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 December 28, 2013

¨ **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. 1,838,921 shares of Common Stock, $0.10 par value, outstanding as of February 7, 2014.

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TECHNICAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

	December 28, 2013	September 28, 2013
Assets		
Current Assets:		
Cash and cash equivalents	$ 3,929,989	$ 2,810,923
Marketable securities		
Available for sale securities	1,741,614	1,247,384
Held to maturity securities	518,709	522,856
Accounts receivable - trade, less allowance of $25,000 at December 28, 2013 and September 28, 2013	293,680	1,375,764
Inventories	2,214,034	2,618,604
Income taxes receivable	651,508	723,988
Deferred income taxes	894,459	894,459
Other current assets	157,796	225,583
Total current assets	10,401,789	10,419,561
Marketable securities		
Held to maturity securities	1,453,870	1,462,622
Equipment and leasehold improvements	4,315,701	4,300,304
Less: accumulated depreciation and amortization	(3,881,835)	(3,831,402)
Equipment and leasehold improvements, net	433,866	468,902
Total Assets	$ 12,289,525	$ 12,351,085
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 213,604	$ 261,588
Customer deposits	48,766	259,602
Accrued liabilities:		
Accrued compensation and related expenses	243,716	241,003
Accrued expenses	143,385	166,848
Total current liabilities	649,471	929,041
Commitments and contingencies		
Stockholders Equity:		
Common stock, par value $0.10 per share; 7,000,000 shares authorized; 1,838,716 shares issued and outstanding at December 28, 2013 and September 28, 2013	183,872	183,872
Additional paid-in capital	3,813,033	3,774,759
Accumulated other comprehensive loss	(6,434)	(2,020)
Retained earnings	7,649,583	7,465,433
Total stockholders equity	11,640,054	11,422,044

Total Liabilities and Stockholders Equity	$ 12,289,525	$ 12.351,085

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 Operations

(Unaudited)

	Three Months Ended	
	December 28, 2013	**December 29, 2012**
Net sales	$ 2,508,720	$ 1,596,696
Cost of sales	788,860	494,964
Gross profit	1,719,860	1,101,732
Operating expenses:		
Selling, general and administrative	707,118	777,897
Product development	761,885	855,411
Total operating expenses	1,469,003	1,633,308
Operating income (loss)	250,857	(531,576)
Other income:		
Interest income	6,685	7,274
Income (loss) before provision (benefit) for income taxes	257,542	(524,302)
Provision (benefit) for income taxes	73,392	(214,112)
Net income (loss)	$ 184,150	$ (310,190)
Net income (loss) per common share:		
Basic	$ 0.10	$ (0.17)
Diluted	$ 0.10	$ (0.17)
Weighted average shares:		
Basic	1,838,716	1,838,716
Diluted	1,868,468	1,838,716
Dividends paid per common share:		$ 0.10

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 Comprehensive Income (Loss)

(Unaudited)

	Three Months Ended	
	December 28, 2013	**December 29, 2012**
Net income (loss)	$ 184,150	$ (310,190)
Unrealized loss on available for sale securities, net of tax	(4,414)	(1,002)
Comprehensive income (loss)	$ 179,736	$ (311,192)

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

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TECHNICAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended	
	December 28, 2013	**December 29, 2012**
Operating Activities:		
Net income (loss)	$ 184,150	$ (310,190)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	50,433	53,995
Share-based compensation	38,274	44,915
Deferred income taxes		(67,505)
Amortization of premium on held to maturity securities	16,669	
Unrealized loss on available for sale securities	(4,414)	(1,002)
Changes in certain operating assets and liabilities:		
Accounts receivable	1,082,084	295,868
Inventories	404,570	191,891
Income taxes receivable	72,480	(147,113)
Other current assets	67,787	4,697
Customer deposits	(210,836)	108,818
Accounts payable and other accrued liabilities	(68,734)	(71,866)
Net cash provided by operating activities	1,632,463	102,508
Investing Activities:		
Additions to equipment and leasehold improvements	(15,397)	(16,417)
Proceeds from maturities of marketable securities	498,000	23,536
Purchases of marketable securities	(996,000)	(59,776)
Net cash used in investing activities	(513,397)	(52,657)
Financing Activities:		
Dividends paid		(183,872)
Net cash used in financing activities		(183,872)
Net increase (decrease) in cash and cash equivalents	1,119,066	(134,021)
Cash and cash equivalents at beginning of the period	2,810,923	2,056,311
Cash and cash equivalents at end of the period	$ 3,929,989	$ 1,922,290
Supplemental Disclosures:		
Interest paid	$	$
Income taxes paid	942	506

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

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TECHNICAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FAIR PRESENTATION

Interim Financial Statements. The accompanying interim unaudited condensed consolidated financial statements of Technical Communications Corporation (the Company or TCC) and its wholly-owned subsidiary include all adjustments which are, in the opinion of management, necessary for a fair presentation of the 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 September 27, 2014.

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 condensed 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 September 28, 2013 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.

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 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, income taxes, fair value of financial instruments and share-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.

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 to the customer has occurred and we have determined that collection

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)

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 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, all revenue related to the product is deferred and recognized upon completion of the installation. We provide for a warranty reserve at the time the product revenue is recognized.

We perform funded research and development and technology development for commercial companies and government agencies under both cost reimbursement and fixed-price contracts. Cost reimbursement contracts provide for the reimbursement of allowable costs and, in some situations, the payment of a fee. These contracts may contain incentive clauses providing for increases or decreases in the fee depending on how actual costs compare with a budget. Revenue from reimbursement contracts is recognized as services are performed. On fixed-price contracts that are expected to exceed one year in duration, revenue is recognized pursuant to the proportional performance method based upon the proportion of actual costs incurred to the total estimated costs for the contract. In each type of contract, we receive periodic progress payments or payments upon reaching interim milestones, and we retain the rights to the intellectual property developed in government contracts. All payments to TCC for work performed on contracts with agencies of the U.S. government are subject to audit and adjustment by the Defense Contract Audit Agency. Adjustments are recognized in the period made. 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 support of 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 personnel costs, outside contractor and engineering services, supplies and materials.

Inventory

We value our inventory at the lower of actual cost (based on first-in, first-out (FIFO)) 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. Due to the custom and specific nature of certain of our products, demand and usage for products and materials can fluctuate significantly. A significant decrease in deman