Notes to Consolidated Financial Statements

(1) Company Operations

Technical Communications Corporation ("TCC" or the "Company") was incorporated in Massachusetts in 1961; its wholly-owned subsidiary, TCC Investment Corp., was organized in that jurisdiction in 1982. Technical Communications Corporation and TCC Investment Corp. are collectively referred to herein as the "Company". The Company's business consists of only one industry segment, which is the design, development, manufacture, distribution, marketing and sale of communications security devices, systems and services. The secure communications solutions provided by TCC protect vital information transmitted over a wide range of data, video, fax and voice networks. TCC's products have been sold into over 115 countries and are in service with governments, military agencies, telecommunications carriers, financial institutions and multinational corporations.

<u>Liquidity and Ability to Continue as a Going Concern</u>

For the years ended September 30, 2023, September 24, 2022 and September 25, 2021, the Company generated net losses of $1,569,817, $2,331,139, and,$1,088,386 and although the Company generated $631,426 of net income in the fiscal year ended September 28, 2019, the Company suffered recurring losses from operations during the prior seven year period from fiscal 2012 to fiscal 2018. The Company has an accumulated deficit of $8,054,923 at September 30, 2023. These factors continue to raise substantial doubt about the Company's ability to continue as a going concern. Such consolidated financial statements do not include any adjustments to reflect the substantial doubt about the Company's ability to continue as a going concern.

On February 23, 2023, the Company issued a fourth amended and restated promissory note in the principal amount of up to $4,000,000 in favor of Carl H. Guild, Jr. Mr. Guild, the Company's Chief Executive Officer, President and Chairman of the Board, loaned the money to the Company to provide working capital. The $4,000,000 note carries an annual interest rate of 6.5% and was to repaid in equal monthly installments beginning on March 23, 2023. As of fiscal year end 2023, none of the monthly payments had been made. The outstanding principal balance at September 30, 2023 was $4,000,000, plus accrued interest of $373,000.

In December 2022 the Company implemented a partial furlough plan for the majority of salaried employees. The plan reduces the workweek to 24 hours and salaries have been reduced commensurately. As on September 30, 2023 the Company had only $34,247 of cash compared with $287,859 of Compensation and Benefits owed. As a result the Company would need to collect a significant portion of the $1.2 million of Accounts Receivable, obtain a contract with cash deposits, or raise additional debt or equity capital to fund future operations. Should the Company be
unsuccessful in these efforts, it could be forced to cease operations.

During fiscal year 2020, the Company was granted a loan from the SBA in the principal amount of $150,000 pursuant to the Economic Injury Disaster Loan program. This loan is payable monthly over 30 years at an annual interest rate of 3.75% commencing thirty months from the date of issuance. As of September 30, 2023 no payments have been made to the SBA.

The Company is working diligently to secure additional capital through equity or debt arrangements in addition to the recent funding received from the SBA and Mr. Guild. The Company is actively working with equity investors as well as debt investors, such as the SBA and Mr. Guild to secure additional funding, although we cannot provide assurances we will be able to secure such new funding, especially in light of the tightening of the credit markets and continuing volatility of the capital markets as a result of the coronavirus. Moreover, the Company's common stock was delisted from the Nasdaq Capital Market effective January 25, 2021 and was subsequently quoted Over the Counter (OTCQB).
In September 2023, the Company decided to go "Dark" by deregistering its common stock under Section: 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as well as suspended its reporting

obligation under Section 15(d) of the Exchange Act. This action was taken by the Company to conserve cash resources while it takes actions to return to profitability as soon as possible. On December 1, 2023 OTC Markets moved the Company from OTCQB to the Pink Current tier.

(2) Summary of Significant Accounting Policies

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of TCC and its wholly-owned subsidiary, TCC Investment Corp., a Massachusetts corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant judgments and estimates include those related to revenue recognition, receivable reserves, inventory reserves, impairment of long-lived assets, income taxes, fair value and stock-based compensation. Actual results could differ from those estimates.

Cash, 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 and cash equivalents include demand deposits at banks and other investments (including mutual funds) readily convertible into cash. The Company maintains its cash and cash equivalents in bank deposit accounts and money market mutual funds that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash, cash equivalents or marketable securities. The Company accounts for marketable securities in accordance with FASB ASC 320, *Investments—Debt and Equity Securities.*

Accounts Receivable

Accounts receivable are reduced by an allowance for amounts that management believes may become uncollectible in the future. The estimated allowance for uncollectible amounts is based primarily on a specific analysis of accounts in the receivable portfolio and historical write-off experience. When the financial condition of the Company's customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances are recorded. In addition, if the Company becomes aware of a customer's inability to meet its financial obligations to TCC, a specific write-off is recorded in that amount. There was no allowance for doubtful accounts at September 30, 2023 or September 24, 2022.

Inventories

The Company values its inventory at the lower of actual cost (based on the first-in, first-out method) to purchase and/or manufacture and net realizable value (based on estimated selling prices, less the cost to sell) of the inventory. The Company periodically reviews inventory quantities on hand and records a provision for excess and/or obsolete inventory based primarily on its estimated forecast of product demand, as well as historical usage. The Company evaluates the carrying value of inventory on a quarterly basis to determine if the carrying value is recoverable at estimated selling prices. To the extent that estimated selling prices are less than the associated carrying values, inventory carrying values are written down. In addition, the Company makes judgments as to future demand requirements and compares those with the current or committed inventory levels. Reserves are established for inventory levels that exceed the Company's judgment of future demand. It is possible that additional reserves above those already established may be required in the future if market conditions for the Company's products should deteriorate.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the lesser of the estimated useful life of the asset or the applicable lease term. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is recognized in operations for the period. The costs of maintenance and repairs are charged to operations as incurred; significant renewals and betterments are capitalized.

Long-lived Assets

The Company's only long-lived assets are equipment and leasehold improvements. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. These events include a significant decrease in the market price of a long-lived asset, a significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition, a significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset, including an adverse action or assessment by a regulator, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset, a current-period operating or cash flow loss combined with a history of operating or cash flow losses, or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset, among other items. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to the estimated undiscounted future cash flows expected to be generated by such asset. If the carrying amount of the asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in the amount by which the carrying amount exceeds the fair value of the asset. There were no events or changes in circumstances that required the Company to review long-lived assets for impairment during fiscal years 2023 and 2022.

Revenue Recognition

The Company's engineering services revenue is derived from performing funded research and development and technology development for commercial companies and government agencies under both cost reimbursement and fixed-price contracts. Cost reimbursement contracts provide for the reimbursement of allowable costs and, in some situations, the payment of a fee. These contracts may contain incentive clauses providing for increases or decreases in the fee depending on how actual costs compare with a budget. On fixed-price contracts that are expected to exceed one year in duration, revenue is recognized pursuant to the proportional performance method based upon the proportion of actual costs incurred to the total estimated costs for the contract. The Company may receive periodic progress payments and it retains the rights to the intellectual property developed in government contracts.

The Company recognizes equipment sales revenue when there is persuasive evidence of an arrangement, the fee is fixed or determinable, delivery of the product and passage of title to the customer has occurred and the Company has determined that collection of the fee is probable. Title to the product generally passes upon shipment of the product, as the products are shipped freight on board shipping point, except for certain foreign shipments for which title passes upon entry of the product into the first port in the buyer's country. If the product requires installation to be performed by TCC or other acceptance criteria exist, all revenue related to the product is deferred and recognized upon completion of the installation or satisfaction of the customer acceptance criteria. The Company provides for a warranty reserve at the time the product revenue is recognized.

All payments to the Company for work performed on contracts with agencies of the U.S. government are subject to audit and adjustment by the Defense Contract Audit Agency, the U.S. Government Accountability Office and other agencies. Adjustments are recognized in the period made. There have been no audits in recent years and the Company believes the result of such audits, should they occur, would not have a material adverse effect on its financial position or results of operations

Costs incurred in connection with funded research and development are included in cost of revenue. Product development costs are charged to billable engineering services, bid and proposal efforts or business development activities, as appropriate. Product development costs charged to billable projects are recorded as cost of revenue; engineering costs charged to bid and proposal efforts are recorded as selling expenses; and product development costs charged to business development activities are recorded as marketing expenses.

Product development costs consist primarily of costs associated with personnel, outside contractor and engineering services, supplies and materials. Cost of product revenue includes material, labor and overhead.

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.

The Company follows the appropriate guidance relative to uncertain tax positions. This standard provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements. Uncertain tax positions must meet a recognition threshold of more-likely-than-not in order for those tax positions to be recognized in the financial statements. There were no uncertain tax positions as of September 30, 2023 or September 24, 2022.

Warranty Costs

The Company provides for estimated warranty costs at the time product revenue is recognized based upon historical experience.

Fair Value of Financial Measurements

The Company's available for sale securities consist of money market mutual funds held in a brokerage account, which are classified as cash equivalents and measured at fair value.

As of September 30, 2023 and September 24, 2022, the Company did not hold any assets classified as Level 1, Level 2 or Level 3. There were no assets or liabilities measured at fair value on a nonrecurring basis at September 30, 2023 and September 24, 2022.

Earnings (Loss) per Share (EPS)

The Company presents both a "basic" and a "diluted" EPS. Basic EPS is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. In computing diluted EPS, stock options that are dilutive (i.e., those that reduce earnings per share) are included in the calculation of EPS using the treasury stock method. The exercise of outstanding stock options is not included if the result would be antidilutive, such as when a net loss is reported for the period or the option exercise price is greater than the average market price for the period presented.

Research and Development

Research and development costs are included in product development expenses in the consolidated statements of operations. Expenditures for Company-sponsored research and development projects are expensed as incurred and were $664,546 and $816,633 in fiscal 2023 and 2022, respectively. Customer-sponsored research and development projects performed under contracts are accounted for as contract costs as the work is performed and included in cost of revenue.

Fiscal Year-End Policy

The Company's by-laws call for its fiscal year to end on the Saturday closest to the last day of September, unless otherwise decided by its Board of Directors. The 2023 fiscal year ended on September 30 2023 and included 53 weeks. The 2022 fiscal year ended on September 24, 2022 and included 52 weeks.

SBA Payroll Protection Program Loan

During fiscal year 2020, the Company adopted IAS 20 - *Accounting for Government Grants and Disclosure of Government Assistance* ("IAS 20") to account for the receipt of the loan under the SBA's Payroll Protection Program. IAS 20 requires the loan to be recognized as deferred income. Derecognition of the liability for any portion of the loan that is forgivable or has been forgiven will occur only when there is a reasonable assurance any conditions attached to the assistance will be met. The income statement effect for the portion of the loan that is forgivable or has been forgiven will consist of either (1) a credit in the income statement, either separately or under a general heading such as "other income," or (2) a reduction of the related expenses, as the entity recognizes the related cost to which the loan relates. The Company has elected to treat the forgiven part of the loan as other income. As the Company used 100% (minimum requirement is 75%) of the loan proceeds to cover its payroll expenses during the "Alternate Covered Period", the full amount of the loans were forgiven.

New Accounting Pronouncements

There were no recent accounting pronouncements were issued by the FASB that impacted in Company in either fiscal 2023 or fiscal 2022.

(3) Revenue

The following table presents the Company’s revenues disaggregated by revenue type for the years ended September 30, 2023 and September 24, 2022.

Revenue type:

	September 30, 2023	September 24, 2022
Engineering Services	$ 41,625	$ 995, 833
Equipment Sales	1,681,062	308,102
Total Sales	$ 1,722,687	$ 1,303,935

Engineering services revenue consists of funded research and development and technology development for commercial companies and government agencies primarily under fixed-price contracts. The Company also derives revenue from developing and designing custom cryptographic solutions for customers’ unique secure voice, data and video communications requirements and integrating such solutions into existing systems. These contracts can vary but typically call for fixed monthly payments or payments due upon meeting certain milestones. Customers are billed monthly or upon achieving the milestone, and payments are due on a net basis after the billing date.

Equipment sales revenue consists of sales of communications security equipment for voice, data, facsimile and video networks for military, government and corporate/industrial applications. Equipment sales are billed to the customer upon shipment with typical payment terms requiring a down payment at the time of order with the balance due prior to shipment. For government and certain long term customers, the Company may grant net payment terms.

(4) Stock Based Compensation

Stock-based compensation expense is measured at the grant date based on the calculated fair value of the award. The expense is recognized over the employee’s requisite service period, generally the vesting period of the award. The related excess tax benefit received upon the exercise of stock options, if any, is reflected in the Company’s statement of cash flows as an operating activity. There were no excess tax benefits for the fiscal years ended September 30, 2023 and September 24, 2022.

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

(5) Inventories

Inventories consist of the following:

	September 30, 2023	September 24, 2022
Finished Goods	$ -	$ -
Work in Process	645,249	489,854
Raw Materials and Supplies	275,521	476,331
Total Inventories	$ 920,770	$ 966,185

(6) Leases

The Company leases space from a third party for all manufacturing, research and development, and corporate operations. The initial term of the lease was for five years through March 31, 2019 at an annual rate of $171,000. In addition, the lease contains options to extend the lease for two and one-half years through September 30, 2021 and another two and one-half years through March 31, 2024 at an annual rate of $171,000. In September 2018, the Company exercised its option to extend the term of the lease through September 2021. The Company exercised the option on March 31, 2021, and the new term will run until March 30, 2024. As such, the Company uses the extended lease term in its calculation of the lease liability and right-of-use asset. The Company classifies this lease as an operating lease with the costs recognized as a selling, general and administrative expense in its consolidated statements of operations. The lease expense for each of the years ended September 30, 2023 and September 24, 2022 was approximately $171,000.

(7) Debt

On April 17, 2020, the Company was granted an initial PPP loan from bankHometown in the principal amount of $474,400 under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The loan, which was evidenced by a Note dated April 17, 2020, was payable over 18 months at an annual interest rate of 1% to the extent not forgiven. The Company used the entire loan amount for qualifying expenses and the loan was forgiven in its entirety on January 11, 2021. The AICPA and the SEC Office of the Chief Accountant have indicated that a borrower may elect to account for a PPP loan as a government grant in substance by applying the guidance in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* by analogy if it is probable that it will meet both (a) the eligibility criteria for a PPP loan, and (b) the loan forgiveness criteria for all or substantially all of the PPP loan. The Company has elected to adopt this method of accounting for this PPP loan under IAS 20, and has recognized the loan forgiveness as grant income for the full amount of the loan.

On August 10, 2020, the Company also was granted a loan (the “SBA Loan”) from the SBA in the principal amount of $150,000 pursuant to the Economic Injury Disaster Loan program. The SBA Loan, which is evidenced by a Promissory Note dated August 10, 2020, is payable in monthly installments of $731, including principal and interest, over 30 years at an interest rate of 3.75% per year. The SBA Loan may be prepaid by the Company at any time prior to maturity with no prepayment penalties. The proceeds from this loan must be used solely as working capital to alleviate economic injury caused by the Covid-19 pandemic. Although originally repayable commencing one year after grant, on March 15, 2022 the SBA announced that payments on the SBA Loan would be deferred an additional six months. Payments on the loan will now commence on February 10, 2023. No payments were made in fiscal 2023.

As part of the SBA Loan, the Company granted the SBA a continuing security interest in and to any and all “Collateral” to secure payment and performance of all debts, liabilities and obligations of the Company to the SBA under the SBA Loan. The Collateral includes all tangible and intangible personal property that the Company owns or acquires or creates immediately upon the acquisition or creation thereof, including, but not limited to: (a) inventory, (b) equipment, (c) instruments, including promissory notes, (d) chattel paper, including tangible chattel paper and electronic chattel paper, (e) documents, (f) letter of credit rights, (g) accounts, including health-care insurance receivables and credit card receivables, (h) deposit accounts, (i) commercial tort claims, (j) general intangibles, including payment intangibles and software, and (k) as-extracted collateral, in each case as such terms may from time to time be defined in the Uniform Commercial Code.

The aggregate amounts of principal maturities of long-term debt for the following fiscal years are:

2023	$	1,996
2024		3,089
2025		3,207
2026		3,329
2027		3,739
Thereafter		134,640
	$	150,000

On February 1, 2021, the Company received a second PPP loan from bankHometown as authorized under the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (the “Economic Aid Act”). The loan, which was evidenced by a promissory note, is in the principal amount of $474,405 was payable over 60 months at an annual interest rate of 1% to the extent not forgiven. The Company used the entire loan amount for qualifying expenses and the loan was forgiven in its entirety on August 30, 2021 under the provisions of the Economic Aid Act.

On February 23, 2023, the Company issued a fourth amended and restated promissory note in the principal amount of up to $4,000,000 in favor of Carl H. Guild, Jr. Mr. Guild, the Company’s Chief Executive Officer, President and Chairman of the Board, loaned the money to the Company to provide working capital. The $4,000,000 note carries an annual interest rate of 6.5% and was to repaid in equal monthly installments beginning on March 23, 2023. As of fiscal year end 2023, none of the monthly payments had been paid. The outstanding principal balance at September 30, 2023 was $4,000,000, plus accrued interest of $373,000.

(8) Warranty

The Company's products generally carry a standard 15 month warranty. The Company records a reserve based on anticipated warranty claims at the time product revenue is recognized. Factors that affect the Company's product warranty liability include the number of installed units, the anticipated cost of warranty repairs and historical and anticipated rates of warranty claims. The warranty reserve is included in other current liabilities on the balance sheet.

(9) Income Taxes

During fiscal year 2014, the Company established a valuation allowance against deferred tax assets. The valuation allowance is related to uncertainty with respect to the Company’s ability to realize its deferred tax assets. Deferred tax assets consist of net operating loss carryforwards, tax credits, inventory differences and other temporary differences.

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

(10) Employee Benefit Plans

The Company has a qualified, contributory, profit sharing plan covering substantially all employees. The Company’s policy is to fund contributions as they are accrued. The contributions are allocated based on the employee’s proportionate share of total compensation. The Company’s contributions to the plan are determined by the Board of Directors and are subject to other specified limitations. There were no Company profit sharing contributions during fiscal years 2023 or 2022. .

The Company has an Executive Incentive Bonus Plan for the benefit of key management employees. The bonus pool is determined based on the Company’s performance as defined by the plan. Under the plan, there were no bonuses earned, accrued or paid to eligible employees at September 30, 2023 or September 24, 2022.

(11) Major Customers

In fiscal year 2023, the Company had two customers representing 80% (70% and 10%) of total revenue

and in fiscal 2022, two customers represented 91% (76% and 15%) of total net revenue.

In fiscal 2023, one company represented over 95% of accounts receivable at September 30, 2023 and

and at September 24, 2022 had one customer represented 100% of accounts receivable.

(12) Related Party Transactions

On February 23, 2023, the Company issued a fourth amended and restated promissory note in the principal amount of up to $4,000,000 in favor of Carl H. Guild, Jr. Mr. Guild, the Company's Chief Executive Officer, President and Chairman of the Board, loaned the money to the Company to provide working capital. The $4,000,000 note carries an annual interest rate of 6.5% and was to repaid in equal monthly installments beginning on March 23, 2023. As of fiscal year end 2023, none of the monthly payments had been made. The outstanding principal balance at September 30, 2023 was $4,000,000, plus accrued interest of $373,000.

(13) Shareholder Rights Plan

On August 7, 2014, the Board of Directors of the Company adopted a Stockholder Rights Plan to replace the Company's former plan, which had expired on August 5, 2014. The new plan is substantially similar to the former plan, and was not adopted in response to any specific takeover threat. In adopting the plan, the Board declared a dividend distribution of one common stock purchase right for each outstanding share of common stock of the Company, payable to stockholders of record at the close of business on August 18, 2014. Until the rights become exercisable, which occurs with certain exceptions when a person or affiliated group acquires 15% or more of TCC's common stock, they will trade automatically with the common stock and separate rights certificates will not be issued. Each right, once exercisable, will entitle the holder (other than rights owned by the acquiring person or group) to buy one share of the common stock at a price of $25 per share, subject to certain adjustments. The rights can generally be redeemed by the Company at $.001 per right at any time prior to the close of business on the tenth business day after there has been a public announcement of the acquisition of beneficial ownership by any person or group of 15% or more of the Company's outstanding common stock, subject to certain exceptions. The rights will expire on August 6, 2024 unless earlier redeemed.

(14) Impact of COVID-19 Coronavirus

Due in large part to the COVID-19 pandemic, there has been a noticeable delay in the receipt of customer orders. While we remain in contact with our customers and their requirements have not changed, the operations of certain of our customers have been slowed or shut down entirely. Our suppliers thus far have been able to timely deliver components and parts necessary for the manufacture and production of the Company's products to fulfill orders, although we cannot be sure this trend will continue. While the Company was able to reopen its facility in June 2020 after a brief government-mandated shutdown, we believe it is possible that new restrictions may be imposed in the near future. In December 2020 the Company implemented a partial furlough plan for the majority of salaried employees and all employees returned to work on a full time basis following the Company's receipt of the proceeds of its second PPP loan. In December of 2022 the Company implemented a new partial furlough plan for the majority of salaried employees.