TECHNICAL COMMUNICATIONS CORP
Form 10-Q
May 12, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

(Mark One)

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 28, 2009

o **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: 0-8588
TECHNICAL COMMUNICATIONS CORPORATION
(Exact name of registrant as specified in its charter)

Massachusetts	04-2295040
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 Domino Drive, Concord, MA	01742-2892
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (978) 287-5100
N/A
(Former name, former address and former fiscal year,
if changed since last report)

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 þ No o

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. 1,452,199 shares of Common Stock, $.10 par value, outstanding as of May 8, 2009.

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Exhibit 32.1

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TECHNICAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	March 28, 2009 (Unaudited)	September 27, 2008
Assets		
Current Assets:		
Cash and cash equivalents	$ 3,876,177	$ 3,622,903
Accounts receivable trade, less allowance of $25,000 at March 28, 2009 and September 27, 2008	1,098,053	722,261
Inventories, net	2,216,500	1,920,724
Deferred income taxes	75,000	75,000
Other current assets	124,907	105,666
Total current assets	7,390,637	6,446,554
Equipment and leasehold improvements	3,306,184	3,182,522
Less: accumulated depreciation and amortization	(2,961,578)	(2,915,050)
Equipment and leasehold improvements, net	344,606	267 472
Total Assets	$ 7,735,243	$ 6,714,026
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 242,517	$ 173,070
Accrued liabilities:		
Accrued compensation and related expenses	321,880	448,179
Accrued expenses	1,005,289	415,090
Total current liabilities	1,569,686	1,036,339
Stockholders Equity:		
Common stock, par value $.10 per share; 7,000,000 shares authorized; 1,452,199 and 1,433,767 shares issued and outstanding at March 28, 2009 and September 27, 2008, respectively	145,220	143,377
Additional paid-in capital	1,996,166	1,941,020
Retained earnings	4,024,171	3,593,290
Total stockholders equity	6,165,557	5,677,687
Total Liabilities and Stockholders Equity	$ 7,735,243	$ 6,714,026

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

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TECHNICAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
Condensed Consolidated Income Statements
(Unaudited)

	Three Months Ended March 28, 2009	March 29, 2008
Net sales	$ 2,055,707	$ 1,659,012
Cost of sales	791,989	555,275
Gross profit	1,263,718	1,103,737
Operating expenses:		
Selling, general and administrative expenses	598,809	614,910
Product development costs	450,867	306,445
Total operating expenses	1,049,676	921,355
Operating income	214,042	182,382
Other income:		
Interest income	11,089	27,172
Total other income	11,089	27,712
Income before provision for income taxes	225,131	209,554
Provision for income taxes		
Net income	$ 225,131	$ 209,554
Net income per common share:		
Basic	$ 0.16	$ 0.15
Diluted	$ 0.14	$ 0.13
Weighted average shares:		
Basic	1,450,897	1,406,799
Diluted	1,625,272	1,683,153

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

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TECHNICAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
Condensed Consolidated Income Statements
(Unaudited)

	Six Months Ended March 28, 2009	March 29, 2008
Net sales	$ 3,900,047	$ 3,948,112
Cost of sales	1,451,319	1,404,704
Gross profit	2,448,728	2,543,408
Operating expenses:		
Selling, general and administrative expenses	1,257,202	1,050,341
Product development costs	791,809	587,281
Total operating expenses	2,049,011	1,637,622
Operating income	399,717	905,786
Other income:		
Interest income	31,164	56,042
Total other income	31,164	56,042
Income before provision for income taxes	430,881	961,828
Provision for income taxes		
Net income	$ 430,881	$ 961,828
Net income per common share:		
Basic	$ 0.30	$ 0.69
Diluted	$ 0.26	$ 0.59
Weighted average shares:		
Basic	1,446,103	1,394,667
Diluted	1,633,150	1,631,731

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

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TECHNICAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended	
	March 28, 2009	**March 29, 2008**
Operating Activities:		
Net income	$ 430,881	$ 961,828
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	46,528	20,872
Stock-based compensation	81,071	107,455
Changes in assets and liabilities:		
Accounts receivable	(375,792)	(609,268)
Inventories	(295,776)	51,597
Other current assets	(19,241)	23,391
Accounts payable and other accrued liabilities	506,954	(315,783)
Net cash provided by operating activities	374,625	240,092
Investing Activities:		
Additions to equipment and leasehold improvements	(123,662)	(39,680)
Net cash used in investing activities	(123,662)	(39,680)
Financing Activities:		
Proceeds from stock issuance	2,311	282,860
Net cash provided by financing activities	2,311	282,860
Net increase in cash and cash equivalents	253,274	483,272
Cash and cash equivalents at beginning of the period	3,622,903	2,622,288
Cash and cash equivalents at the end of the period	$ 3,876,177	$ 3,105,560

Supplemental Disclosures:

Interest paid	$	$
Income taxes paid	16,200	9,600

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

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TECHNICAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FAIR PRESENTATION

Interim Financial Statements. The accompanying interim unaudited condensed consolidated financial statements of Technical Communications Corporation (the Company or TCC) and its wholly-owned subsidiary include all adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations for the periods presented and in order to make the financial statements not misleading. All such adjustments are of a normal recurring nature. Interim results are not necessarily indicative of the results to be expected for the fiscal year ending September 26, 2009.

Certain footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as allowed by Securities and Exchange Commission rules and regulations. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and the notes thereto in the Company s Annual Report on Form 10-K for the fiscal year ended September 27, 2008, as filed with the SEC.

NOTE 1. Summary of Significant Accounting Policies and Significant Judgments and Estimates

Basis of Presentation The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

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 condensed 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 revenues and expenses during the reported periods.

On an ongoing basis, management evaluates its estimates and judgments, including but not limited to those related to revenue recognition, receivable reserves, inventory reserves and income taxes. 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 values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The accounting policies that management believes are most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue Recognition

The Company recognizes revenue from product sales in accordance with Staff Accounting Bulletin No. 101, Revenue Recognition, as updated by Staff Accounting Bulletin No. 104. Product revenue is recognized when there is persuasive evidence of an arrangement, the fee is fixed or determinable, delivery of the product to the customer has occurred and we have determined that collection of the fee is probable. Title to the product generally passes upon shipment of the product, as the products are shipped FOB shipping point, except for certain foreign shipments. If the product requires installation to be performed by TCC, all revenue related to the product is deferred and recognized upon the completion of the installation. The Company provides for a warranty reserve at the time the product revenue is recognized.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)

The Company performs funded research and development and product development for commercial companies and government agencies under both cost reimbursement and fixed-price contracts. Cost reimbursement contracts provide for the reimbursement of allowable costs and, in some situations, the payment of a fee. These contracts may contain incentive clauses providing for increases or decreases in the fee depending on how actual costs compare with a budget. Revenue from reimbursement contracts is recognized as services are performed. On fixed-price contracts that are expected to exceed one year in duration, revenue is recognized pursuant to the percentage of completion method based upon the proportion of costs incurred to the total estimated costs for the contract. In each type of contract, the Company receives periodic progress payments or payment upon reaching interim milestones. All payments to TCC for work performed on contracts with agencies of the U.S. government are subject to audit and adjustment by the Defense Contract Audit Agency. Adjustments are recognized in the period made. When the current estimates of total contract revenue and contract costs for commercial product development contracts 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 as incurred.

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

Inventory

The Company values inventory at the lower of actual cost to purchase and/or manufacture or the current estimated market value of the inventory. A review is periodically performed of inventory quantities on hand and the Company records a provision for excess and/or obsolete inventory based primarily on the estimated forecast of product demand, as well as historical usage. Due to the custom and specific nature of certain products, demand and usage for these products and materials can fluctuate significantly. A significant decrease in demand for these products could result in a short-term increase in the cost of inventory purchases and an increase of excess inventory quantities on hand. In addition, the Company s industry is characterized by rapid technological change, frequent new product development and rapid product obsolescence, any of which could result in an increase in the amount of obsolete inventory quantities on hand. Therefore, although the Company makes every effort to ensure the accuracy of its forecasts of future product demand, any significant unanticipated or unfavorable changes in demand or technological developments could have a significant negative impact on the value of inventory and would reduce our reported operating results.

Accounts Receivable

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. The estimated allowance for uncollectible amounts is based primarily on a specific analysis of accounts in the receivable portfolio and historical write-off experience. While management believes the allowance to be adequate, if the financial condition of our customers were to deteriorate, resulting in any impairment of their ability to make payments, additional allowances may be required, which would reduce our net income.

Accounting for Income Taxes

The preparation of our consolidated financial statements requires us to estimate our income taxes in each of the jurisdictions in which we operate, including those outside the United States, which may subject the Company to certain risks that ordinarily would not be expected in the United States. The income tax accounting process involves estimating our actual current exposure together with assessing temporary differences resulting from differing treatments of items, such as depreciation, 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against deferred tax assets. We have recorded a valuation allowance against our deferred tax assets of $2.8 million and $3.0 million as of March 28, 2009 and September 27, 2008, respectively, due to uncertainties related to our ability to utilize these assets. Realization of the deferred tax assets is dependent upon the Company s ability to generate sufficient future taxable income and, if necessary, execution of tax planning strategies. 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.

The Company files federal and state income tax returns. The Company has had accumulated losses, which are still available to offset future income, since fiscal year 2000. Since the net operating losses may potentially be utilized in future years to reduce taxable income, the Company s tax years since fiscal 2000 remain open to examination by the major taxing jurisdictions in which the Company is subject.

With respect to any future uncertain tax positions, the Company intends to record interest and penalties, if any, as a component of income tax expense.

Stock-Based Compensation

Effective October 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* and related interpretations (SFAS No. 123R) using the modified prospective method and, accordingly, has not restated prior period results. SFAS No. 123R establishes the method for accounting for equity instruments issued in exchange for employee services. Under SFAS No. 123R, share-based compensation cost is measured at the grant date based on the calculated fair value of the award. The expense is recognized over the employee s requisite service period, generally the vesting period of the award. SFAS No. 123R also requires the related excess tax benefit received upon exercise of stock options, if any, to be reflected in the statement of cash flows as a financing activity rather than an operating activity.

Upon adoption of SFAS No. 123R, in accordance with Staff Accounting Bulletin No. 107, *Share-based Payment* , the Company selected the Black-Scholes option pricing model as the most appropriate method for determining the estimated fair value of 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 and (3) a risk-free interest 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 also utilizes a forfeiture rate based on an analysis of its actual experience. The forfeiture rate is not material to the calculation of share-based compensation. The fair value of options at date of grant was estimated with the following assumptions:

	Three and Six Months Ended	
	March 28, 2009	**March 29, 2008**
Assumptions:		
Option life	5 years	5 years
Risk-free interest rate	1.8% to 2.8%	2.71% to 3.8%
Stock volatility	79% to 80%	97% to 110%
Dividend yield	-0-	-0-

There were 21,500 options granted during the six months ended March 28, 2009 and 34,000 options granted during the six months ended March 29, 2008.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)

The following table summarizes share-based compensation costs included in the Company s consolidated income statement for the three and six months ended March 28, 2009 and March 29, 2008 (unaudited):

	March 28, 2009		March 29, 2008	
	3 months	6 months	3 months	6 months
Cost of sales	$ 1,675	$ 3,370	$ 1,942	$ 3,895
Selling, general and administrative	45,776	48,312	79,848	83,040
Product development costs	14,205	29,389	11,790	20,520
Total share-based compensation expense before taxes	$ 61,656	$ 81,071	$ 93,580	$ 107,455

As of March 28, 2009 and March 29, 2008, there was $214,414 and $233,824, respectively, of unrecognized compensation costs related to options granted. The unrecognized compensation will be recognized over a period of approximately five years.

The Company had the following stock option plans outstanding as of March 28, 2009: the Technical Communications Corporation 1991 Stock Option Plan, the 2001 Stock Option Plan and the 2005 Non-Statutory Stock Option Plan. There are an aggregate 900,000 shares authorized under these plans, of which 488,700 and 595,034 were outstanding at March 28, 2009 and March 29, 2008, respectively. Vesting periods are at the discretion of the Board of Directors and typically range between one and five years. Options under these plans are granted with an exercise price equal to at least the fair market value at time of grant and have a term of five or ten years from the date of grant. As of March 28, 2009, there were no shares available for new option grants under the 1991 Stock Option Plan or the 2001 Stock Option Plan, and there were 47,500 shares available for grant under the 2005 Non-Statutory Stock Option Plan.

During the six months ended March 28, 2009 the Company s Chief Executive Officer exercised stock options for an aggregate 101,000 shares and subsequently tendered back to TCC 86,756 of those shares in payment for the exercise of the options and the payment of withholding taxes. The tendered shares were immediately retired by the Company.

The following tables summarize stock option activity during the first six months of fiscal 2009:

	Options Outstanding		
	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life
Outstanding at September 27, 2008	581,034	$ 3.05	
Grants	21,500		
Exercises	(108,834)		
Cancellations	(5,000)		
Outstanding at March 28, 2009	488,700	$ 2.94	5.18 years

Information related to the stock options outstanding as of March 28, 2009 is as follows:

Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life (years)	Weighted Average	Exercisable Number of Shares	Exercisable Weighted-Average

					Exercise Price			**Exercise Price**
$0.01	$1.00	158,000	3.55	$	0.96	158,000	$	0.96
$1.01	$2.00	1,200	2.81	$	1.27	1,200	$	1.27
$2.01	$3.00	65,700	3.78	$	2.54	60,900	$	2.51
$3.01	$4.00	193,800	5.64	$	3.59	169,300	$	3.59
$4.01	$5.00	25,000	9.04	$	4.90	16,300	$	4.85
$5.01	$10.00	45,000	8.87	$	6.62	18,800	$	7.11
		488,700	5.18	$	2.94	424,500	$	2.66

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)

The aggregate intrinsic value of the Company s in-the-money outstanding and exercisable options as of March 28, 2009 and March 29, 2008 was $806,140 and $1,308,497, respectively. Nonvested common stock options are subject to the risk of forfeiture until the fulfillment of specified conditions.

Newly Issued Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements regarding fair value measurement. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. In November 2007, the FASB deferred the effective date of SFAS No. 157 until November 15, 2008 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS No. 157 was adopted by the Company for financial assets and liabilities during the first quarter of fiscal 2009 with no material effect.

On October 10, 2008, the FASB issued FASB Staff Position 157-d which amends SFAS No. 157, to clarify its application in an inactive market by providing an illustrative example to demonstrate how the fair value of a financial asset is determined when the market for that financial asset is inactive. The Staff Position was effective upon issuance, including prior periods for which financial statements have not been issued. The adoption was not material to the consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of Statement of Financial Accounting Standards No. 115* (SFAS No. 159), which permits companies to choose to measure many financial instruments and certain other items at fair value. This statement is expected to expand the use of fair value measurement, which is consistent with the Board s long-term measurement objectives for accounting for financial instruments.

SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. The statement does not establish requirements for recognizing and measuring dividend income, interest income or interest expense nor does it eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS No. 157, and SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. SFAS No. 159 was adopted by the Company during the first quarter of fiscal 2009, but the Company chose not to apply the provisions of SFAS No. 159 to any assets and liabilities.

NOTE 2. Inventories

Inventories consisted of the following:

	March 28, 2009 (unaudited)	September 27, 2008
Finished goods	$ 38,100	$ 77,444
Work in process	1,003,173	589,700
Raw materials	1,175,227	1,253,580
	$ 2,216,500	$ 1,920,724

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)

NOTE 3. Income Taxes

For the six months ended March 28, 2009, the Company used available tax loss carryforwards against pre-tax income of $430,881. As a result, there is no tax provision recognized in the income statement for such period.

The valuation allowance relates to uncertainty with respect to the Company s ability to realize its deferred tax assets. As of March 28, 2009, the Company had available tax loss carryforwards for federal income tax purposes of approximately $3,949,000, expiring through 2026.

NOTE 4. Earnings Per Share

In accordance with SFAS No. 128, *Earnings Per Share*, basic and diluted earnings per share were calculated as follows (unaudited):

	March 28, 2009		March 29, 2008	
	3 months	**6 months**	**3 months**	**6 months**
Net income	$ 225,131	$ 430,881	$ 209,554	$ 961,828
Weighted average shares basic	1,450,897	1,446,103	1,406,799	1,394,667
Dilutive effect of stock options	174,375	187,047	276,354	237,064
Weighted average shares diluted	1,625,272	1,633,150	1,683,153	1,631,731
Basic income per share	$ 0.16	$ 0.30	$ 0.15	$ 0.69
Diluted income per share	$ 0.14	$ 0.26	$ 0.13	$ 0.59

Outstanding potentially dilutive stock options, which were not included in the earnings per share calculations, as their inclusion would have been anti-dilutive, were 70,000 at March 28, 2009 and 54,000 at March 29, 2008.

NOTE 5. Major Customers and Export Sales

During the quarter ended March 28, 2009, the Company had three customers that represented 85% (31%, 30% and 24%, respectively) of net sales as compared to the same period in fiscal 2008 where two customers represented 83% (50% and 33%, respectively) of net sales. During the six months ended March 28, 2009, the Company had four customers that represented 87% (29%, 23%, 18% and 17%, respectively) of net sales as compared to the same period in fiscal 2008 where two customers represented 82% (57% and 25%, respectively) of net sales.

A breakdown of foreign and domestic net sales is as follows (unaudited):

	March 28, 2009		March 29, 2008	
	3 months	**6 months**	**3 months**	**6 months**
Domestic	$ 2,012,627	$ 3,722,660	$ 1,563,932	$ 3,598,231
Foreign	43,080	177,387	95,080	349,881
Total sales	$ 2,055,707	$ 3,900,047	$ 1,659,012	$ 3,948,112

The Company sold products into nine countries during each of the six month periods ended March 28, 2009 and March 29, 2008. 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 (unaudited).

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)

	March 28, 2009		March 29, 2008	
	3 months	6 months	3 months	6 months
Saudi Arabia	62.3%	75.0%		27.0%
Slovakia	30.1%	7.3%		1.8%
United Kingdom				25.4%
Sri Lanka			61.8%	16.8%
Lebanon			37.4%	10.2%
Colombia		5.8%		11.3%
Other	7.6%	11.9%	0.8%	7.5%

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

	March 28, 2009		March 29, 2008	
	3 months	6 months	3 months	6 months
North America (excluding the U.S.)				
Central and South America		9.2%		11.3%
Europe	20.0%	7.6%		27.2%
Mid-East and Africa	40.0%	81.5%	100%	54.2%
Far East	40.0%	1.7%		7.3%

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Certain statements contained herein or as may otherwise be incorporated by reference herein that are not purely historical 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 Company s ability to achieve growth and profitability. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, including but not limited to future changes in export laws or regulations; changes in technology; the effect of foreign political unrest; the ability to hire, retain and motivate technical, management and sales personnel; the risks associated with the technical feasibility and market acceptance of new products; changes in telecommunications protocols; the effects of changing costs, exchange rates and interest rates; and the Company s ability to secure adequate capital resources. Such risks, uncertainties and other factors could cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. For a more detailed discussion of the risks facing the Company, see the Company s filings with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended September 27, 2008.

Overview

The Company designs, develops, manufactures, markets and sells communications security devices and systems that utilize 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 primarily from the sale of these products, which have traditionally been made directly or indirectly to foreign governments, but which also include purchases by domestic customers who in turn sell to foreign governments. We have also sold these products to commercial entities and U.S. government agencies. We generate additional revenues from contract engineering services performed for certain government agencies, both domestic and foreign.

Critical Accounting and Significant Judgments and Estimates

There have been no material changes in the Company s critical accounting policies or critical accounting estimates since September 27, 2008, nor have we adopted any accounting policy that has or will have a material impact on our consolidated financial statements. For further discussion of our accounting policies see Note 1, *Summary of Significant Accounting Policies and Significant Judgments and Estimates* in the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q and the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended September 27, 2008 as filed with the SEC.

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Results of Operations

Three Months ended March 28, 2009 as compared to Three Months ended March 29, 2008

Net Sales

Net sales for the quarter ended March 28, 2009 were $2,056,000, as compared to $1,659,000 for the quarter ended March 29, 2008, an increase of 24%. Sales for the second quarter of fiscal 2009 consisted of $2,013,000, or 98%, from domestic sources and $43,000, or 2%, from international customers as compared to the same period in fiscal 2008, during which sales consisted of $1,564,000, or 94%, from domestic sources and $95,000, or 6%, from international customers.

Foreign sales consisted of shipments to four different countries during the quarter ended March 28, 2009 and two different countries during the quarter ended March 29, 2008. A sale is attributed to a foreign country based on the location of the contracting party. Domestic revenue may include the sale of products shipped through domestic resellers or manufacturers to international destinations. The table below summarizes our principal foreign sales by country during the second fiscal quarters of 2009 and 2008:

	2009	2008
Saudi Arabia	$ 27,000	$
Slovakia	13,000	
Sri Lanka		59,000
Lebanon		36,000
Other	3,000	
	$ 43,000	$ 95,000

Revenue for the second quarter of fiscal 2009 was primarily derived from the sale of the Company s narrowband radio encryptors to a U.S. radio manufacturer amounting to $496,000 and billings under programs for engineering services work amounting to $779,000. In addition, we continued shipping products under a $5.75 million contract with the U.S. Army, Communications and Electronics Command (CECOM) during the quarter amounting to $629,000. We also generated $107,000 in royalty revenue from a previously signed license and royalty agreement with a large domestic radio manufacturer.

Revenue for the second quarter of fiscal 2008 was primarily derived from the sale of the Company s narrowband radio encryptors to a U.S. radio manufacturer amounting to $822,000. There were also sales of the Company s narrowband radio encryptors to three (two domestic and one foreign) additional customers amounting to $223,000. Foreign sales included sales of the Company s secure telephone, fax, and data encryptors to the United Nations in Lebanon amounting to $36,000. In addition, the Company had billings under a program with the U.S. government for engineering services work amounting to $544,000 during the quarter.

Gross Profit

Gross profit for the second quarter of fiscal 2009 was $1,264,000 as compared to gross profit of $1,104,000 for the same period of fiscal 2008, an increase of 14%. Gross profit expressed as a percentage of sales was 61% for the second quarter of fiscal 2009 as compared to 67% for the same period in fiscal 2008. The decrease in gross profit as a percentage of sales was primarily associated with higher margin sales recognized during the quarter ended March 29, 2008.

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Operating Costs and Expenses

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the second quarter of fiscal 2009 were $599,000, as compared to $615,000 for the same quarter in fiscal 2008. This decrease of 3% was attributable to an decrease in general and administrative expenses of $102,000, offset by an increase in selling and marketing expenses of $86,000 during the second quarter of the 2009 fiscal year.

The decrease in general and administrative costs during the second quarter of 2009 was primarily attributable to a decrease in personnel related costs of $112,000.

The increase in selling and marketing costs was attributable to increases in personnel-related costs of $18,000, new product evaluation activities of $26,000 and outside consulting fees of $53,000, which were offset by a decrease in commissions of $15,000 as compared to the same period in fiscal 2008.

Product Development Costs

Product development costs for the quarter ended March 28, 2009 were $451,000, compared to $306,000 for the quarter ended March 29, 2008, an increase of $145,000 or 47%. This increase was primarily attributable to an increase in personnel-related costs of $115,000, an increase in outside consulting fees of $101,000 and an increase in recruiting costs of $32,000. The increase was offset by an increase in billable engineering services work performed and an increase in bid and proposal and product evaluation work, which decreased product development costs by approximately $104,000 during the second quarter of fiscal 2009.

Product development costs are charged to billable engineering services, bid and proposal efforts or product development. Engineering costs charged to billable projects are recorded as cost of sales and engineering costs charged to bid and proposal efforts are recorded as selling expenses.

The Company actively sells its engineering services in support of funded research and development. The receipt of these orders is sporadic, although such programs can span over several months. In addition to these programs, the Company also invests in research and development to enhance its existing products or to develop new products, as it deems appropriate. There was $779,000 of billable engineering services revenue generated during the second quarter of fiscal 2009 and $544,000 generated during the same period of fiscal 2008.

Net Income

The Company s net income was $225,000 for the second quarter of fiscal 2009, as compared to $210,000 for the same period of fiscal 2008. This 7% increase in income is primarily attributable to the higher sales volume in the quarter ended March 28, 2009. For the three months ended March 28, 2009 the Company used available tax loss carryforwards against pre-tax income of $225,000 such that there was no current tax provision recognized in the income statement for the period. The uncertainty of the timing of customer orders can result in periods with losses, sometimes significant. This uncertainty will continue to make future results difficult to predict. Receiving orders and contracts in a timely manner is essential to the Company s ability to sustain operations.

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Six Months ended March 28, 2009 as compared to Six Months ended March 29, 2008

Net Sales

Net sales for the six months ended March 28, 2009 were $3,900,000, as compared to $3,948,000 for the six months ended March 29, 2008, a decrease of 1%. Sales for the first six months of fiscal 2009 consisted of $3,723,000, or 95%, from domestic sources and $177,000, or 5%, from international customers as compared to the same period in fiscal 2008, during which sales consisted of $3,598,000, or 91%, from domestic sources and $350,000, or 9%, from international customers.

Foreign sales consisted of shipments to nine different countries during the six months ended March 28, 2009 and March 29, 2008. A sale is attributed to a foreign country based on the location of the contracting party. Domestic revenue may include the sale of products shipped through domestic resellers or manufacturers to international destinations. The table below summarizes our principal foreign sales by country during the first six months of fiscal 2009 and 2008:

	2009	2008
Saudi Arabia	$ 133,000	$ 94,000
United Kingdom		89,000
Sri Lanka		59,000
Colombia	10,000	40,000
Lebanon		36,000
Other	34,000	32,000
	$ 177,000	$ 350,000

Revenue for the first six months of fiscal 2009 was primarily derived from the sale of the Company s narrowband radio encryptors to a U. S. radio manufacturer amounting to $1,123,000 and billings under programs for engineering services work amounting to $1,384,000. In addition, we began shipping products under a $5.75 million contract with CECOM during the first half of fiscal 2009 amounting to $898,000. We also sold our data link encryptors to a domestic customer amounting to $116,000 and generated $199,000 in royalty revenue from a previously signed license and royalty agreement with a large domestic radio manufacturer.

Revenue for the first six months of fiscal 2008 was primarily derived from the sale of our narrowband radio encryptors to a U.S. radio manufacturer amounting to $2,247,000. There were additional sales of our narrowband radio encryptors to three (two domestic and one foreign) customers amounting to $223,000. We also sold our data link encryptors to two domestic customers amounting to $157,000 during the period. Foreign sales during the six months ended March 29, 2008 included a sale of our secure telephone, fax, and data encryptors to the United Nations in Lebanon amounting to $36,000 and a sale of our frame relay and internet protocol encryptor product line to two customers amounting to $183,000. In addition, we had billings under a program with the U.S. government for engineering services work amounting to $967,000 during the period.

Gross Profit

Gross profit for the first six months of fiscal 2009 was $2,449,000 as compared to gross profit of $2,543,000 for the same period of fiscal 2008, a decrease of 4%. Gross profit expressed as a percentage of sales was 63% for the six months ended March 28, 2009 as compared to 64% for the six months ended March 29, 2008.

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Operating Costs and Expenses

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the six months ended March 28, 2009 were $1,257,000, as compared to $1,050,000 for the six months ended March 29, 2008. This increase of 20% was attributable to an increase in selling and marketing expenses of $230,000, offset by a decrease in general and administrative expenses of $23,000 during the first six months of the 2009 fiscal year.

The increase in selling and marketing costs was attributable to increases in personnel related-costs of $57,000, new product evaluation activities of $54,000, bid and proposal efforts of $21,000, outside consulting fees of $74,000 and travel related-costs of $17,000 as compared to the same period in fiscal 2008.

The decrease in general and administrative costs during the first six months of 2009 was primarily attributable to a decrease in personnel related costs of $34,000.

Product Development Costs

Product development costs for the six months ended March 28, 2009 were $792,000, compared to $587,000 for the six months ended March 29, 2008, an increase of $205,000 or 35%. This increase was primarily attributable to an increase in personnel-related costs of $194,000, an increase in outside consulting fees of $122,000 and an increase in recruiting costs of $60,000. The increase was offset by an increase in billable engineering services work performed and an increase in bid and proposal and product evaluation work, which decreased product development costs by approximately $162,000.

Product development costs are charged to billable engineering services, bid and proposal efforts or product development. Engineering costs charged to billable projects are recorded as cost of sales and engineering costs charged to bid and proposal efforts are recorded as selling expenses.

The Company actively sells its engineering services in support of funded research and development. The receipt of these orders is sporadic, although such programs can span over several months. In addition to these programs, the Company also invests in research and development to enhance its existing products or to develop new products, as it deems appropriate. There was $1,384,000 of billable engineering services revenue generated during the first six months of fiscal 2009 and $967,000 generated during the same period of fiscal 2008.

Net Income

The Company s net income was $431,000 for the first six months of fiscal 2009, as compared to $962,000 for the same period of fiscal 2008. This 55% decrease in income is primarily attributable to a 4% decrease in gross profit and a 25% increase in operating expenses. For the six months ended March 28, 2009, the Company used available tax loss carryforwards against pre-tax income of $431,000 such that there was no current tax provision recognized in the income statement for the period. The uncertainty of the timing of customer orders can result in periods with losses, sometimes significant. This uncertainty will continue to make future results difficult to predict. Receiving orders and contracts in a timely manner is essential to the Company s ability to sustain operations.

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The effects of inflation and changing costs have not had a significant impact on sales or earnings in recent years. As of March 28, 2009, none of the Company s monetary assets or liabilities was subject to foreign exchange risks. The Company usually includes an inflation factor in its pricing when negotiating multi-year contracts with customers.

Liquidity and Capital Resources

Cash and cash equivalents increased by $253,000, or 7%, to $3,876,000 as of March 28, 2009, from a balance of $3,623,000 at September 27, 2008. This increase was primarily attributable to cash generated from net income of $431,000 and an increase in customer deposits of $618,000. These increases were partially offset by increases in accounts receivables of $376,000 and inventory of $296,000 and a decrease in accounts payable and other accrued expenses of $112,000 during the first six months of fiscal 2009.

Our results during the first six months of fiscal 2009 met our expectations. We are currently performing under engineering services programs valued at $3.68 million. These programs are billed monthly for time and materials incurred and are expected to be completed in fiscal 2010. We billed $1,384,000 during the first six months of 2009 under these programs. In April 2008 we were awarded a contract from the U.S. Army, Communications and Electronics Command for upgrades and supplies to be shipped to Egypt amounting to $5.75 million, with a subsequent amendment adding an additional $610,000 of funding. We began shipping products under this contract during the first fiscal quarter ended December 27, 2008, and shipped an aggregate $898,000 during the first six months of fiscal 2009. We expect to continue shipping under this contract over the next 15 months.

Backlog at March 28, 2009 amounted to approximately $7.2 million. The orders in backlog are expected to ship during fiscal 2009 and the first half of fiscal 2010.

The Company has a line of credit agreement with Bank of America (the Bank) not to exceed the principal amount of $600,000. The line is supported by a financing promissory note. The loan is a demand loan with interest payable at the Bank s prime rate plus 1% on all outstanding balances. The loan is secured by all assets of the Company (excluding consumer goods) and requires the Company to maintain its deposit accounts with the Bank, as well as comply with certain other covenants. The Company believes this line of credit agreement provides it with an important external source of liquidity, if necessary. There were no cash borrowings against the line during the first six months of fiscal 2009 or at any time during fiscal year 2008.

Certain foreign customers require the Company to guarantee bid bonds and performance of products sold. These guaranties typically take the form of standby letters of credit. Guaranties are generally required in amounts of 5% to 10% of the purchase price and last in duration from three months to one year. At March 28, 2009 and March 29, 2008 there were no outstanding standby letters of credit. When necessary the Company secures its outstanding standby letters of credit with its line of credit facility with the Bank.

In April 2007, the Company entered into a lease for its current facilities. This lease is for 22,800 square feet located at 100 Domino Drive, Concord, MA. The Company has been a tenant in this space since 1983. This is the Company s only facility and houses all manufacturing, research and development, and corporate operations. The term of the lease is for five years through March 31, 2012 at an annual rate of $159,000. In addition the lease contains options to extend the lease for two and one half years through September 30, 2014 and another two and one half years through March 31, 2017, at an annual rate of $171,000. Rent expense for the six months ended March 28, 2009 and March 29, 2008 was $80,000.

The Company does not anticipate any significant capital expenditures during the remainder of fiscal 2009.

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During the remainder of fiscal 2009, the Company expects to increase its investment in internal product development. Our plan is to evaluate several technical options for enhancing the radio encryption product line which may include cryptography modifications, hardware and software changes and partnering with radio manufacturers to incorporate imbedded solutions. The products comprising the CT8000 secure wireless product line will likely continue to evolve and respond to new customer requirements. It is also expected that CipherTalk Secure Voice encryption and CipherSMS Secure Text Messaging will be applied to additional mobile platforms and that customer-specific features will be developed. Depending on customer demand, TCC may also proceed with the development of variants of its DSD72A-SP Military Bulk Encryptor, which would address higher speeds and additional interfaces. On-going research and development in support of product improvements and application variants also is expected to continue. Should the Company choose to embark on a major development program in addition to its traditional research and development activities, engineering staff will have to be added. The Company has sufficient physical resources to support the added staff and believes that adequate technical resources exist in the Boston area to meet potential needs; however we may need financial resources, in addition to cash from operations, to fund a major new development program.

Based on today s product cost structure and operating expenses, we believe that current cash and accounts receivable balances along with the current backlog are sufficient to provide resources to operate the Company over the next twelve months. As a result of our profitability during the first six months of fiscal 2009 and fiscal year 2008 and the current backlog, we are optimistic about future sales growth and other possible sources of financing, including private equity funding or future public stock offerings. However, there is no assurance that any of these goals can be achieved. Due to the uncertainty of the timing of customer orders, future results remain difficult to predict. Receiving orders and contracts in a timely manner is essential to the Company s ability to sustain operations.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. The Company s chief executive officer and chief financial officer have reviewed and evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this quarterly report on Form 10-Q. Based on that review and evaluation, the chief executive officer and chief financial officer have concluded that the Company s current disclosure controls and procedures, as designed and implemented, are effective to ensure that such officers are provided with information relating to the Company required to be disclosed in the reports the Company files or submits under the Exchange Act and that such information is recorded, processed, summarized and reported within the specified time periods.

Changes in internal control over financial reporting. There were no changes in the Company s internal control over financial reporting that occurred during the quarter ended March 28, 2009 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II. Other Information

Item 1. Legal Proceedings

There were no legal proceedings pending against or involving the Company during the period covered by this quarterly report.

Item 1A. Risk Factors

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

On February 9, 2009, the Company held its Annual Meeting of Stockholders at the Company s corporate headquarters in Concord, Massachusetts. At that meeting, two directors were elected to serve on the Board of Directors as Class III directors for a term of three years expiring at the 2012 Annual Meeting of Stockholders. Each of Carl H. Guild, Jr. and Thomas E. Peoples received 1,284,275 votes, and 52,378 votes were withheld from each such nominee. Messrs. Guild and Peoples are joined by Mitchell B. Briskin and Robert T. Lessard on the Board of Directors of the Company. Also at the meeting, stockholders voted to ratify the appointment of Vitale, Caturano & Company, Ltd. as the independent registered public accounting firm for the Company for the fiscal year ending September 26, 2009. Vitale, Caturano & Company, Ltd. received 1,329,177 votes in favor of its appointment, 6,427 votes against and 1,047 shares were not voted.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

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
32.1	Certifications of Chief Executive and Chief Financial Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements 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
(Registrant)

May 12, 2009 Date	By:	/s/ Carl H. Guild, Jr. Carl H. Guild, Jr., President and Chief Executive Officer
May 12, 2009 Date	By:	/s/ Michael P. Malone Michael P. Malone, Chief Financial Officer

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EXHIBIT INDEX

Exhibit Number	Description
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
32.1	Certifications of Chief Executive and Chief Financial Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002