TECHNICAL COMMUNICATIONS CORP
Form 10-Q
May 10, 2011

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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 26, 2011

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: 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 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 o (not required)

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. 1,826,519 shares of Common Stock, $0.10 par value, outstanding as of May 6, 2011.

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Exhibit 32.1

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TECHNICAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	March 26, 2011 (Unaudited)	September 25, 2010
Assets		
Current Assets:		
Cash and cash equivalents	$ 7,662,874	$ 11,033,542
Accounts receivable trade, less allowance of $332,748 at March 26, 2011 and September 25, 2010	2,060,735	131,043
Inventories, net	2,963,002	2,613,286
Deferred income taxes	580,225	468,501
Other current assets	135,193	154,133
Total current assets	13,402,029	14,400,505
Equipment and leasehold improvements	3,830,032	3,626,493
Less: accumulated depreciation and amortization	(3,307,497)	(3,201,056)
Equipment and leasehold improvements, net	522,535	425,437
Total Assets	$ 13,924,564	$ 14,825,942
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 236,962	$ 313,932
Customer deposits	230,723	206,114
Accrued liabilities:		
Accrued compensation and related expenses	499,498	801,198
Accrued income taxes	265,351	1,634,880
Accrued expenses	321,870	284,773
Total current liabilities	1,554,404	3,240,897
Stockholders Equity:		
Common stock, par value $0.10 per share; 7,000,000 shares authorized; 1,826,319 and 1,826,217 shares issued and outstanding at March 26, 2011 and September 25, 2010, respectively	182,632	182,622
Additional paid-in capital	3,140,143	3,003,509
Retained earnings	9,047,385	8,398,914
Total stockholders equity	12,370,160	11,585,045

Total Liabilities and Stockholders Equity	$ 13,924,564	$ 14,825,942

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 26, 2011	March 27, 2010
Net sales	$ 3,107,001	$ 3,575,865
Cost of sales	479,673	1,429,298
Gross profit	2,627,328	2,146,567
Operating expenses:		
Selling, general and administrative	723,637	893,785
Product development	960,835	330,849
Total operating expenses	1,684,472	1,224,634
Operating income	942,856	921,933
Other income:		
Interest income	562	762
Income before provision for income taxes	943,418	922,695
Provision for income taxes	428,440	1,010,006
Net income (loss)	$ 514,978	$ (87,311)
Net income (loss) per common share:		
Basic	$ 0.28	$ (0.05)
Diluted	$ 0.27	$ (0.05)
Weighted average shares:		
Basic	1,826,087	1,623,811
Diluted	1,880,632	1,623,811
Dividends paid per common share:	$ 0.10	$ 2.00

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 26, 2011	**March 27, 2010**
Net sales	$ 5,842,246	$ 8,339,880
Cost of sales	1,159,890	2,637,098
Gross profit	4,682,356	5,702,782
Operating expenses:		
Selling, general and administrative	1,399,156	1,631,418
Product development	1,857,101	858,278
Total operating expenses	3,256,257	2,489,696
Operating income	1,426,099	3,213,086
Other income:		
Interest income	1,337	2,038
Income before provision for income taxes	1,427,436	3,215,124
Provision for income taxes	413,747	946,561
Net income	$ 1,013,689	$ 2,268,563
Net income per common share:		
Basic	$ 0.56	$ 1.48
Diluted	$ 0.54	$ 1.31
Weighted average shares:		
Basic	1,826,053	1,537,889
Diluted	1,879,186	1,726,344
Dividends paid per common share:	$ 0.20	$ 2.00

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 26, 2011	**March 27, 2010**
Operating Activities:		
Net income	$ 1,013,689	$ 2,268,563
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	106,441	75,714
Share-based compensation	137,322	99,569
Deferred income taxes	(111,724)	(271,276)
Bad debt expense		100,000
Changes in assets and liabilities:		
Accounts receivable	(1,929,692)	(82,274)
Inventories	(349,716)	127,221
Other current assets	18,940	57,843
Customer deposits	24,609	(1,924,520)
Accounts payable and other accrued liabilities	(1,711,780)	1,668,808
Net cash provided by (used in) operating activities	(2,801,911)	2,119,648
Investing Activities:		
Additions to equipment and leasehold improvements	(203,539)	(67,146)
Net cash used in investing activities	(203,539)	(67,146)
Financing Activities:		
Proceeds from exercise of stock options		809,567
Dividends paid	(365,218)	(3,640,876)
Net cash used in financing activities	(365,218)	(2,831,309)
Net decrease in cash and cash equivalents	(3,370,668)	(778,807)
Cash and cash equivalents at beginning of the period	11,033,542	5,418,419
Cash and cash equivalents at the end of the period	$ 7,662,874	$ 4,639,612

Supplemental Disclosures:

Interest paid	$	$
Income taxes paid	1,745,000	

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

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 24, 2011.

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 25, 2010 as filed with the Securities and Exchange Commission (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.

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 condensed consolidated financial statements, which have been prepared in accordance with GAAP. 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 reporting 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, income taxes 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. 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:

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)

Revenue Recognition

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 where title passes upon entry of the product into the first port in the buyer s country. If the product requires installation to be performed by TCC, 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.

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)

Accounting for Income Taxes

The Company accounts for income taxes using the asset/liability method. Under the asset/liability method, deferred income taxes are recognized at current income tax rates to reflect the tax effect of temporary differences between the consolidated financial reporting basis and tax basis of assets and liabilities. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

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. For the three and six months ended March 26, 2011 and March 27, 2010, the Company had no uncertain tax positions or unrecognized tax benefits. The Company expects no material changes to unrecognized tax positions within the next twelve months.

The Company s policy is to record estimated interest and penalties related to the underpayment of income taxes as a component of its income tax provision. As of and for the three and six month periods ended March 26, 2011 and March 27, 2010, the Company had no interest or tax penalties.

Share-Based Compensation

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. The related excess tax benefit received upon exercise of stock options, if any, is reflected in the Company s statement of cash flows as a financing activity rather than an operating activity.

The Company had the following stock option plans outstanding as of March 26, 2011: the Technical Communications Corporation 2010 Equity Incentive Plan (as amended and restated), the Technical Communications Corporation 2001 Stock Option Plan and the Technical Communications Corporation 2005 Non-Statutory Stock Option Plan. There are an aggregate 750,000 shares authorized under these plans, of which 259,253 and 115,288 were outstanding at March 26, 2011 and September 25, 2010, respectively. Vesting periods are at the discretion of the Board of Directors and typically range between zero and five years. Options under these plans are granted with an exercise price equal to 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 26, 2011, there were no shares available for new option grants under the 2001 Stock Option Plan, there were 41,559 shares available for grant under the 2005 Non-Statutory Stock Option Plan and there were 57,335 shares available for grant under the 2010 Equity Incentive Plan.

The Company selected 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) risk-free interest rate and (4) dividend yield. 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 price of the Company s common stock and the risk free interest rate is based on the U.S. Treasury Note rate. Dividend yield is based on the recurring regular dividend rate declared by the Company. The Company began paying quarterly dividends during fiscal 2010 and effective for the second quarter of fiscal 2011 is utilizing a dividend yield of 4%. 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)

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

	Three and Six Months Ended March 26, 2011 (unaudited)	Three and Six Months Ended March 27, 2010 (unaudited)
Assumptions:		
Option life	5 to 6.5 years	5 years
Risk-free interest rate	1.3% to 2.4%	2.44%
Stock volatility	72% to 73%	77%
Dividend yield	4.0%	-0-

There were 146,165 options granted during the six months ended March 26, 2011 and 14,000 options granted during the six months ended March 27, 2010. There were no options granted during the three months ended March 26, 2011 and 14,000 options granted during the three months ended March 27, 2010.

The following table summarizes share-based compensation costs included in the Company s condensed consolidated income statements for the three and six months ended March 26, 2011 and March 27, 2010 (unaudited):

	March 26, 2011		March 27, 2010	
	3 months	6 months	3 months	6 months
Cost of sales	$ 8,601	$ 8,663	$ 1,695	$ 3,486
Selling, general and administrative expenses	27,799	29,278	64,158	65,803
Product development expenses	59,456	73,896	14,737	30,280
Total share-based compensation expense before taxes	$ 95,856	$ 111,837	$ 80,590	$ 99,569

As of March 26, 2011 and March 27, 2010, there was $801,070 and $151,941, respectively, of unrecognized compensation costs related to options granted. The unrecognized compensation cost will be recognized as the options vest. The weighted average period over which the compensation cost is expected to be recognized is 4.27 years.

The following table summarizes stock option activity during the first six months of fiscal 2011 (unaudited):

	Options Outstanding Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life
Outstanding at September 25, 2010	115,288	$ 5.23	7.14 years
Grants	146,165		
Exercises	(200)		
Cancellations	(2,000)		
Outstanding at March 26, 2011	259,253	$ 8.78	8.17 years

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)

Information related to the stock options vested and expected to vest as of March 26, 2011 is as follows (unaudited):

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	
$0.01 - $1.00	600	2.13	$	0.99	600	$	0.99
$2.01 - $3.00	15,488	4.45	$	3.00	15,488	$	3.00
$3.01 - $4.00	26,400	5.35	$	3.69	18,300	$	3.76
$4.01 - $5.00	20,400	7.81	$	4.76	13,600	$	4.86
$5.01 - $10.00	47,700	7.46	$	6.74	33,900	$	6.93
$10.01 - $15.00	148,665	9.36	$	11.52			
	259,253	8.17	$	8.78	81,888	$	5.09

The aggregate intrinsic value of the Company s in-the-money outstanding and exercisable options as of March 26, 2011 and March 27, 2010 was $394,268 and $268,761, respectively. Unvested common stock options are subject to the risk of forfeiture until the fulfillment of specified conditions.

NOTE 2. Inventories

Inventories consisted of the following:

	March 26, 2011 (unaudited)		September 25, 2010	
Finished goods	$	206,062	$	297,636
Work in process		795,890		282,996
Raw materials		1,961,050		2,032,654
	$	2,963,002	$	2,613,286

NOTE 3. Income Taxes

During the three and six month periods ended March 26, 2011, the Company recorded an income tax provision based on its expected effective tax rate for the year, adjusted by an unutilized federal research credit from the 2010 fiscal year. Recent tax legislation has extended the federal research credit, which was retroactive to January 1, 2010. For purposes of determining the Company s provision for income taxes, this federal research credit was considered fully utilized during the quarter ended December 25, 2010, resulting in a tax benefit. The Company revised its effective tax rate from 17% to 36% during the three months ended March 26, 2011 based on a revision of the full year pre-tax forecast in the second fiscal quarter of 2011.

Deferred tax assets consist of tax credits, inventory differences and other temporary differences. The Company s valuation allowance is related to the temporary differences associated with its inventory. The Company has determined that the tax benefit related to its obsolete inventory will not likely be realized, and therefore has provided a full valuation allowance against the related deferred tax asset. It is the Company s intention to maintain the related inventory items for the foreseeable future to support equipment in the field, and therefore cannot determine when that the tax benefit, if any, will be realized.

During the three and six months ended March 27, 2010, the Company recorded an income tax provision based on its expected effective tax rate for the year. The Company revised its effective tax rate from zero to 30% during the three months ended March 27, 2010 based on a revision of the full year pre-tax forecast in the second fiscal quarter of 2010. In addition, during the quarter ended December 26, 2009, the valuation allowance against deferred tax assets related to the Company s remaining net operating loss carryforwards and tax credit carryforwards was reversed due to the determination by the Company that the benefits of these deferred tax assets would more likely than not be realized in future years, which contributed to the effective tax rate for the first fiscal quarter of 2010.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)

NOTE 4. Earnings Per Share

Basic and diluted earnings per share were calculated as follows (unaudited):

	March 26, 2011		March 27, 2010	
	3 months	6 months	3 months	6 months
Net income	$ 514,978	$ 1,013,689	$ (87,311)	$ 2,268,563
Weighted average shares outstanding basic	1,826,087	1,826,053	1,623,811	1,537,889
Dilutive effect of stock options	54,545	53,133		188,455
Weighted average shares outstanding- diluted	1,880,632	1,879,186	1,623,811	1,726,344
Basic net income per share	$ 0.28	$ 0.56	$ (0.05)	$ 1.48
Diluted net income per share	$ 0.27	$ 0.54	$ (0.05)	$ 1.31

Outstanding potentially dilutive stock options, which were not included in the earnings per share calculations, because their inclusion would have been anti-dilutive, were 148,665 at March 26, 2011 and 48,100 at March 27, 2010.

NOTE 5. Major Customers and Export Sales

During the quarter ended March 26, 2011, the Company had one customer that represented 96% of net sales as compared to the quarter ended March 27, 2010, where three customers represented 91% (42%, 32% and 17%, respectively) of net sales. During the six months ended March 26, 2011, the Company had three customers that represented 94% (57%, 27% and 10%, respectively) of net sales as compared to the six months ended March 27, 2010, where three customers represented 88% (43%, 26% and 19%, respectively) of net sales.

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

	March 26, 2011		March 27, 2010	
	3 months	6 months	3 months	6 months
Domestic	$ 3,103,341	$ 5,770,120	$ 2,943,695	$ 7,619,377
Foreign	3,660	72,126	632,170	720,503
Total sales	$ 3,107,001	$ 5,842,246	$ 3,575,865	$ 8,339,880

The Company sold products into four countries during each of the six month periods ended March 26, 2011 and March 27, 2010. 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).

	March 26, 2011		March 27, 2010	
	3 months	6 months	3 months	6 months
Thailand			93.6%	82.2%
Saudi Arabia	23.0%	83.2%	3.8%	3.4%
Slovakia		5.4%		12.1%
Bahrain	77.0%	6.9%		

Other	4.5%	2.6%	2.3%

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)

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

	March 26, 2011		March 27, 2010	
	3 months	**6 months**	**3 months**	**6 months**
North America (excluding the U.S.)				
Central and South America				
Europe		5.0%		12.1%
Mid-East and Africa	100%	95.0%	6.4%	5.7%
Far East			93.6%	82.2%

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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 SEC, including its Quarterly Report on Form 10-Q for the quarter ended December 25, 2010 and its Annual Report on Form 10-K for the fiscal year ended September 25, 2010.

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 primarily from the sale of these products, which have traditionally been to foreign governments either through direct sale, pursuant to a U.S. government contract or made as a sub-contractor to domestic corporations under contract with the U.S. government. We have also sold these products to commercial entities and U.S. government agencies. 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 September 25, 2010, 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 25, 2010 as filed with the SEC.

Results of Operations
Three Months ended March 26, 2011 as compared to Three Months ended March 27, 2010

Net Sales

Net sales for the quarter ended March 26, 2011 were $3,107,000, as compared to $3,576,000 for the quarter ended March 27, 2010, a decrease of 13%. Sales for the second quarter of fiscal 2011 consisted of $3,103,000, or 99.9%, from domestic sources and $4,000, or 0.1%, from international customers as compared to the same period in fiscal 2010, during which sales consisted of $2,944,000, or 82.3%, from domestic sources and $632,000, or 17.7%, from international customers.

Foreign sales consisted of shipments to two countries during the quarter ended March 26, 2011 and three countries during the quarter ended March 27, 2010. 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 2011 and 2010:

	2011	2010
Thailand	$	$ 592,000
Other	4,000	40,000
	$ 4,000	$ 632,000

Revenue for the second quarter of fiscal 2011 was primarily derived from the sale of the Company s narrowband radio encryptors to a U.S. radio manufacturer for deployment into Afghanistan amounting to $2,984,000. We also had a sale of our high speed bulk encryptors amounting to $107,000 under a contract with a domestic customer.

Revenue for the second quarter of fiscal 2010 was primarily derived from the sale of the Company s narrowband radio encryptors to a U.S. radio manufacturer amounting to $1,515,000 and to a domestic company amounting to $241,000. We also had billings under programs for engineering services work amounting to $1,152,000 during the period. In addition, we shipped our secure telephone, fax, and data encryptors to a customer in Thailand during the quarter amounting to $592,000.

Gross Profit

Gross profit for the second quarter of fiscal 2011 was $2,627,000 as compared to gross profit of $2,147,000 for the same period of fiscal 2010, an increase of 22%. Gross profit expressed as a percentage of sales was 85% for the second quarter of fiscal 2011 and 60% for the second quarter of fiscal 2010. The increase in the gross profit percentage was primarily the result of higher margin radio encryptor sales during the quarter ended March 26, 2011 and lower margin engineering services revenue during the second quarter of fiscal 2010.

Operating Costs and Expenses

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the second quarter of fiscal 2011 were $724,000, as compared to $894,000 for the same quarter in fiscal 2010. This decrease of 19% was attributable to a decrease in general and administrative expenses of $85,000 and a decrease in selling and marketing expenses of $85,000 during the second quarter of the 2011 fiscal year.

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The decrease in general and administrative costs during the second quarter of 2011 was primarily attributable to a decrease in personnel-related costs of $90,000 and a decrease in charitable contributions of $15,000, which were partially offset by an increase in investor relation and other public company related costs of $24,000.

The decrease in selling and marketing costs for the three months ended March 26, 2011 was attributable to decreases in third party marketing agreements of $111,000, travel costs of $5,000, bid and proposal efforts of $7,000 and engineering sales support expenses of $18,000 during the period. These decreases were partially offset by increases in product evaluation costs of $52,000 and product demonstration costs of $8,000.

Product Development Costs

Product development costs for the quarter ended March 26, 2011 were $961,000, compared to $331,000 for the quarter ended March 27, 2010, an increase of $630,000 or 190%. The increase was primarily attributable to decreases in billable engineering services work, bid and proposal efforts and product evaluation work, which increased product development costs by approximately $626,000 during the second quarter of fiscal 2011. The increase was also attributable to an increase in personnel-related costs of $69,000, offset by decreases in outside consulting fees of $60,000 and project materials and supplies costs of $24,000.

Product development costs are charged to billable engineering services, bid and proposal efforts or product development as appropriate. 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 no billable engineering services revenue generated during the second quarter of fiscal 2011 and $1,152,000 generated during the same period of fiscal 2010.

Net Income

The Company generated net income of $515,000 for the second quarter of fiscal 2011, as compared to a net loss of $87,000 for the same period of fiscal 2010. This increase was primarily attributable to a substantial decrease in the provision for income tax expense recorded during the second quarter of 2011 of $428,000 as compared to an income tax expense of $1,010,000 recorded during the same period of fiscal 2010. Higher margin sales during the quarter ended March 26, 2011 generated a higher gross profit despite a lower sales volume as compared to the quarter ended March 27, 2011. This higher gross profit was substantially offset by higher operating expenses. The Company recorded an income tax provision during the quarter based on its expected effective tax rate for the 2011 fiscal year. The effective tax rate was revised from 17% to 36% during the three months ended March 26, 2011 based on a revision of the full year pre-tax forecast in the second fiscal quarter of 2011.

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Six Months ended March 26, 2011 as compared to Six Months ended March 27, 2010

Net Sales

Net sales for the six months ended March 26, 2011 were $5,842,000, as compared to $8,340,000 for the six months ended March 27, 2010, a decrease of 30%. Sales for the first six months of fiscal 2011 consisted of $5,770,000, or 99%, from domestic sources and $72,000, or 1%, from international customers as compared to the same period in fiscal 2010, during which sales consisted of $7,619,000, or 91%, from domestic sources and $721,000, or 9%, from international customers.

Foreign sales consisted of shipments to four countries during each of the six month periods ended March 26, 2011 and March 27, 2010. 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 2011 and 2010:

	2011	2010
Thailand		$ 592,000
Slovakia	$ 4,000	88,000
Saudi Arabia	60,000	25,000
Other	8,000	16,000
	$ 72,000	$ 721,000

Revenue for the first six months of fiscal 2011 was derived in part from the final shipment of our high speed bulk encryptors amounting to $1,562,000 under a contract with a domestic customer, the final shipment of products under a contract with the U.S. Army, Communications and Electronics Command (CECOM) during the period amounting to $610,000, and the sale of the Company s narrowband radio encryptors to a U.S. radio manufacturer amounting to $3,329,000. We also had billings under programs for engineering services work amounting to $164,000 for the three month period ended December 25, 2010.

Revenue for the first six months of fiscal 2010 was primarily derived from the final shipment of products under the original $5.75 million contract with CECOM during the period amounting to $3,591,000. In addition, the Company had billings under programs for engineering services work amounting to $2,146,000 for the six month period ended March 27, 2010. Revenue was also derived from the sale of the Company s narrowband radio encryptors to a U.S. radio manufacturer amounting to $1,564,000 and to a domestic company amounting to $256,000. We also shipped our secure telephone, fax, and data encryptors to a customer in Thailand amounting to $592,000 during the first six months of fiscal 2010.

Gross Profit

Gross profit for the first six months of fiscal 2011 was $4,682,000 as compared to gross profit of $5,703,000 for the same period of fiscal 2010, a decrease of 18%. Gross profit expressed as a percentage of sales was 80% for the six months ended March 26, 2011 as compared to 68% for the six months ended March 27, 2010. The increase in the gross profit percentage was primarily the result of higher margin radio encryptor sales during the six months ended March 26, 2011 and lower margin engineering services revenue during the six months ended March 27, 2010.

Operating Costs and Expenses

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the six months ended March 26, 2011 were $1,399,000, as compared to $1,631,000 for the six months ended March 27, 2010. This decrease of 14% was attributable to a decrease in general and administrative expenses of $130,000 and a decrease in selling and marketing expenses of $102,000 during the first six months of the 2011 fiscal year.

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The decrease in general and administrative costs during the first six months of 2011 was primarily attributable to decreases in personnel-related costs of $81,000 and professional fees of $10,000 and to a decrease in bad debt expense of $100,000, which was recorded during the six months ended March 27, 2010. These decreases were partially offset by increases in investor relation and other public company related costs of $32,000 and charitable contributions of $15,000.

The decrease in selling and marketing costs for the six months ended March 26, 2011 was attributable to decreases in outside sales commissions of $153,000, bid and proposal efforts of $14,000, outside consulting fees of $13,000 and an increase in billable customer support efforts of $14,000 as compared to the same period in fiscal 2010. These decreases was partially offset by increases in product evaluation efforts of $64,000, engineering sales support expenses of $13,000, personnel-related costs of $16,000 and travel costs of $7,000.

Product Development Costs

Product development costs for the six months ended March 26, 2011 were $1,857,000, compared to $858,000 for the six months ended March 27, 2010, an increase of $999,000 or 116%. The increase was primarily attributable to decreases in billable engineering services work, bid and proposal efforts and product evaluation work, which increased product development costs by approximately $1,050,000 during the six months ended March 26, 2011, as compared to the same period in fiscal 2010. The increase was also attributable to an increase in personnel-related costs of $141,000, offset by decreases in outside consulting fees of $184,000 and project materials and supplies costs of $16,000 during the first half of fiscal 2011.

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 $164,000 of billable engineering services revenue generated during the first six months of fiscal 2011 and $2,146,000 generated during the same period of fiscal 2010.

Net Income

The Company s net income was $1,014,000 for the first six months of fiscal 2011, as compared to $2,269,000 for the same period of fiscal 2010. This 55% decrease in net income is primarily attributable to a 30% decrease in sales volume, offset partially by substantially higher margin sales in fiscal 2011, and a 31% increase in operating expenses, which was partially offset by the recognition of an income tax expense of $414,000 for the six month period ended March 26, 2011 as compared to an income tax expense in the same period last year of $947,000. The Company recorded an income tax provision during the six months ended March 26, 2011 based on its expected effective tax rate for the 2011 fiscal year. The effective tax rate was revised from 17% to 36% during the three months ended March 26, 2011 based on a revision of the full year pre-tax forecast in the second fiscal quarter of 2011.

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.

The effects of inflation and changing costs have not had a significant impact on sales or earnings in recent years. As of March 26, 2011, 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 decreased by $3,371,000 to $7,663,000 as of March 26, 2011, from a balance of $11,034,000 at September 25, 2010. This decrease was primarily attributable to income tax payments of $1,745,000, the payment of cash dividends of $365,000, capital acquisitions of $204,000 and increases in accounts receivable of $1,930,000 and inventory of $350,000 during the first six months of fiscal 2011. These decreases were partially offset by net income of $1,033,000 for the six months ended March 26, 2011.

We recently completed engineering services programs valued at $4.78 million in the aggregate. These programs were billed monthly for time and materials incurred. We billed the remaining $109,000 during the first six months of our 2011 fiscal year under these programs. In addition, in April 2008 we were awarded a contract from the U.S. Army, CECOM for upgrades and supplies to be shipped to Egypt amounting to $5,750,000, with a subsequent amendment adding $610,000 of funding. The balance of the order was shipped during the first quarter of fiscal 2011 ended December 25, 2010. We have also received additional orders for our radio encryptors for use in Afghanistan amounting to $5,210,000. These orders are expected to ship over the next 12 months.

Backlog at March 26, 2011 and March 27, 2010 amounted to $4,322,000 and $6,027,000, respectively. The orders in backlog at March 26, 2011 are expected to ship during the remainder of the 2011 fiscal year depending on customer requirements and product availability.

The Company has a line of credit agreement with Bank of America (the Bank) for a line of credit 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 three months ended March 26, 2011.

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 26, 2011 and September 25, 2010 there were no outstanding standby letters of credit. The Company secures its outstanding standby letters of credit with the line of credit facility with the Bank.

In April 2007, 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 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 each of the six month periods ended March 26, 2011 and March 27, 2010 was $80,000.

The Company does not anticipate any significant capital expenditures during the remainder of fiscal 2011.

During the first six months of fiscal 2011, the Company increased its investment in internal product development by approximately 116%. The level of internal product development during the next six months of fiscal 2011 is expected to be consistent with the same period of fiscal 2010. During the remainder of the fiscal year the Company will evaluate several technical options for enhancing the DSP 9000 radio encryption product line, which may include cryptography modifications, hardware and software changes and partnering with radio manufacturers to incorporate imbedded solutions. TCC also expects to complete systems testing by the end of fiscal 2011 of its new 72B product, a high speed, SONET/SDH optical encryptor, which is designed to provide full-rate encryption capability at 155mbs and 622mbs speeds. This encryptor is expected to be compliant with Federal Information Processing Standard level 140-2 and is being offered in three configurations covering applications for commercial telecommunications providers through highly ruggedized military and government requirements. TCC expects that this 72B encryptor family will provide fully interoperable operations between office and harsh field environments.

On-going research and development in support of product improvements and application variants also is expected to continue. During the last six months of fiscal 2011 we plan to begin development of an advanced, 100mbs through 1gbs family of IP encryptors which will service private network markets for government, military and satellite users. This initiative is planned to have a product introduction in 2012. 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 it may need financial resources, in addition to cash from operations, to fund a major new development program.

Other than those stated above, there are no plans for significant internal product development during the remainder of fiscal 2011.

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 March 26, 2011 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 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. Reserved

Item 5. Other Information

As a result of the annual meeting of stockholders held on February 7, 2011, at which stockholders chose, on a non-binding and advisory basis, to vote annually on the compensation of the Company s named executive officers, the Board has determined to hold such say-on-pay vote annually.

Item 6. Exhibits

10.1	Purchase Order from Datron World Communications dated February 10, 2011 (Confidential portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.)
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 10, 2011	By: /s/ Carl H. Guild, Jr.
Date	Carl H. Guild, Jr., President and Chief Executive Officer
May 10, 2011	By: /s/ Michael P. Malone
Date	Michael P. Malone, Chief Financial Officer

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