufficient staff to segregate accounting duties, as well as a material weakness in internal control over significant non-routine transactions, all as disclosed in the relevant quarterly reports filed during our 2018 fiscal year. These conditions have led management to conclude that neither the Company's disclosure controls and procedures nor its internal control over financial reporting were effective at September 28, 2019.

The Company has made significant progress in improving its internal controls during the latter part of fiscal 2019 but until we are able to completely remediate the material weaknesses identified, such material weaknesses 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 effectiveness of our disclosure controls and procedures and 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 weaknesses could materially adversely affect our financial condition or ability to comply with applicable financial reporting requirements.

We have restated our financial statements for several prior periods, which reduces investor confidence and which may negatively impact our ability to raise capital in the future.

The Company restated its consolidated financial statements as of and for the fiscal year ended September 30, 2017 as well as the financial statements included in its quarterly reports for the fiscal quarters ended December 30, 2017, March 31, 2018 and June 30, 2018. The restatement of the Company's financial statements primarily reflect the correction of certain errors related to the Company's recognition of revenue, which errors resulted from the Company's misapplication of its revenue recognition policy, as well as the adoption of new accounting standard for restricted cash and a correction in its inventory reserve. Investors should no longer rely on the financial statements included in the original filings.

Restatements may have the effect of eroding investor confidence in the Company, its financial reporting and its accounting practices and processes, and could negatively impact the trading price of the Company's common stock. In addition, restatements may make it more difficult for the Company to raise capital on acceptable terms, if at all, and would likely increase the cost of such capital, and could expose the Company to liability, including the risk of litigation by shareholders and increased scrutiny of regulatory authorities.

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 several 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 revenue (including domestic sales shipped to foreign end-users) and we expect that revenue 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 efforts in emerging markets, including the Middle East, Northern Africa 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 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 will 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, though we can give no assurances.

The Company's security products are subject to export restrictions administered by the U.S. Department of Commerce and U.S. 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. In addition, U.S. government contracts may be canceled at any time by the government with limited or no notice or 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 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 trademarks and patents may not provide us with any competitive advantage and patents and trademarks must be enforced and maintained in order 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 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 with respect to intellectual property 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 revenue. 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 net revenues.

We rely on single or limited sources for the manufacture and supply of certain product components.

For a small percentage of parts, we rely upon a single or 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 component 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, or unforeseen quality issues 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 made more difficult due to the tight labor market in Massachusetts. We expect these conditions 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 13, 2019, we employed 22 full-time and two part-time employees as well as several 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.

Security breaches and other disruptions could interfere with the Company's operations and could compromise the Company's and its customer's information, exposing the Company to liability that would cause the Company's business and reputation to suffer.

In the ordinary course of business, the Company relies upon information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities, including collection of payments from purchasers of our products. The Company also uses information technology systems to record, process and summarize financial information and results of operations for internal reporting purposes, and to comply with regulatory financial reporting, legal, and tax requirements. Additionally, the Company collects and stores sensitive data, including personally identifiable information of the Company's employees, in data centers and on information technology networks. The secure operation of these information technology networks and the processing and maintenance of this information is material to the Company's business operations and strategy. Despite security measures, the Company's information technology networks and infrastructure may be vulnerable to damage, disruptions, or shutdowns due to attacks by cyber criminals or breaches due to employee error or malfeasance or other disruptions, power outages, computer viruses, telecommunication or utility failures, terrorist acts, natural disasters or other catastrophic events. The occurrence of any of these events could compromise the Company's networks, and the information stored there could be accessed, publicly disclosed, lost, or stolen. Any such access, disclosure, or other loss of information could result in legal claims, liability, and regulatory proceedings and penalties under laws protecting the privacy of personal information, disrupt operations, and damage the Company's reputation, which could adversely affect the Company's business, results of operations and financial condition. In addition, as security threats continue to evolve and increase in frequency and sophistication, the Company may need to invest additional resources to protect the security of its systems.

Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 2. PROPERTIES

On March 27, 2014, the Company entered into a lease for its current facilities commencing April 1, 2014. This lease is located at 100 Domino Drive, Concord, MA. The Company has been a tenant in this space since 1983. This is the Company's only facility and houses all manufacturing, research and development, and corporate operations. The initial term of the lease was for five years through March 31, 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 September 28, 2019 and September 29, 2018 was \$171,000. On September 25, 2018, the Company exercised its option to renew the lease through September 30, 2021.

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

The Company's common stock, \$0.10 par value, trades on the NASDAQ Capital Market under the symbol "TCCO."

Holdings

As of December 13, 2019, there were 58 record holders of our Common Stock. We believe there are approximately 2,200 beneficial holders of our stock based on information reported to TCC by the Company's transfer agent.

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 September 28, 2019. For more information on these plans, see the discussion of the Company's stock option plans and stock-based compensation plans included in Note 2 to the Company's financial statements as of and for the year ended September 28, 2019, included herewith.

Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders	196,337 ⁽¹⁾	\$ 8.02	193,863
Equity compensation plans not approved by security holders	35,000 ⁽²⁾	\$ 7.86	-
Total	231,337	\$ 8.00	193,863

(1) Of the 196,337 options outstanding as of September 28, 2019, 136,937 were exercisable as of such date at an average exercise price of \$9.78 per share.

(2) Of the 35,000 options outstanding as of September 28, 2019, all were exercisable as of such date at an average exercise price of \$7.86 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 2019 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 our 2019 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 SEC, including this Form 10-K for the fiscal year ended September 28, 2019 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 revenue, we generate revenue 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

We perform funded research and development and technology development for commercial companies and government agencies primarily under fixed-price contracts. 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. We typically receive periodic progress payments on these types of contracts, 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, the U.S. Government Accountability Office and other agencies. 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.

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 for which 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.

Costs incurred in connection with funded research and development are included in cost of revenue. 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 revenue; 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. Cost of product revenue includes material, labor and overhead.

Inventory

The Company values its inventory at the lower of actual cost (based on the first-in, first-out method) to purchase and/or manufacture and the current estimated net realizable 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 management believes 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 \$3.9 million as of September 28, 2019 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 September 28, 2019 compared to year ended September 29, 2018

Net Revenue

Net revenues for the years ended September 28, 2019 and September 29, 2018 were \$7,024,000 and \$3,685,000, respectively, an increase of \$3,339,000 or 91%. Revenue for fiscal 2019 consisted of \$6,757,000, or 96%, from domestic sources and \$267,000, or 4%, from international customers as compared to fiscal 2018, in which revenue consisted of \$3,423,000, or 93%, from domestic sources and \$262,000, or 7%, from international customers.

Foreign revenue consisted of shipments to five countries during the year ended September 28, 2019 and four countries during the year ended September 29, 2018. 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 revenue by country:

	<u>2019</u>	<u>2018</u>
Saudi Arabia	\$ 112,000	\$ 121,000
Philippines	78,000	89,000
Egypt	74,000	39,000
Jordan	-	13,000
Other	3,000	-
	<u>\$ 267,000</u>	<u>\$ 262,000</u>

For the year ended September 28, 2019, revenue was derived primarily from sales of our engineering services amounting to \$3,239,000 and shipments of our narrowband radio encryptors to a domestic customer for deployment into a Middle Eastern country amounting to \$2,499,000 and to a domestic customer for deployment into a North African country amounting to \$936,000.

For the year ended September 29, 2018, revenue was derived primarily from sales of our engineering services amounting to \$3,236,000 and shipments of our narrowband radio encryptors to a customer in the Far East amounting to \$90,000 and to a domestic customer for deployment into Afghanistan amounting to \$57,000. We also sold our internet protocol encryptor to customers in Saudi Arabia amounting to \$121,000 during the period.

Gross Profit

Gross profit for fiscal 2019 was \$3,357,000, compared to gross profit of \$972,000 for fiscal 2018, an increase of 245%. Gross profit expressed as a percentage of revenue was 48% for fiscal 2019 compared to 26% for fiscal 2018, which lower gross profit percentage for 2018 was due to the lower margin engineering services revenue during such year. During fiscal 2019, there was a higher concentration of revenue related to product sales, which historically will yield higher margins.

Operating Costs and Expenses

Selling, General and Administrative

Selling, general and administrative expenses for fiscal 2019 were \$2,407,000, compared to \$1,941,000 for fiscal 2018. This increase of \$466,000, or 24%, was attributable to an increase in general and administrative expenses of \$396,000 and an increase in selling and marketing expenses of \$70,000 during the 2019 fiscal year.

The increase in general and administrative expenses for the year ended September 28, 2019 was primarily attributable to increases in audit and legal fees of \$403,000.

The increase in selling and marketing expenses for the year ended September 28, 2019 was attributable to increases in payroll and payroll-related expenses of \$69,000, sales commissions of \$92,000, product evaluation costs of \$23,000 and product demonstration costs of \$22,000 during the period. These increases were partially offset by decreases in outside sales and marketing agreements of \$74,000, outside consulting costs of \$54,000, and travel expenses of \$17,000 during the year.

Product Development Costs

Product development costs for fiscal years 2019 and 2018 were \$333,000 and \$521,000, respectively. This decrease of \$188,000, or 36%, was attributable to an increase in billable engineering services contracts during fiscal 2019 that resulted in decreased product development costs of \$270,000, a decrease in payroll and payroll related expenses of \$48,000 and a decrease in service contracts amounting to \$25,000. These decreased costs were partially offset by an increase in engineering project costs of \$162,000 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 to several years. In addition to these programs, the Company invests in research and development to enhance its existing products or to develop new products, as it deems appropriate. There was \$3,239,000 of billable engineering services revenue generated during fiscal 2019 and \$3,236,000 of billable engineering services revenue generated during fiscal 2018.

Net Income (Loss)

The Company generated net income of \$631,000 for fiscal 2019, compared to a net loss of \$1,480,000 for fiscal 2018. This increase in net income is primarily attributable to a 245% increase in gross profit during fiscal 2019 and an 11% decrease in operating expenses.

The effects of inflation and changing costs have not had a significant impact on revenue or earnings in recent years. As of September 28, 2019, 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

Our cash and cash equivalents at September 28, 2019 totaled \$1,593,000 and we continue to have no debt.

Liquidity and Ability to Continue as a Going Concern

For the fiscal year ended September 28, 2019 the Company generated \$631,000 of net income. For the prior seven year period from fiscal 2012 to fiscal 2018, the Company suffered recurring losses from operations and had an accumulated deficit of \$2,155,000 at September 28, 2019. Despite the current year net income, these factors continue to raise substantial doubt about the Company's ability to continue as a going concern within one year from the issuance date of the consolidated financial statements included in this Annual Report on Form 10-K. Such consolidated financial statements do not include any adjustments to reflect the substantial doubt about the Company's ability to continue as a going concern.

We anticipate that our principal sources of liquidity will only be sufficient to fund our activities to September 26, 2020. In order to have sufficient cash to fund our operations beyond that point, we will need to secure new customer contracts, raise additional equity or debt capital, and reduce expenses, including payroll and payroll-related expenses.

In order to have sufficient capital resources to fund operations, the Company has been working diligently to secure several large orders with new and existing customers. In addition, the Company is considering raising capital through equity or debt arrangements. Although we believe our ability to secure such new business or raise new capital is likely, we cannot provide assurances we will be able to do so.

Should we be unsuccessful in these efforts, we would then be forced to implement headcount reductions, employee furloughs and/or reduced hours for certain employees or cease operations completely.

Sources and Uses of Cash

The following table presents our abbreviated cash flows for the years ended September 28, 2019 and September 29, 2018:

	<u>2019</u>	<u>2018</u>
Net income (loss)	\$ 631,000	\$(1,480,000)
Changes not affecting cash	83,000	239,000
Changes in current assets and current liabilities	<u>(1,087,000)</u>	<u>1,620,000</u>
Cash (used in) provided by operating activities	(373,000)	379,000
Cash (used in) provided by investing activities	<u>(16,000)</u>	<u>306,000</u>
Net (decrease) increase in cash and cash equivalents	(389,000)	685,000
Cash and cash equivalents - beginning of year	<u>1,982,000</u>	<u>1,297,000</u>
Cash and cash equivalents - end of year	<u>\$ 1,593,000</u>	<u>\$ 1,982,000</u>

Operating Activities

The Company used approximately \$752,000 more cash from operating activities in fiscal 2019 compared to fiscal 2018. This increase was primarily attributable to a \$3,729,000 decrease in deferred revenue in fiscal 2019 compared to fiscal 2018. This increase in use of cash was partially offset by an increase in net income of \$2,111,000 and a decrease in accounts payable and inventory of \$743,000 at September 28, 2019.

Investing Activities

Cash provided by investing activities during fiscal 2019 decreased by approximately \$322,000. This change is primarily attributable to the maturity of short-term investments in marketable securities of \$350,000 and a decrease in additions to equipment and leasehold improvements of \$27,000.

Financing Activities

There were no financing activities during either fiscal 2019 or 2018.

Debt Instruments

The Company currently maintains no debt instruments. The Company did borrow \$300,000 from its Chief Executive Officer, President and Chairman of the Board, Carl H. Guild, Jr., on August 29, 2019 for working capital purposes, which loan was repaid in full on September 23, 2019.

Backlog

Backlog at September 28, 2019 and September 29, 2018 amounted to \$1,154,000 and \$2,118,000, respectively. The orders in backlog at September 28, 2019 are expected to ship and/or services are expected to be performed over the next 12 months depending on customer requirements and product availability.

Performance guarantees

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. Guarantees are generally required in amounts of

5% to 10% of the purchase price and last in duration from three months to one year. At September 28, 2019 and September 29, 2018, the Company had no outstanding letters of credit.

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 improve existing products and develop new products as well as attract and retain qualified personnel. 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 September 28, 2019 and September 29, 2018, the Company spent \$333,000 and \$521,000, respectively, on internal product development. The Company also spent \$2,218,000 and \$2,028,000 on billable development efforts during fiscal 2019 and 2018, respectively. In fiscal 2019, the Company's total product development costs were consistent with fiscal 2018 levels and reflected the costs of custom development, product capability enhancements and production readiness. It is expected that product development expenses in fiscal 2020 will again be consistent with fiscal 2019 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 focusing 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 2019:

- Continuation of the development of the next generation IP encryptors, the Cipher X 7220 and 7210;
- Completion of the development of the aircraft-compatible HSE 6000 radio encryption product variants; and
- Provision of custom engineering services.

It is anticipated that working capital will fund our near-term research and development and marketing activities to September 26, 2020. 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 material commitments for capital expenditures in fiscal 2020.

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

The Company elected to adopt ASC 606 using the modified retrospective method approach as of September 30, 2018, which approach was applied to all contracts not completed as of such date. The adoption of this standard did not have a material impact on the financial statements included herewith.

Equipment Sales Revenue The deliverables under the previous guidance are consistent with performance obligations identified under ASC 606. Under ASC 606, we continued to allocate the transaction price between the elements and performance obligations within the contract. Revenue recognition for the performance obligations accounted for

under ASC 606 was consistent with current guidance given the transfer of control of the promised goods or services follows the same pattern. As such, the adoption of ASC 606 did not result in a material impact on revenue recognition.

Engineering Services Revenue The deliverables under the previous guidance are consistent with performance obligations identified under ASC 606. The adoption of ASC 606 did not result in a change to the timing of revenue recognition for this type of revenue, as the standard requires revenues to be estimated and recognized upon transfer of the promised goods and services. As such, the adoption of ASC 606 did not result in a material impact on revenue recognition.

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 and believe that the most notable impact to our financial statements upon adoption will be the recognition of a right-of-use asset and a lease liability for our leased facility in Concord, MA. The Company expects to adopt this standard during its fiscal year 2020.

Other recent accounting pronouncements were issued by the FASB (including its Emerging Issues Task Force) and the SEC during our 2019 fiscal year but such pronouncements are not believed by management to have a material impact on the Company's present or future financial statements.

Item 7A. **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

Item 8. **FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements and notes thereto listed in the accompanying index to financial statements (Item 15) are filed as part of this Annual Report on Form 10-K and are incorporated herein by reference.

Item 9. **CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

Item 9A. **CONTROLS AND PROCEDURES**

Evaluation of disclosure controls and procedures. The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the 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 disclosure controls and procedures were not effective as of September 28, 2019 as a result of the material weaknesses in our internal control over financial reporting discussed below.

Management's annual report on internal control over financial reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) promulgated under the Exchange Act. Under the supervision and with the participation of our management,

including our Chief Executive Officer and our Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of September 28, 2019. 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 (2013)*. Based on such an assessment, management concluded that the Company’s internal control over financial reporting was not effective as of September 28, 2019 due to the material weaknesses discussed below.

Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. GAAP. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

A goal of the assessment was to determine whether any material weaknesses existed with respect to the Company’s internal control over financial reporting. A “material weakness” is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant’s annual or interim financial statements will not be prevented or detected on a timely basis by the Company’s internal controls.

As previously reported in our Form 10-K for the fiscal year ended September 29, 2018, as well as prior fiscal years, management had concluded that the Company did not maintain effective internal control over financial reporting due to material weaknesses in such internal control related to the misapplication of generally accepted accounting principles associated with revenue recognition, inventory reserves, accruals and the preparation of the consolidated financial statements, as well as the classification and disclosure of financial information, all caused by a lack of adequate skills and experience within the accounting department. In addition, management also previously identified a material weakness due to a lack of sufficient staff to segregate accounting duties. During fiscal year 2018, the Company also identified a lack of an adequately trained accounting department and an independent review of financial reporting, as well as a material weakness in internal control over significant non-routine transactions, all as disclosed in the relevant quarterly reports filed during our 2018 fiscal year.

Nonetheless, management believes that our consolidated financial statements included in this Annual Report on Form 10-K have been prepared in accordance with generally accepted accounting principles. Our Chief Executive Officer and Chief Financial Officer have certified that, based on such officer’s knowledge, the financial statements and other financial information included in this Annual Report on Form 10-K fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report. In addition, we initiated a remediation plan for the material weaknesses, described below.

Our management, with oversight from the Audit Committee, is actively engaged in remediating the identified material weaknesses. As part of these remediation efforts management has undertaken education and training for TCC’s accounting staff and management to address certain core competencies that resulted in the lack of operational effectiveness. Management will continue to assess the design of controls to determine if enhancements are needed to increase effectiveness of our internal control over financial reporting. Management has retained a subject matter expert in the area of income tax accounting and is assessing the need to retain additional subject matter experts to ensure compliance with generally accepted accounting principles and SEC rules and regulations. Both management and the Audit Committee have increased their oversight of non-routine transactions. This includes

oversight of large revenue contracts as well as judgement areas, including inventory reserves and accruals. This oversight will contribute to the assessment of the need to retain additional subject matter experts.

The Company made significant progress in improving its internal control over financial reporting during the latter part of fiscal 2019 but these remediation efforts are ongoing; the Company's goal is to have all material weaknesses remediated by the end of fiscal 2020.

Changes in internal control over financial reporting. The changes in the aforementioned internal control over financial reporting and the remediation efforts undertaken as of year-end and expected to be undertaken in fiscal 2020 have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. No other changes in the Company's internal control over financial reporting occurred during the fourth quarter of its 2019 fiscal year.

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 2020 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 2019 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 2020 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 2019 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 2020 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 2019 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 2020 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 2019 fiscal year.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 is incorporated herein by reference to our Definitive Proxy Statement, under the caption Proposal III – Ratification of Selection of Independent Registered Public Accounting Firm with respect to our 2020 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 2019 fiscal year.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

	<u>Page</u>
<u>Consolidated Balance Sheets as of September 28, 2019 and September 29, 2018</u>	<u>32</u>
<u>Consolidated Statements of Operations for the Years Ended September 28, 2019 and September 29, 2018</u>	<u>33</u>
<u>Consolidated Statements of Cash Flows for the Years Ended September 28, 2019 and September 29, 2018</u>	<u>34</u>
<u>Consolidated Statements of Changes in Stockholders' Equity for the Years Ended September 28, 2019 and September 29, 2018</u>	<u>35</u>
<u>Notes to Consolidated Financial Statements</u>	<u>36-48</u>

(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 12, 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 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)
- 10.5⁺ 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.)
- 10.6⁺ 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.17 to the Company's Form 10-K filed with the Securities and Exchange Commission on December 22, 2010.)
- 10.7* Demand Promissory Note, dated August 29, 2019, made by the Company in favor of Carl H. Guild, Jr.
- 14 Code of Business Conduct and Ethics (incorporated by reference to the Company's Annual Report for 2003 on Form 10-KSB, filed with the Securities and Exchange Commission on December 22, 2004.)
- 21* List of Subsidiaries of the Company
- 23.1* Consent of Stowe & Degon LLC
- 23.2* Consent of CohnReznick LLP

31.1* Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2* Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32* Certifications of Chief Executive and Chief Financial Officers pursuant to 18 U.S.C. Section 1350

101.INS XBRL Report Instance Document

101.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Calculation Linkbase Document

101.LABXBRL Taxonomy Label Linkbase Document

101.PRE XBRL Presentation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition 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 13, 2019

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Carl H. Guild, Jr.</u> Carl H. Guild, Jr.	Chief Executive Officer and President Chairman of the Board, Director (Principal Executive Officer)	December 13, 2019
<u>/s/ Michael P. Malone</u> Michael P. Malone	Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	December 13, 2019
<u>/s/ Thomas E. Peoples</u> Thomas E. Peoples	Director	December 13, 2019
<u>/s/ Francisco F. Blanco</u> Francisco F. Blanco	Director	December 13, 2019
<u>/s/ Ralph M. Norwood</u> Ralph M. Norwood	Director	December 13, 2019

Technical Communications Corporation and Subsidiary
Consolidated Balance Sheets
September 28, 2019 and September 29, 2018

ASSETS	2019	2018
Current assets:		
Cash and cash equivalents	\$ 1,593,395	\$ 1,982,434
Accounts receivable - trade	125,923	559,493
Inventories, net	1,042,212	1,368,696
Other current assets	118,250	142,279
Total current assets	2,879,780	4,052,902
Equipment and leasehold improvements	4,591,756	4,578,501
Less accumulated depreciation and amortization	(4,554,275)	(4,529,298)
Equipment and leasehold improvements, net	37,481	49,203
Total assets	\$ 2,917,261	\$ 4,102,105
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 355,158	\$ 187,958
Customer deposits	2,046	35,628
Deferred revenue	-	2,106,514
Accrued liabilities:		
Compensation and related expenses	238,171	220,544
Commissions	84,804	-
Other current liabilities	17,533	18,405
Total current liabilities	697,712	2,569,049
Commitments and contingencies (Note 12)		
Stockholders' equity		
Common stock - par value \$0.10 per share; 7,000,000 shares authorized, 1,850,403 issued and outstanding at September 28, 2019 and September 29, 2018	185,041	185,041
Additional paid-in capital	4,189,439	4,134,371
Accumulated deficit	(2,154,931)	(2,786,356)
Total stockholders' equity	2,219,549	1,533,056
Total liabilities and stockholders' equity	\$ 2,917,261	\$ 4,102,105

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

Technical Communications Corporation and Subsidiary
Consolidated Statements of Operations
Years ended September 28, 2019 and September 29, 2018

	2019	2018
Net revenue		
Engineering services	\$ 3,239,179	\$ 3,236,135
Equipment sales	3,784,944	448,804
Total net revenue	7,024,123	3,684,939
Cost of revenue		
Engineering services	2,217,997	2,070,327
Equipment sales	1,448,463	642,399
Total cost of revenue	3,666,460	2,712,726
Gross profit	3,357,663	972,213
Operating expenses:		
Selling, general and administrative	2,407,214	1,941,175
Product development	332,704	520,663
Total operating expenses	2,739,918	2,461,838
Operating income (loss)	617,745	(1,489,625)
Other income		
Investment income	13,680	10,026
Total other income	13,680	10,026
Net income (loss)	\$ 631,425	\$(1,479,599)
Net income (loss) per common share		
Basic	\$ 0.34	\$ (0.80)
Diluted	\$ 0.34	\$ (0.80)
Weighted average shares		
Basic	1,850,403	1,846,536
Diluted	1,850,555	1,846,536

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

Technical Communications Corporation and Subsidiary
Consolidated Statements of Cash Flows
Years ended September 28, 2019 and September 29, 2018

	2019	2018
Operating activities:		
Net income (loss)	\$ 631,425	\$ (1,479,599)
Adjustments to reconcile net income (loss) to cash (used in) provided by operating activities:		
Depreciation and amortization	27,942	48,213
Stock-based compensation	55,068	30,292
Adjustments to reduce inventory to net realizable value	-	184,064
Amortization of premium on held to maturity securities	-	10,253
Payment of tax on exercise of stock options	-	(33,870)
Changes in current assets and current liabilities:		
Accounts receivable	433,570	170,684
Inventories	326,484	(194,416)
Other current assets	24,029	(6,586)
Deferred revenue	(2,106,514)	1,622,393
Customer deposits	(33,582)	(18,258)
Accounts payable and accrued liabilities	268,759	46,323
Cash (used in) provided by operating activities	(372,819)	379,493
Investing activities:		
Additions to equipment and leasehold improvements	(16,220)	(43,662)
Proceeds from maturities of marketable securities	-	350,000
Cash (used in) provided by investing activities	(16,220)	306,338
Net (decrease) increase in cash, cash equivalents and restricted cash	(389,039)	685,831
Cash and cash equivalents at beginning of year	1,982,434	1,296,603
Cash and cash equivalents at end of year	\$ 1,593,395	\$ 1,982,434
Supplemental disclosures:		
Income taxes paid	\$ 912	\$ -

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

Technical Communications Corporation and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
Years ended September 28, 2019 and September 29, 2018

	2019	2018
Stockholders' Equity		
Shares of common stock:		
Beginning balance	1,850,403	1,839,877
Cashless exercise of stock options	-	10,526
Ending balance	1,850,403	1,850,403
Common stock at par value:		
Beginning balance	\$ 185,041	\$ 183,988
Cashless exercise of stock options	-	1,053
Ending balance	185,041	185,041
Additional paid-in capital:		
Beginning balance	4,134,371	4,139,002
Cashless exercise of stock options	-	(1,053)
Cashless exercise of stock options to pay taxes	-	(33,870)
Stock-based compensation	55,068	30,292
Ending balance	4,189,439	4,134,371
Accumulated deficit:		
Beginning balance	(2,786,356)	(1,306,757)
Net income (loss)	631,425	(1,479,599)
Ending balance	(2,154,931)	(2,786,356)
Total stockholders' equity	\$ 2,219,549	\$ 1,533,056

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 herein 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.

Liquidity and Ability to Continue as a Going Concern

For the fiscal year ended September 28, 2019, the Company generated \$631,000 of net income. For the prior seven year period from fiscal 2012 to fiscal 2018, the Company suffered recurring losses from operations and had an accumulated deficit of \$2,155,000 at September 28, 2019. Despite the current year net income, these factors continue to raise substantial doubt about the Company's ability to continue as a going concern within one year from the issuance date of the consolidated financial statements included in this Annual Report on Form 10-K. Such consolidated financial statements do not include any adjustments to reflect the substantial doubt about the Company’s ability to continue as a going concern.

The Company anticipates that its principal sources of liquidity will only be sufficient to fund activities to September 26, 2020. In order to have sufficient cash to fund operations beyond that point, the Company will need to secure new customer contracts, raise additional capital and reduce expenses, including payroll and payroll-related expenses.

In order to have sufficient capital resources to fund operations, the Company has been working diligently to secure several large orders with new and existing customers. In addition, the Company is considering raising capital through equity or debt arrangements. Although it believes its ability to secure such new business and raise new capital is likely, it cannot provide assurances it will be able to do so.

Should the Company be unsuccessful in these efforts, it would then be forced to implement headcount reductions, employee furloughs and/or reduced hours for certain employees or cease operations completely.

(2) Summary of Significant Accounting Policies

The Company follows accounting standards set by the Financial Accounting Standards Board, commonly referred to as the FASB. The FASB sets generally accepted accounting principles (“GAAP”) that the Company follows to ensure it consistently reports its 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*[™], 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 GAAP in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of

Notes to Consolidated Financial Statements (continued)

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. The Company maintains its cash and cash equivalents in bank deposit accounts and money market mutual funds that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash, cash equivalents or marketable securities.

Accounts Receivable

Accounts receivable are reduced by an allowance for amounts that management believes 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 the Company's customers deteriorates, 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. There was no allowance for doubtful accounts at September 28, 2019 or September 29, 2018.

Inventories

The Company values its inventory at the lower of actual cost (based on the first-in, first-out method) to purchase and/or manufacture and net realizable 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 the Company's judgment of 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 less accumulated depreciation and amortization. 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

Notes to Consolidated Financial Statements (continued)

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. There were no events or changes in circumstances that required the Company to review long-lived assets for impairment during fiscal years 2019 and 2018.

Revenue Recognition

The Company's engineering services revenue is derived from performing funded research and development and technology development for commercial companies and government agencies primarily under fixed-price contracts. 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. The Company receives periodic progress payments and it retains the rights to the intellectual property developed in government contracts.

The Company recognizes equipment sales 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 for which 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.

As of September 29, 2018, billings in excess of revenues were recorded as deferred revenue in relation to contracts based on proportional performance of \$2,107,000. Deferred revenue represents the cumulative difference between the amounts billed and revenue recognized for services performed. There was no deferred revenue at September 28, 2019.

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, the U.S. Government Accountability Office and other agencies. 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.

Costs incurred in connection with funded research and development are included in cost of revenue. 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 revenue; 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. Cost of product revenue includes material, labor and overhead.

Revenue for the fiscal year ended September 28, 2019 consists of \$3,239,000 from engineering services and \$3,785,000 from equipment sales compared to \$3,236,000 from engineering services and \$449,000 from equipment sales for the year ended September 29, 2018.

Notes to Consolidated Financial Statements (continued)

Stock-Based Compensation

Stock-based compensation expense 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 an operating activity. There were no excess tax benefits for the fiscal years ended September 28, 2019 and September 29, 2018.

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.

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

	September 28, 2019	September 29, 2018
<u>Assumptions:</u>		
Option life (years)	6.5	6.5
Risk-free interest rate	2.1%	2.8%
Stock volatility	86%	85%
Dividend yield	0%	0%

There were 40,500 and 20,500 options granted during the fiscal years ended September 28, 2019 and September 29, 2018, respectively. The weighted average grant date fair value of options granted during the years ended September 28, 2019 and September 29, 2018 was \$2.67 and \$4.55, respectively. The following table summarizes stock-based compensation costs included in the Company's consolidated statements of operations for the years ended September 28, 2019 and September 29, 2018:

	2019	2018
Selling, general and administrative	\$ 50,706	\$ 24,939
Product development	4,362	5,353
Total stock-based compensation expense before taxes	<u>\$ 55,068</u>	<u>\$ 30,292</u>

As of September 28, 2019 there was \$148,200 of unrecognized compensation expense related to options outstanding. The unrecognized compensation expense will be recognized over the remaining requisite service period. As of September 28, 2019 the weighted average period over which the compensation expense is expected to be recognized is 3.48 years.

The Technical Communications Corporation 2005 Non-Statutory Stock Option Plan and 2010 Equity Incentive Plan were outstanding at September 28, 2019. There are an aggregate of 600,000 shares authorized for issuance under these plans, of which options to purchase 231,337 shares were outstanding at September 28, 2019. 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 value at time of grant and have a term of ten years from the date of grant.

Notes to Consolidated Financial Statements (continued)

As of September 28, 2019, there were 193,863 shares available for grant under the 2010 Equity Incentive Plan. The 2005 Non-Statutory Stock Option Plan has expired and options are no longer available for grant under such plan.

The following tables summarize stock option activity during fiscal years 2018 and 2019:

	Options Outstanding					
	Number of Shares			Weighted Average Exercise Price	Weighted Average Contractual Life	
	Unvested	Vested	Total		(years)	
Outstanding, September 30, 2017	34,200	212,081	246,281	\$ 8.36	3.95	
Grants	20,500	-	20,500	6.22		
Vested	(10,000)	10,000	-	3.25		
Exercises	-	(31,800)	(31,800)	5.60		
Cancellations/forfeitures	-	(7,844)	(7,844)	9.68		
Outstanding, September 29, 2018	44,700	182,437	227,137	\$ 8.50	3.76	
Grants	34,500	6,000	40,500	3.58		
Vested	(16,000)	16,000	-	3.96		
Exercises	-	-	-	-		
Cancellations/forfeitures	(3,800)	(32,500)	(36,300)	6.24		
Outstanding, September 28, 2019	59,400	171,937	231,337	\$ 8.00	3.99	

Information related to the stock options vested or expected to vest as of September 28, 2019 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	20,300	6.89	\$ 2.69	9,800	\$ 2.73
\$3.01 - \$4.00	46,500	9.53	3.61	8,400	3.64
\$4.01 - \$5.00	16,600	4.74	4.34	14,200	4.37
\$5.01 - \$10.00	37,000	4.20	7.75	28,600	7.90
\$10.01 - \$15.00	110,937	0.96	11.44	110,937	11.44
	<u>231,337</u>	3.99	\$ 8.00	<u>171,937</u>	\$ 9.39

The aggregate intrinsic value of the Company's "in-the-money" outstanding and exercisable options was \$0 as of September 28, 2019 and \$13,625 as of September 29, 2018. There were 31,800 stock options exercised during the year ended September 29, 2018 with a total intrinsic value of \$140,350 and none during the year ended September 28, 2019. 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.

Notes to Consolidated Financial Statements (continued)

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 as of September 28, 2019 and September 29, 2018.

Warranty Costs

The Company provides for estimated warranty costs at the time product revenue is recognized based 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 that 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 available for sale securities consist of money market mutual funds held in a brokerage account, which are classified as cash equivalents and measured at fair value.

The Company assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Company's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. During the fiscal years ended September 28, 2019 and September 29, 2018, there were no transfers between levels.

As of September 28, 2019, the Company did not hold any assets classified as Level 1, Level 2 or Level 3 and as of September 29, 2018, the Company did not hold any assets classified as Level 2 or Level 3.

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 September 29, 2018, in accordance with the fair value hierarchy as defined above:

September 29, 2018	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)
Mutual funds:		
Money market funds	\$ 1,020,039	\$ 1,020,039
Total mutual funds	1,020,039	1,020,039
Total assets	\$ 1,020,039	\$ 1,020,039

There were no assets or liabilities measured at fair value on a nonrecurring basis at September 28, 2019 or September 29, 2018.

Earnings (Loss) per Share (EPS)

The Company presents both a “basic” and a “diluted” EPS. Basic EPS is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. In computing diluted EPS, stock options that are dilutive (i.e., 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 the consolidated statements of operations. Expenditures for Company-sponsored research and development projects are expensed as incurred and were \$332,704 and \$520,663 in fiscal 2019 and 2018, 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 revenue; such amounts were \$2,217,997 and \$2,027,944 in fiscal years 2019 and 2018, 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 2019 fiscal year ended on September 28, 2019 and included 52 weeks. The 2018 fiscal year ended on September 29, 2018 and included 52 weeks.

Reclassifications

Certain footnote reclassifications have been made to prior year amounts to conform to this year’s presentation for income taxes in Note 10.

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 developing a common revenue standard for U.S. GAAP and International

Notes to Consolidated Financial Statements (continued)

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. The new guidance was effective for the Company beginning September 30, 2018. The Company has elected to adopt ASC 606 using the modified retrospective method approach as of September 30, 2018, which approach was applied to all contracts not completed as of such date. The adoption of this standard did not have a material impact on the financial statements included herewith.

Equipment Sales Revenue The deliverables under the previous guidance are consistent with performance obligations identified under ASC 606. Under ASC 606, the Company continued to allocate the transaction price between the elements and performance obligations within the contract. Revenue recognition for the performance obligations accounted for under ASC 606 was consistent with current guidance given the transfer of control of the promised goods or services follows the same pattern. As such, the adoption of ASC 606 will not result in a material impact on revenue recognition.

Engineering Services Revenue The deliverables under the previous guidance are consistent with performance obligations identified under ASC 606. The adoption of ASC 606 did not result in a change to the timing of revenue recognition for this type of contract as the standard requires revenues to be estimated and recognized upon transfer of the promised goods and services. As such, the adoption of ASC 606 will not result in a material impact on revenue recognition.

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. The Company is currently evaluating the potential impact this standard will have on the financial statements and related disclosure and believe that the most notable impact to the financial statements upon adoption will be the recognition of a right-of-use asset and a lease liability for the leased facility in Concord, MA. The Company expects to adopt this standard during its 2020 fiscal year.

Other recent accounting pronouncements were issued by the FASB (including its Emerging Issues Task Force) and the SEC during fiscal 2019 but such pronouncements are not believed by management to have a material impact on the Company's present or future financial statements.

(4) Net Income (Loss) Per Share

Outstanding potentially dilutive stock options, which were not included in the net income (loss) per share amounts as their effect would have been anti-dilutive, were 220,837 and 227,137 shares in fiscal years 2019 and 2018, respectively.

(5) 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

Notes to Consolidated Financial Statements (continued)

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.

As of September 29, 2018, cash equivalents consisted of the following:

	<u>Cost</u>	<u>Accrued Interest</u>	<u>Gross Unrealized Gains</u>	<u>Losses</u>	<u>Estimated Fair Value</u>
Money market mutual funds	\$ 1,020,039	\$ -	\$ -	\$ -	\$ 1,020,039

(6) Inventories

Inventories consist of the following:

	<u>September 28, 2019</u>	<u>September 29, 2018</u>
Finished goods	\$ 120,726	\$ -
Work in process	182,863	356,278
Raw materials and supplies	738,623	1,012,418
Total inventories	<u>\$ 1,042,212</u>	<u>\$ 1,368,696</u>

As a result of changes in the market for certain Company products and the resulting excess quantities, carrying amounts for those inventories were reduced by approximately \$184,000 during the fiscal year ended September 29, 2018. This inventory write-down was reflected in cost of goods sold in the statements of operations. Management believes that this reduction properly reflected inventory at lower of cost or net realizable value, 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.

(7) Equipment and Leasehold Improvements

Equipment and leasehold improvements consist of the following:

	<u>September 28, 2019</u>	<u>September 29, 2018</u>	<u>Estimated Useful Life (years)</u>
Engineering and manufacturing equipment	\$ 2,181,649	\$ 2,168,148	3 - 8
Demonstration equipment	845,541	845,541	3
Furniture and fixtures	1,020,616	1,020,862	3 - 8
Automobile	49,441	49,441	5
Leasehold improvements	494,509	494,509	Lesser of useful life or term of lease
Total equipment and leasehold improvements	4,591,756	4,578,501	
Less accumulated depreciation and amortization	(4,554,275)	(4,529,298)	
Equipment and leasehold improvements, net	<u>\$ 37,481</u>	<u>\$ 49,203</u>	

Notes to Consolidated Financial Statements (continued)

Depreciation expense was \$27,942 and \$48,213 for the fiscal years ended September 28, 2019 and September 29, 2018, respectively.

(8) Leases

On March 27, 2014, the Company entered into a lease for its current facilities commencing April 1, 2014. This lease is located at 100 Domino Drive, Concord, MA. The Company has been a tenant in this space since 1983. This is the Company's only facility and houses all manufacturing, research and development, and corporate operations. The initial term of the lease was for five years through March 31, 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 September 28, 2019 and September 29, 2018 was \$171,000. On September 25, 2018, the Company exercised its option to renew the lease through September 30, 2021. Future minimum lease payments under the remainder of this lease total \$342,000 at September 28, 2019 (payable at \$171,000 in 2020 and \$171,000 in 2021).

(9) Warranty

The Company's products generally carry a standard 15 month warranty. The Company records 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 warranty reserve is included in other current liabilities on the balance sheet.

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

	<u>September 28, 2019</u>	<u>September 29, 2018</u>
Beginning balance	\$ 3,312	\$ 15,911
Plus: accruals related to new sales	18,703	2,204
Less: payments and adjustments to prior period accruals	<u>(2,714)</u>	<u>(14,803)</u>
Ending balance	<u>\$ 19,301</u>	<u>\$ 3,312</u>

(10) Income Taxes

The income tax expense (benefit) is different from what would be obtained by applying the statutory federal income tax rate to income (loss) before income taxes due to the following:

	<u>September 28, 2019</u>		<u>September 29, 2018</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Tax expense (benefit) at U.S. statutory rate	\$ 132,599	21.0%	\$ (362,946)	(24.5%)
State income tax provision, net of federal benefit	(6,883)	(1.1%)	(70,523)	(4.8%)
Federal research credits	(96,075)	(15.2%)	(69,439)	(4.7%)
Change in state income tax rate	-	-	(41,961)	(2.8%)
Change in federal income tax rate	-	-	1,443,180	97.5%
Other	23,116	3.7%	19,977	1.4%
Valuation allowance	<u>(52,757)</u>	<u>(8.4%)</u>	<u>(918,288)</u>	<u>(62.1%)</u>
Total income tax expense (benefit)	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>

Notes to Consolidated Financial Statements (continued)

Deferred income taxes consist of the following:

	September 28, 2019	September 29, 2018
Inventory differences	\$ 1,209,239	\$ 1,206,040
Net operating losses	1,945,238	1,554,615
Deferred revenue	-	568,917
Stock based compensation	123,658	116,149
Tax credits	520,176	374,239
Other	142,021	173,128
Total	3,940,332	3,993,088
Less: valuation allowance	(3,940,332)	(3,993,088)
Total	\$ -	\$ -

On December 22, 2017, the Tax Cuts and Jobs Act (the “TCJA”) was signed into law in the United States. The TCJA reduced the U.S. corporate tax rate from the 34% to 21% for tax years beginning after December 31, 2017. As a result of the newly enacted law, the Company was required to revalue all deferred tax assets and liabilities existing as of December 31, 2017 to reflect the reduction in the federal tax rate. This revaluation resulted in a reduction to the Company’s deferred tax asset of \$1.4 million, with a corresponding reduction to the Company’s valuation allowance. Consequently, there was no impact on the accompanying consolidated financial statements that resulted from the reduction in the federal tax rate. Other relevant provisions of the TCJA did not have a material impact on the accompanying consolidated financial statements.

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 2019, the change in the valuation allowance was \$52,756 and related primarily to the TCJA. During fiscal year 2018, the change in the valuation allowance was \$918,288 and related primarily to the TCJA.

Due to the nature of the Company’s current operations in foreign countries (selling products into these countries with the assistance of local representatives), the Company has not been subject to any foreign taxes in recent years. Also, it is not anticipated that the Company will be subject to foreign taxes in the near future.

The Company files income tax returns in the U.S. federal jurisdiction and in the states of Massachusetts and New Hampshire. For U.S. federal purposes, the tax years 2015 through 2018 and for state purposes 2015 through 2018 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 \$352,279 available through fiscal year 2039 and net operating loss carryforwards of \$7,423,299 available through fiscal year 2038 and the net operating loss carryforward generated in fiscal year 2019 will carryforward indefinitely. In addition, the Company has Massachusetts research credits of \$212,529 available through fiscal year 2034 and net operating loss carryforwards of \$6,431,410 available through fiscal year 2039.

(11) Employee Benefit Plans

The Company has a qualified, contributory, profit sharing plan covering substantially all employees. The Company’s policy is to fund contributions as they are accrued. The contributions are allocated based on the employee’s proportionate share of total compensation. The Company’s contributions to the plan are determined by the Board of Directors and are subject to other specified limitations. There were no Company profit sharing contributions during fiscal years 2019 or 2018. The Company’s matching contributions were \$67,082 and \$67,750 in fiscal years 2019 and 2018, respectively.

Notes to Consolidated Financial Statements (continued)

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 earned, accrued or paid to eligible employees at September 28, 2019 or September 29, 2018.

(12) Major Customers and Export Revenue

In fiscal year 2019, the Company had three customers representing 96% (47%, 36% and 13%) of total net revenue and at September 28, 2019 had one customer representing 98% of accounts receivable. In fiscal year 2018, the Company had one customer representing 87% of total net revenue and at September 29, 2018 had one customer representing 95% of accounts receivable.

A breakdown of net revenue is as follows:

	<u>September 28, 2019</u>	<u>September 29, 2018</u>
Domestic	\$ 6,757,118	\$ 3,422,545
Foreign	267,005	262,394
Total Revenue	<u>\$ 7,024,123</u>	<u>\$ 3,684,939</u>

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

	<u>September 28, 2019</u>	<u>September 29, 2018</u>
Mid-East and Africa	70.5%	65.8%
Far East	29.2%	34.2%
Europe	0.3%	-

The Company sold products to customers located in five countries during the year ended September 28, 2019 and to customers located in four countries during the year ended September 29, 2018. 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.

	<u>September 28, 2019</u>	<u>September 29, 2018</u>
Saudi Arabia	42.0%	46.0%
Philippines	29.2%	34.2%
Egypt	27.5%	14.8%
Jordan	-	5.0%
Other	1.3%	-

(13) Related Party Transactions

On August 29, 2019 the Company issued a Demand Promissory Note in favor of Carl H. Guild, Jr. in the principal amount of \$300,000. Mr. Guild, the Company's Chief Executive Officer, President and Chairman of the Board, loaned the money to the Company to provide working capital. This note was repaid with interest in the amount of \$411 on September 23, 2019.

Notes to Consolidated Financial Statements (continued)

(14) 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 tenth 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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and

Stockholders of Technical Communications Corporation:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Technical Communications Corporation and Subsidiary (the Company) as of September 28, 2019, and the related consolidated statements of operations, cash flows and changes in stockholders' equity for the year then ended, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 28, 2019, and the results of its operations and its cash flows for the year ended September 28, 2019, in conformity with accounting principles generally accepted in the United States of America.

Substantial Doubt About the Company's Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, for the fiscal year ended September 28, 2019 the Company generated \$631,000 of net income, however for the prior seven year period from fiscal 2012 to fiscal 2018, the Company suffered recurring losses from operations and has an accumulated deficit of \$2,155,000 at September 28, 2019. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, 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.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Stowe & Degon LLC

Westborough, Massachusetts
December 5, 2019

We have served as the Company's auditors since 2019.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and

Stockholders of Technical Communications Corporation:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Technical Communications Corporation and Subsidiary (the Company) as of September 29, 2018, and the related consolidated statements of operations, cash flows and changes in stockholders' equity for the year then ended, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 29, 2018, and the results of its operations and its cash flows for the year ended September 29, 2018, in conformity with accounting principles generally accepted in the United States of America.

Substantial Doubt About the Company's Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and has an accumulated deficit of \$2,786,356 at September 29, 2018. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, 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.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ CohnReznick LLP

We have served as the Company's auditor since 2018.

Boston, Massachusetts

June 21, 2019

**CORPORATE INFORMATION
AS OF DECEMBER 2019**

OFFICERS

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

Michael P. Malone
Chief Financial Officer
and Treasurer

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

DIRECTORS

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

Ralph M. Norwood
Consultant

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

Thomas E. Peoples
President of International Executive Counselors, LLC

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

Stowe & Degon, LLC
Westborough, Massachusetts

GENERAL COUNSEL

White White & Van Etten PC
Boston, Massachusetts

ANNUAL STOCKHOLDERS MEETING

This year's annual meeting will be held Monday, February 10, 2020 at 10:00 a.m. at TCC's facilities in Concord, Massachusetts. The shareholder record date is December 13, 2019.

STOCK EXCHANGE LISTING

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

10-K REPORT

A copy of the Company's Annual Report on Form 10-K for 2019, filed with the Securities and Exchange Commission, may be obtained upon written request to the Company.

TRANSFER AGENT AND REGISTRAR

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038

INVESTOR RELATIONS

Technical Communications Corporation
100 Domino Drive
Concord, MA 01742
(978) 287-5100

The discussion in this Annual Report and Form 10-K may contain statements that are not purely historical. Such statements contained herein or as may otherwise be incorporated by reference herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include but are not limited to statements regarding anticipated operating results, future earnings, and the ability to achieve growth and profitability. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, including but not limited to the effect of foreign political unrest; domestic and foreign government policies and economic conditions; future changes in export laws or regulations; changes in technology; the ability to hire, retain and motivate technical, management and sales personnel; the risks associated with the technical feasibility and market acceptance of new products; changes in telecommunications protocols; the effects of changing costs, exchange rates and interest rates; and the Company's ability to secure adequate capital resources. Such risks, uncertainties and other factors could cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. For a more detailed discussion of the risks facing the Company, see the Company's filings with the Securities and Exchange Commission, including this Form 10-K for the fiscal year ended September 28, 2019 and the "Risk Factors" section included herein.



TECHNICAL COMMUNICATIONS CORPORATION

Communicate in Confidence

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