TECHNICAL COMMUNICATIONS CORP
Form 10-Q
May 17, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended April 2, 2016

¨Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _______________ to _______________

Commission File Number: 001-34816

TECHNICAL COMMUNICATIONS CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts	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 x No ¨

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date. 1,839,877 shares of Common Stock, $0.10 par value, outstanding as of May 13, 2016.

INDEX

TECHNICAL COMMUNICATIONS CORPORATION AND SUBSIDIARY

Consolidated Balance Sheets

	April 2, 2016 (unaudited)	October 3, 2015
Assets		
Current Assets:		
Cash and cash equivalents	$ 3,500,131	$ 2,276,511
Restricted cash	348,194	363,358
Marketable securities - held to maturity	206,099	307,673
Accounts receivable - trade	170,966	1,790,856
Inventories, net	1,938,470	1,850,885
Other current assets	259,378	132,792
Total current assets	6,423,238	6,722,075
Marketable securities - held to maturity	645,071	761,842
Equipment and leasehold improvements	4,511,343	4,480,343
Less: accumulated depreciation and amortization	(4,305,725)	(4,223,497)
Equipment and leasehold improvements, net	205,618	256,846
Cost method investment	-	275,000
Total Assets	$ 7,273,927	$ 8,015,763
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 141,480	$ 179,584
Accrued liabilities:		
Accrued compensation and related expenses	245,611	244,290
Customer deposits	60,199	41,220
Other current liabilities	84,783	136,810
Income taxes payable	43,261	41,117
Total current liabilities	575,334	643,021
Commitments and contingencies		
Stockholders' Equity:		
Common stock, par value $0.10 per share; 7,000,000 shares authorized; 1,839,877 shares issued and outstanding at April 2, 2016 and October 3, 2015	183,988	183,988
Additional paid-in capital	4,116,488	4,110,096
Retained earnings	2,398,117	3,078,658
Total stockholders' equity	6,698,593	7,372,742
Total Liabilities and Stockholders' Equity	$ 7,273,927	$ 8,015,763

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

TECHNICAL COMMUNICATIONS CORPORATION AND SUBSIDIARY

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended	
	April 2, 2016	March 28, 2015
Net sales	$557,432	$ 2,372,575
Cost of sales	358,379	649,334
Gross profit	199,053	1,723,241
Operating expenses:		
Selling, general and administrative	724,643	765,398
Product development	202,228	752,979
Total operating expenses	926,871	1,518,377
Operating (loss) profit	(727,818)	204,864
Other income:		
Gain on sale of cost method investment	462,283	-
Interest income	2,788	5,121
Total other income	465,071	5,121
(Loss) income before provision for income taxes	(262,747)	209,985
Provision for (benefit from) income taxes	-	-
Net (loss) income	$(262,747)	$ 209,985
Net (loss) income per common share:		
Basic	$(0.14)	$ 0.11
Diluted	$(0.14)	$ 0.11
Weighted average shares:		
Basic	1,839,877	1,838,921
Diluted	1,839,877	1,846,399

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

TECHNICAL COMMUNICATIONS CORPORATION AND SUBSIDIARY

Consolidated Statements of Operations

(Unaudited)

	Six Months Ended	
	April 2, 2016	March 28, 2015
Net sales	$1,536,834	$3,255,721
Cost of sales	770,956	920,365
Gross profit	765,878	2,335,356
Operating expenses:		
Selling, general and administrative	1,409,094	1,521,424
Product development	505,808	1,342,544
Total operating expenses	1,914,902	2,863,968
Operating loss	(1,149,024)	(528,612)
Other income:		
Gain on sale of cost method investment	462,283	-
Interest income	6,200	11,016
Total other income	468,483	11,016
Loss before benefit from income taxes	(680,541)	(517,596)
Benefit from income taxes	-	-
Net loss	$(680,541)	$(517,596)
Net loss per common share:		
Basic	$(0.37)	$(0.28)
Diluted	$(0.37)	$(0.28)
Weighted average shares:		
Basic	1,839,877	1,838,921
Diluted	1,839,877	1,838,921

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

Page 3

TECHNICAL COMMUNICATIONS CORPORATION AND SUBSIDIARY

Consolidated Statements of Comprehensive (Loss) Income

(Unaudited)

	Three Months Ended	
	April 2, 2016	March 28, 2015
Net (loss) income	$(262,747)	$ 209,985
Unrealized gain on available for sale securities, net of tax	-	935
Comprehensive loss (income)	$(262,747)	$ 210,920

	Six Months Ended	
	April 2, 2016	March 28, 2015
Net loss	$(680,541)	$ (517,596)
Unrealized gain on available for sale securities, net of tax	-	2,916
Comprehensive loss	$(680,541)	$ (514,680)

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

Page 4

TECHNICAL COMMUNICATIONS CORPORATION AND SUBSIDIARY

Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended	
	April 2, 2016	March 28, 2015
Operating Activities:		
Net loss	$(680,541)	$ (517,596)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	82,228	102,128
Stock-based compensation	6,392	74,306
Amortization of premium on held to maturity securities	18,345	24,555
Gain on sale of cost method investment	(462,283)	-
Changes in certain operating assets and liabilities:		
Accounts receivable	1,619,890	(1,457,187)
Inventories	(87,585)	(83,113)
Income taxes payable / receivable	-	(982)
Other current assets	(50,769)	20,355
Customer deposits	18,979	(108,456)
Accounts payable and other accrued liabilities	(86,666)	117,786
Net cash provided by (used in) operating activities	377,990	(1,828,204)
Investing Activities:		
Proceeds from sale of cost method investment	661,466	-
Additions to equipment and leasehold improvements	(31,000)	-
Purchase of cost method investment	-	(275,000)
Decrease in restricted cash	15,164	-
Proceeds from maturities of marketable securities	200,000	497,000
Net cash provided by investing activities	845,630	222,000
Net increase (decrease) in cash and cash equivalents	1,223,620	(1,606,204)
Cash and cash equivalents at beginning of the period	2,276,511	3,210,237
Cash and cash equivalents at end of the period	$3,500,131	$ 1,604,033

Supplemental Disclosures:

Interest paid	$-	$ -
Income taxes paid	1,856	982
Escrow deposit held on sale of cost method investment	75,817	-

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

TECHNICAL COMMUNICATIONS CORPORATION AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Interim Financial Statements

The accompanying unaudited consolidated financial statements of Technical Communications Corporation and its wholly-owned subsidiary (collectively the "Company" or "TCC") include all adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position and 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 October 1, 2016.

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 ("SEC") rules and regulations. The accompanying unaudited consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and the notes thereto in the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 2015 as filed with the SEC.

We follow accounting standards set by the Financial Accounting Standards Board, commonly referred to as the FASB. The FASB sets generally accepted accounting principles ("GAAP") that we follow to ensure we consistently report our financial condition, results of operations, and cash flows. References to GAAP issued by the FASB in these footnotes are to the *FASB Accounting Standards Codification*™ - sometimes referred to as the Codification or ASC.

It is anticipated that cash from operations will fund our near-term research and development and marketing activities at least through the end of the second quarter of fiscal 2017. We also believe that in the long term, based on current billable activities, cash from operations will be sufficient to meet the development goals of the Company, although we can give no assurances. Any increase in development activities - either billable or new product related - will require additional resources, which we may not be able to fund through cash from operations. We plan to continue to closely monitor operating expenses and will reduce them if necessary. In circumstances where resources may be insufficient, the Company will look to other sources of financing, including debt and/or equity investments, although we can give no assurances that the Company will be successful in obtaining such financing.

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

Basis of Presentation

The accompanying unaudited 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 unaudited consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these unaudited consolidated financial statements requires management to make estimates and judgments 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 reporting periods.

On an ongoing basis, management evaluates its estimates and judgments, including but not limited to those related to revenue recognition, inventory reserves, receivable reserves, marketable securities, impairment of long-lived assets, income taxes, fair value of financial instruments 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 values 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.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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

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.

We perform funded research and development and technology development for commercial companies and government agencies under both cost reimbursement and fixed-price contracts. Cost reimbursement contracts provide for the reimbursement of allowable costs and, in some situations, the payment of a fee. These contracts may contain incentive clauses providing for increases or decreases in the fee depending on how actual costs compare with a budget. Revenue from cost reimbursement contracts is recognized as services are performed. On fixed-price contracts that are expected to exceed one year in duration, revenue is recognized pursuant to the proportional performance method based upon the proportion of actual costs incurred to date to the total estimated costs for the contract. In each type of contract, we receive periodic progress payments or payments upon reaching interim milestones, and we retain the rights to the intellectual property developed in government contracts. All payments to TCC for work performed on contracts with agencies of the U.S. government are subject to audit and adjustment by the Defense Contract Audit Agency. Adjustments are recognized in the period made. There have been no government audits in recent years and the Company believes the result of such audits, should they occur, would not have a material adverse effect on its financial position or results of operations. When current estimates of total contract revenue and contract costs for a product development contract indicate a loss, a provision for the entire loss on the contract is recorded. Any losses incurred in performing funded research and development projects are recognized as funded research and development expenses.

Cost of product revenue includes material, labor and overhead. Costs incurred in connection with funded research and development are included in cost of sales. Product development costs are charged to billable engineering services, bid and proposal efforts or business development activities, as appropriate. Product development costs charged to billable projects are recorded as cost of sales; engineering costs charged to bid and proposal efforts are recorded as selling expenses; and product development costs charged to business development activities are recorded as marketing expenses. Product development costs consist primarily of costs associated with personnel, outside contractor and engineering services, supplies and materials.

Inventories

We value our inventory at the lower of actual cost (based on the first-in, first-out method) to purchase and/or manufacture or the current estimated market value (based on the estimated selling prices, less the cost to sell) of the inventory. We periodically review inventory quantities on hand and record 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 are expected to 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 were to deteriorate.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

Accounts Receivable

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. The estimated allowance for uncollectible amounts is based primarily on a specific analysis of accounts in the receivable portfolio and historical write-off experience. While management believes the allowance to be adequate, if the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, which would reduce net income. In addition, if the Company becomes aware of a customer's inability to meet its financial obligations to TCC, a specific write-off is recorded in that amount.

Accounting for Income Taxes

The preparation of our unaudited 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. At April 2, 2016 and October 3, 2015, we recorded a full valuation allowance against our net deferred tax assets of approximately $3.0 million 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 operations.

The Company follows FASB ASC 740-10 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. As of April 2, 2016 and October 3, 2015, the Company had uncertain tax positions relating to research credits taken on a prior year state tax return of $45,631.

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.

Fair Value Measurements

In determining fair value measurements, the Company follows the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements. The topic provides a consistent definition of fair value which focuses on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The topic also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. At April 2, 2016 and October 3, 2015, the carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, inventory, other assets, accounts payable and accrued liabilities approximate fair value because of their short-term nature.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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 or 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 or 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's 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 investment.

The Company's held to maturity securities are comprised of investments in municipal bonds. These securities represent ownership in individual bonds issued by municipalities within the United States. The value of these securities is disclosed in Note 6. The Company also holds money market mutual funds in a brokerage account, which are classified as cash equivalents and measured at fair value. The fair value of these investments is based on quoted prices from recognized pricing services (e.g. Standard & Poor's, Bloomberg, etc.) or, in the case of money market mutual funds, at their closing published net asset value.

The Company assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Company's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. During the six month period ended April 2, 2016 and the year ended October 3, 2015, there were no transfers between levels.

As of April 2, 2016 and October 3, 2015, the Company did not hold any assets or liabilities measured at fair value on a recurring basis classified as Level 2 or Level 3. At April 2, 2016 and October 3, 2015, the Level 1 assets measured at fair value consisted of money market funds valued at $859,278 and $1,385,201, respectively.

There were no assets or liabilities measured at fair value on a nonrecurring basis at April 2, 2016 or October 3, 2015.

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the calculated fair value of the award. The expense is recognized over the participant’s requisite service period, generally the vesting period of the award. The related excess tax benefit received upon the exercise of stock options, if any, is reflected in the Company’s statement of cash flows as a financing activity. There were no excess tax benefits recorded during the six month periods ended April 2, 2016 and March 28, 2015.

The Company uses the Black-Scholes option pricing model as the method for determining the estimated fair value of its stock awards. The Black-Scholes method of valuation requires several assumptions: (1) the expected term of the stock award, (2) the expected future stock price volatility over the expected term, (3) a risk-free interest rate and (4) the expected dividend rate. The expected term represents the expected period of time the Company believes the options will be outstanding based on historical information.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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 share-based compensation.

There were 14,000 options granted during the six month period ended April 2, 2016 and none during the six month period ended March 28, 2015.

The following table summarizes stock-based compensation costs included in the Company's consolidated statements of operations for the three and six month periods ended April 2, 2016 and March 28, 2015:

	April 2, 2016		March 28, 2015	
	3 months	6 months	3 months	6 months
Cost of sales	$-	$ -	$3,801	$7,850
Selling, general and administrative expenses	2,231	4,680	11,965	23,942
Product development expenses	343	1,712	21,245	42,514
Total share-based compensation expense before taxes	$2,574	$ 6,392	$37,011	$74,306

As of April 2, 2016 and March 28, 2015, there was $55,165 and $66,368, respectively, of unrecognized compensation expense related to options outstanding. The unrecognized compensation expense will be recognized over the remaining requisite service period. As of April 2, 2016, the weighted average period over which the compensation expense is expected to be recognized is 4.4 years.

The Company had stock options outstanding under the following stock option plans as of April 2, 2016: the 2001 Stock Option Plan, the 2005 Non-Statutory Stock Option Plan and the 2010 Equity Incentive Plan. There were options to purchase an aggregate 257,981 shares outstanding under such plans at April 2, 2016. Vesting periods for options are at the discretion of the Board of Directors and typically range between zero and five years. Options under these plans are granted with an exercise price equal to fair market value at time of grant and have a term of ten years from the date of grant.

As of April 2, 2016, there were no shares available for new option grants under the 2001 Stock Option Plan and the 2005 Non-Statutory Stock Option Plan; there were 46,019 shares available for grant under the 2010 Equity Incentive

Plan.

The following table summarizes stock option activity during the first six months of fiscal 2016:

	Options Outstanding Number of Shares			Weighted Average	Weighted Average
	Unvested	Vested	Total	Exercise Price	Contractual Life
Outstanding, October 3, 2015	18,060	236,921	254,981	$ 8.49	4.83 years
Grants	-	-	-		
Vested	(740)	740	-	11.61	
Exercises	-	-	-		
Cancellations/forfeitures	(600)	(10,400)	(11,000)	3.22	
Outstanding, January 2, 2016	16,720	227,261	243,981	$ 8.73	4.76 years
Grants	14,000	-	14,000	2.90	
Vested	(300)	300	-	4.88	
Exercises	-	-	-		
Outstanding, April 2, 2016	30,420	227,561	257,981	$ 8.41	4.80 years

Page 10

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

Information related to the stock options vested and expected to vest as of April 2, 2016 is as follows:

Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Exercisable Number of Shares	Exercisable Weighted-Average Exercise Price
$2.01 - $3.00	14,000	9.86	$ 2.90	-	-
$3.01 - $4.00	16,600	0.34	$ 3.66	16,600	$ 3.66
$4.01 - $5.00	42,000	6.39	$ 4.54	27,400	$ 4.78
$5.01 - $10.00	61,600	4.41	$ 7.57	59,780	$ 7.59
$10.01 - $15.00	123,781	4.49	$ 11.41	123,781	$ 11.41
	257,981	4.80	$ 8.41	227,561	$ 9.04

The aggregate intrinsic value of the Company's "in-the-money" outstanding and exercisable options as of April 2, 2016 and October 3, 2015 was $0. Nonvested stock options are subject to the risk of forfeiture until the fulfillment of specified conditions.

NOTE 2. Inventories

Inventories consisted of the following:

	April 2, 2016	October 3, 2015
Finished goods	$ 18,624	$ 8,015
Work in process	427,001	662,575
Raw materials	1,492,845	1,180,295
	$ 1,938,470	$ 1,850,885

NOTE 3. Income Taxes

The Company has not recorded an income tax benefit on its net loss for the three and six month periods ended April 2, 2016 and March 28, 2015 due to its uncertain realizability. During previous fiscal years, the Company recorded a valuation allowance for the full amount of its net deferred tax assets since it could not predict the realization of these assets.

In prior years, the Company recorded a provision for uncertain tax positions. As of April 2, 2016 and October 3, 2015, the Company had uncertain tax positions relating to research credits taken on a prior year state tax return of $45,631.

NOTE 4. Loss Per Share

Outstanding potentially dilutive stock options which were not included in the net loss per share amounts as their effect would have been anti-dilutive were as follows: 257,981 shares at April 2, 2016 and 268,612 shares at March 28, 2015.

NOTE 5. Major Customers and Export Sales

During the three months ended April 2, 2016, the Company had one customer that represented 90% of net sales as compared to the three months ended March 28, 2015, during which the Company had two customers that represented 94% (76% and 18%) of net sales. During the six months ended April 2, 2016, the Company had two customers that represented 88% (58% and 30%, respectively) of net sales as compared to the six months ended March 28, 2015, during which three customers represented 87% (57%, 17% and 13%, respectively) of net sales.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

A breakdown of foreign and domestic net sales for the three and six month periods ended April 2, 2016 and March 28, 2015 is as follows:

	April 2, 2016		March 28, 2015	
	3 months	6 months	3 months	6 months
Domestic	$537,236	$1,434,101	$515,842	$1,280,588
Foreign	20,196	102,733	1,856,733	1,975,133
Total sales	$557,432	$1,536,834	$2,372,575	$3,255,721

The Company sold products into one foreign country during the three month period ended April 2, 2016 and two foreign countries during the three month period ended March 28, 2015. The Company sold products into three foreign countries during the six month period ended April 2, 2016 and five foreign countries during the six month period ended March 28, 2015. A sale is attributed to a foreign country based on the location of the contracting party. Domestic revenue may include the sale of products shipped through domestic resellers or manufacturers to international destinations. The table below summarizes our foreign revenues by country as a percentage of total foreign revenue.

	April 2, 2016		March 28, 2015	
	3 months	6 months	3 months	6 months
Egypt	-	37 %	97 %	93 %
Philippines	100 %	20 %	-	-
Saudi Arabia	-	43 %	-	-
Other	-	-	3 %	7 %

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

	April 2, 2016		March 28, 2015	
	3 months	6 months	3 months	6 months
Mid-East and Africa	-	80 %	97 %	94 %
Far East	100 %	20 %	3 %	6 %

NOTE 6. 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. Cash equivalents are invested in money market mutual funds. Money market mutual funds held in a brokerage account are considered available for sale. The Company accounts for marketable securities in accordance with FASB ASC 320, *Investments—Debt and Equity Securities.* All marketable securities must be classified as one of the following: held to maturity, available for sale, or trading. The Company classifies its marketable securities as either available for sale or held to maturity.

Available for sale securities are carried at fair value, with unrealized holding gains and losses reported in stockholders' equity as a separate component of accumulated other comprehensive income (loss). Held to maturity securities are carried at amortized cost. The cost of securities sold is determined based on the specific identification method. Realized gains and losses, and declines in value judged to be other than temporary, are included in investment income.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

As of April 2, 2016, available for sale securities consisted of the following:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market mutual funds	$859,278	$ -	$ -	$859,278

As of April 2, 2016, held to maturity securities consisted of the following:

	Cost	Accrued Interest	Amortization Bond Premium	Amortized Cost	Unrealized Gains	Estimated Fair Value
Municipal bonds	$941,235	$12,500	$ 102,565	$851,170	$ 5,467	$856,637

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

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

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

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

The contractual maturities of held to maturity investments as of April 2, 2016 were as follows:

	Cost	Amortized Cost
Within 1 year	$234,865	$ 206,099
After 1 year through 5 years	706,370	645,071
	$941,235	$ 851,170

The Company's available for sale securities were included in cash and cash equivalents at April 2, 2016 and October 3, 2015.

NOTE 7 Cost Method Investment

On October 30, 2014, the Company made an investment of $275,000 to purchase 11,000 shares of common stock of PulsedLight, Inc., an early stage start-up company located in Bend, Oregon. Our investment represented a 10.8% ownership stake in PulsedLight, Inc. and was accounted for utilizing the cost method of accounting. On January 12, 2016, the Company entered into an agreement to sell its shares in PulsedLight, Inc. The net proceeds to the Company after closing costs and certain liabilities amounted to $737,283, of which the Company received $661,466 at closing and of which $75,817 was deposited in an escrow account in accordance with the terms of the sale that required 10% of the proceeds to be held in escrow for one year. The escrow balance as of April 2, 2016 is included in other current assets within the accompanying consolidated balance sheet.

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 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 its Annual Report on Form 10-K for the fiscal year ended October 3, 2015.

Overview

The Company 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 also sell 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, and commercial entities.

Critical Accounting Policies and Significant Judgments and Estimates

There have been no material changes in the Company's critical accounting policies or critical accounting estimates since October 3, 2015, 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 Unaudited 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 October 3, 2015 as filed with the SEC.

Results of Operations

Three Months ended April 2, 2016 as compared to Three Months ended March 28, 2015

Net Sales

Net sales for the quarter ended April 2, 2016 were $557,000, compared to $2,373,000 for the quarter ended March 28, 2015, a decrease of 77%. Sales for the second quarter of fiscal 2016 consisted of $537,000, or 96%, from domestic sources and $20,000, or 4%, from international customers as compared to the same period in fiscal 2015, during which sales consisted of $516,000, or 22%, from domestic sources and $1,857,000, or 78%, from international customers.

Foreign sales consisted of shipments to one country during the quarter ended April 2, 2016 and two countries during the quarter ended March 28, 2015. A sale is attributed to a foreign country based on the location of the contracting party. Domestic revenue may include the sale of products shipped through domestic resellers or manufacturers to international destinations. The table below summarizes our principal foreign sales by country during the second quarters of fiscal 2016 and 2015:

	2016	2015
Philippines	$20,000	$-
Egypt	-	1,808,000
Vietnam	-	49,000
	$20,000	$1,857,000

For the three months ended April 2, 2016, we recorded revenue under an engineering services contract amounting to $501,000. Product sales revenue was derived primarily from shipments of our narrowband radio encryptors to a foreign customer amounting to $20,000 and our telephone and fax encryptors to a domestic customer for use in a Middle Eastern country amounting to $25,000 during the quarter.

For the three months ended March 28, 2015, product sales revenue was derived primarily from shipments of our DSD 72A-SP military bulk encryption system to a customer in Egypt amounting to $1,808,000. We also sold our link encryptor to a domestic contractor for deployment into the Middle East amounting to $432,000 during the quarter.

Gross Profit

Gross profit for the second quarter of fiscal 2016 was $199,000, compared to gross profit of $1,723,000 for the same period of fiscal 2015. Gross profit expressed as a percentage of sales was 36% for the second quarter of fiscal 2016 as compared to 73% for the same period in fiscal 2015, which decrease was primarily due to the lower margin engineering services sales in fiscal 2016.

Operating Costs and Expenses

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the second quarter of fiscal 2016 were $725,000, compared to $765,000 for the same quarter in fiscal 2015. This decrease of $40,000, or 5%, was primarily attributable to decreases in general and administrative expenses of $64,000, which were partially offset by an increase in selling and marketing expenses of $24,000 during the three months ended April 2, 2016.

The decrease in general and administrative expenses for the three months ended April 2, 2016 was primarily attributable to decreases in personnel-related costs of $38,000 and charitable contributions of $30,000 for the period.

The increase in selling and marketing expenses for the three months ended April 2, 2016 was primarily attributable to increases in product evaluation costs of $60,000 and product demonstration costs of $7,000. These increases were partially offset by decreases in outside consulting costs of $11,000 and engineering support services of $31,000 during the period.

Product Development Costs

Product development costs for the quarter ended April 2, 2016 were $202,000, compared to $753,000 for the quarter ended March 28, 2015. This decrease of $551,000, or 73%, was primarily attributable to decreases in personnel-related costs of $161,000 and outside contractor costs of $111,000. In addition, there were billable engineering services contracts that resulted in decreased product development costs of $281,000 during the period.

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

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 approximately $501,000 of billable engineering services revenue generated during the second quarter of fiscal 2016 and none in the second quarter of fiscal 2015.

Net Loss

The Company incurred a net loss of $263,000 for the second quarter of fiscal 2016, compared to net income of $210,000 for the same period of fiscal 2015. The net loss during the period is primarily attributable to an 88% decrease in gross profit, which was partially offset by a 39% decrease in operating expenses and a gain on the sale of an investment of $462,000 during the second quarter of fiscal 2016.

Six Months ended April 2, 2016 as compared to Six Months ended March 28, 2015

Net Sales

Net sales for the six months ended April 2, 2016 were $1,537,000, compared to $3,256,000 for the six months ended March 28, 2015, a decrease of 53%. Sales for the first six months of fiscal 2016 consisted of $1,434,000, or 93%, from domestic sources and $103,000, or 7%, from international customers as compared to the same period in fiscal

2015, during which sales consisted of $1,281,000, or 39%, from domestic sources and $1,975,000, or 61%, from international customers.

Foreign sales consisted of shipments to three countries during the six months ended April 2, 2016 and five countries during the six months ended March 28, 2015. A sale is attributed to a foreign country based on the location of the contracting party. Domestic revenue may include the sale of products shipped through domestic resellers or manufacturers to international destinations. The table below summarizes our principal foreign sales by country during the first six months of fiscal 2016 and 2015:

	2016	2015
Egypt	$39,000	$1,844,000
Taiwan	-	76,000
Other	64,000	55,000
	$103,000	$1,975,000

For the six months ended April 2, 2016, we recorded revenue under an engineering services contract amounting to $891,000. Product sales revenue was derived primarily from shipments of our narrowband radio encryptors to a domestic customer for deployment into Afghanistan amounting to $464,000 during the period.

For the six months ended March 28, 2015, product sales revenue was derived primarily from shipments of our DSD 72A-SP military bulk encryption system to a customer in Egypt amounting to $1,808,000 and shipments of our narrowband radio encryptors to a domestic customer for deployment into Afghanistan amounting to $546,000. We also sold our link encryptor to a domestic contractor for deployment into the Middle East amounting to $432,000. In addition, the Company made shipments of our narrowband radio encryptors to supply the secure radio and telephone encryption solutions for a domestic prime contractor supporting a government customer in North Africa amounting to $116,000 and sold our internet protocol encryptor to a customer in Taiwan amounting to $76,000 during the period.

Gross Profit

Gross profit for the first six months of fiscal 2016 was $766,000, compared to gross profit of $2,335,000 for the same period of fiscal 2015. Gross profit expressed as a percentage of sales was 50% for the first six months of fiscal 2016 as compared to 72% for the first six months of fiscal 2015, which decrease was primarily due to the lower margin engineering services sales in fiscal 2016. The 67% dollar value decrease in gross profit during the six months ended April 2, 2016 was the result of lower sales volume during the period.

Operating Costs and Expenses

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the first six months of fiscal 2016 were $1,409,000, compared to $1,521,000 for the same period in fiscal 2015. This decrease of $112,000, or 7%, was primarily attributable to decreases in general and administrative expenses of $90,000 and selling and marketing expenses of $22,000 during the six months ended April 2, 2016.

The decrease in general and administrative costs during the first six months of 2016 was primarily attributable to a decrease in personnel-related costs of $60,000, a decrease in professional and other public company fees of $15,000 and a decrease in charitable contributions of $10,000 for the period.

The decrease in selling and marketing expenses for the first six months of 2016 was primarily attributable to decreases in outside consulting costs of $43,000, engineering support of $37,000, marketing efforts of $4,000, product demonstration costs of $3,000 and travel costs of $2,000. These decreases were offset by increases in product evaluation costs of $50,000, bid and proposal efforts of $17,000 and outside commission expense of $6,000 during the period.

Product Development Costs

Product development costs for the six months ended April 2, 2016 were $506,000, compared to $1,343,000 for the six months ended March 28, 2015. This decrease of $837,000, or 62%, was primarily attributable to decreases in personnel-related costs of $289,000 and outside contractor costs of $124,000. In addition, there were billable engineering services contracts that resulted in decreased product development costs of $420,000 during the period.

Product development costs are charged to product development, billable engineering services, bid and proposal efforts or business development activities, as appropriate. Product development costs charged to billable projects are recorded as cost of sales; product development 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.

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 approximately $891,000 of billable engineering services revenue generated during the first six months of fiscal 2016 and none in the same period of fiscal 2015.

Net Loss

The Company generated a net loss of $681,000 for the first six months of fiscal 2016, compared to a net loss of $518,000 for the same period of fiscal 2015. This increase in net loss is primarily attributable to a 67% decrease in gross profit, which was partially offset by a 33% decrease in operating expenses and a gain on the sale of an investment of $462,000 during the first six months of fiscal 2016.

The effects of inflation and changing costs have not had a significant impact on sales or earnings in recent years. As of April 2, 2016, none of the Company’s monetary assets or liabilities was subject to foreign exchange risks. The Company usually includes an inflation factor in its pricing when negotiating multi-year contracts with customers.

Liquidity and Capital Resources

We believe that our overall financial condition remains strong. Our cash, cash equivalents and marketable securities at April 2, 2016 totaled $4,699,000 and we continue to have no long-term debt. It is anticipated that our cash balances and cash generated from operations will be sufficient to fund our near-term research and development and marketing activities.

Cash Requirements

We believe that the combination of existing cash, cash equivalents, and highly liquid short-term investments, together with future cash to be generated by operations, will be sufficient to meet our ongoing operating and capital expenditure requirements for the foreseeable future and at least through the end of the second quarter of fiscal 2017. We also believe that, in the long term, an anticipated improvement of business prospects, current billable activities and cash from operations will be sufficient to meet the Company’s investment in product development, although we can give no assurances. Delays in the timing of significant sales transactions with foreign governments, U.S. government agencies and other organizations may have a significant negative effect on the Company’s operations. Any increase in development activities - either billable or new product related - will require additional resources, which we may not be able to fund through cash from operations. The Company has some ability to mitigate this effect through cost-cutting measures. In circumstances where resources will be insufficient, the Company will look to other sources of financing, including debt and/or equity investments; however, we can provide no guarantees that we will be successful in securing such additional financing.

Sources and Uses of Cash

The following table presents our abbreviated cash flows for the six month periods ended (unaudited):

	April 2, 2016	March 28, 2015
Net loss	$(681,000)	$(518,000)
Changes not affecting cash	(355,000)	201,000
Changes in assets and liabilities	1,414,000	(1,511,000)
Cash provided by (used in) operating activities	378,000	(1,828,000)
Cash provided by investing activities	845,000	222,000
Net change in cash and cash equivalents	1,223,000	(1,606,000)
Cash and cash equivalents - beginning of period	2,277,000	3,210,000
Cash and cash equivalents - end of period	$3,500,000	$1,604,000

Operating Activities

The Company generated approximately $2,206,000 more cash for operating activities in the first six months of fiscal 2016 compared to the same period in fiscal 2015. This increase was primarily attributable to a decrease in accounts receivable during the six month period ended April 2, 2016 as compared to the same period in fiscal 2015.

Investing Activities

Cash provided by investing activities during the first six months of fiscal 2016 increased by approximately $623,000 compared to the same period in fiscal 2015. This change is primarily attributable to the proceeds received on the sale of the Company's cost method investment in fiscal 2016.

Company Facilities

On April 1, 2014, the Company entered into a new lease for its current facilities. This lease is for 22,800 square feet located at 100 Domino Drive, Concord, MA. The Company has been a tenant in this space since 1983. This is the Company's only facility and houses all manufacturing, research and development, and corporate operations. The initial term of the lease is for five years through March 31, 2019 at an annual rate of $171,000. In addition the lease contains options to extend the lease for two and one half years through September 30, 2021 and another two and one half years through March 31, 2024 at an annual rate of $171,000. Rent expense for each of the six month periods ended April 2, 2016 and March 28, 2015 was $85,000.

Backlog

Backlog at April 2, 2016 and October 3, 2015 amounted to $594,000 and $717,000, respectively. The orders in backlog at April 2, 2016 are expected to ship over the next six months depending on customer requirements and product availability.

Performance guaranties

Certain foreign customers require the Company to guarantee bid bonds and performance of products sold. These guaranties typically take the form of standby letters of credit. Guaranties are generally required in amounts of 5% to 10% of the purchase price and last in duration from three months to one year. At October 3, 2015, the Company had four outstanding letters of credit in the amounts of $329,000, $16,000, $14,000 and $4,000. At April 2, 2016 the Company had four outstanding letters of credit in the amounts of $329,000, $15,000, $3,000 and $1,000, which are secured by collateralized bank accounts totaling $348,000. These collateralized bank accounts represent cash which has restrictions on its use.

Research and development

Research and development efforts are undertaken by the Company primarily on its own initiative. In order to compete successfully, the Company must attract and retain qualified personnel, improve existing products and develop new products. No assurances can be given that the Company will be able to hire and train such technical management and sales personnel or successfully improve and develop its products.

During the six months ended April 2, 2016 and March 28, 2015, the Company spent $506,000 and $1,343,000, respectively, on internal product development. The Company also spent $485,000 on billable development efforts during the first six months of fiscal 2016. In the first six months of fiscal 2016, the Company’s total product development costs, including billable efforts, were 26% lower than the same period in fiscal 2015 but in line with its planned commitment to research and development, and reflected the costs of custom development, product capability enhancements and production readiness. It is expected that development expenses for fiscal 2016 will be approximately 20-25% lower than fiscal 2015 levels.

It is anticipated that cash from operations will fund our near-term research and development and marketing activities through at least the end of the second quarter of fiscal 2017. We also believe that, in the long term, based on current billable activities, cash from operations will be sufficient to meet the development goals of the Company, although we can give no assurances. Any increase in development activities - either billable or new product related - will require additional resources, which we may not be able to fund through cash from operations. In circumstances where resources will be insufficient, the Company will look to other sources of financing, including debt and/or equity investments.

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

New Accounting Pronouncements

ASU 2014-09, Revenue From Contracts With Customers, amended by ASU 2015-14 (Topic 606) and ASU 2016-10

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

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

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

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

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

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

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

ASU No. 2016-02, Leases

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

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

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

Other recent accounting pronouncements were issued by the FASB (including its Emerging Issues Task Force), the AICPA and the SEC during the 2015 fiscal year and the first six months of fiscal 2016 but such pronouncements are not believed by management to have a material impact on the Company’s present or future financial statements.

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. 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 April 2, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

There were no legal proceedings pending against or involving the Company or its subsidiary 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. Mine Safety Disclosures

Not applicable.

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 Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Report Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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 17, 2016 Date	By:	/s/ Carl H. Guild, Jr. Carl H. Guild, Jr., President and Chief Executive Officer
May 17, 2016 Date	By:	/s/ Michael P. Malone Michael P. Malone, Chief Financial Officer