TECHNICAL COMMUNICATIONS CORP
Form 10QSB
February 12, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(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 29, 2001 or

___ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period ____________________ to _______________________

Commission File Number: 0-8588

TECHNICAL COMMUNICATIONS CORPORATION
(Exact name of registrant as specified in its charter)

Massachusetts	04-2295040
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Number of shares of Common Stock, $.10 par value, outstanding as of January 25, 2002: 1,330,185.

INDEX

PART I. Financial Information - Item 1. Financial Statements
TECHNICAL COMMUNICATIONS CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	December 29, 2001 (unaudited)	Septe
Assets		
Current Assets:		
Cash and cash equivalents	$ 918,226	$
Accounts receivable - trade, less allowance for doubtful accounts of $70,000 and $15,000, respectively	785,171	
Inventories	1,198,573	
Other current assets	345,658	

Total current assets	3,247,628	
Equipment and leasehold improvements	4,934,943	
Less: accumulated depreciation and amortization	4,626,880	
	308,063	
	$ 3,555,691	$

Liabilities and Stockholders' Equity

Current Liabilities:		
Accounts payable	$ 135,669	$
Accrued liabilities		
Compensation and related expenses	168,588	
Other	543,820	
Total current liabilities	848,077	
Stockholders' Equity:		
Common stock, par value $.10 per share; authorized 3,500,000 shares; issued 1,330,185 shares and 1,323,328 shares	133,019	
Treasury stock at cost, 232 shares	(1,934)	
Additional paid-in capital	1,371,976	
Retained earnings	1,204,553	
Total stockholders' equity	2,707,614	
	$ 3,555,691	$

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

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

	Three Months Ended	
	December 29, 2001	December 30, 20

Net sales	$ 1,318,357	$ 1,320,917
Cost of sales	501,524	423,638
Gross profit	816,833	897,279
Operating expenses:		
Selling, general and administrative expenses	496,638	1,215,668
Product development costs	309,889	240,976
Total operating expenses	806,527	1,456,644
Operating income (loss)	10,306	(559,365
Other income (expense):		
Interest income	7,224	35,843
Interest expense	(369)	(532
Other	6,419	(78,630
Total other income (expense):	13,274	(43,319
Income (loss) before income taxes	23,580	(602,684
Provision for income taxes	-	-
Net income (loss)	$ 23,580	$ (602,684
Net income (loss) per common share:		
Basic	$ .02	$ (0.46
Diluted	$ .02	$ (0.46
Weighted average common shares outstanding used in computation:		
Basic	1,327,542	1,304,558
Diluted	1,335,110	1,304,558

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

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

	December 2
Operating Activities:	

Net income (loss)	$ 23,
Adjustments to reconcile net loss to net cash provided (used) by operating activities:	
Depreciation and amortization	56,
Non-cash compensation	
Changes in assets and liabilities:	
Accounts receivable	(717,
Inventories	63,
Other current assets	10,
Accounts payable and other accrued liabilities	(129,
Net cash used by operating activities	(694,
Investing Activities:	
Additions to equipment and leasehold improvements	(13,
Net cash used by investing activities	(13,
Financing Activities:	
Proceeds from stock issuance	7,
Net cash provided by financing activities	7,
Net decrease in cash and cash equivalents	(700,
Cash and cash equivalents at beginning of the period	1,618,
Cash and cash equivalents at the end of the period	$ 918,
Supplemental Disclosures:	
Interest paid	$
Income taxes paid	2,

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 unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring accruals), which are, in the opinion of management, necessary for fair presentation of the results of operations for the periods presented. Interim results are not necessarily indicative of the results to be expected for a full year.

Certain disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as allowed by Form 10-Q. The accompanying unaudited consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ending September 29, 2001 as filed with the Securities and Exchange Commission on Form 10-K.

NOTE 1. Inventories

Inventories consisted of the following:

	December 29, 2001	September 29, 2001
Finished Goods	$ 52,950	$ 140,962
Work in Process	666,348	493,947
Raw Materials	479,275	626,699
	$ 1,198,573	$ 1,261,608

NOTE 2. Line of Credit

The Company has a $1 million asset-based credit facility with Coast Business Credit ("Coast"). The line carries an interest rate of prime plus 1/2% (5.25% at December 29, 2001). This revolving line of credit is collateralized by substantially all the assets of the Company and requires no compensating balances. There are financial covenants associated with the line, which call for a minimum net tangible worth of $1,651,000 at December 29, 2001 and increasing over time based on certain criteria. The agreement also contains a rolling six month EBIT requirement. The amount of borrowings is limited to a percentage of certain accounts receivable balances and the line of credit matures in December 2002. There were no outstanding borrowings during the quarter.

NOTE 3. Liquidity Matters

The Company's revenues have historically included significant transactions with foreign governments and other organizations. The Company expects this trend to continue. The timing of these transactions has in the past and will in the future have a significant impact on the cash flow of the Company. Delays in the timing of significant expected sales transactions would cause a significant negative effect on the Company's operations, however the Company has some ability to mitigate this effect through further cost cutting measures. The Company believes there are currently sufficient cash and available funds under the line of credit to meet its working capital needs.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

NOTE 4. Major Customers and Export Sales

During the quarter ended December 29, 2002, the Company had four customers, representing 80% (16%, 15%, 15% and 11%) of net sales. During the quarter ended December 30, 2001, the Company had two customers, representing 66% (52% and 14%) of net sales.

A breakdown of net sales is as follows:

	December 29, 2001	December 30, 2000
Domestic	$ 379,258	$ 199,985
Foreign	939,099	1,120,932
Total sales	$ 1,318,257	$ 1,320,917

A summary of foreign sales by geographic area follows:

	December 29, 2001	December 30, 2000
North America (excluding the U.S.)	2.1%	10.2%
Central and South America	22.1%	61.6%
Europe	1.0%	.8%
Mid-East and Africa	44.2%	26.0%
Far East	30.6%	1.4%

FORWARD-LOOKING STATEMENTS

NOTE: THE DISCUSSIONS IN THIS FORM 10-Q, INCLUDING ANY DISCUSSION OF OR IMPACT, EXPRESSED OR IMPLIED, ON TECHNICAL COMMUNICATIONS CORPORATION'S (THE COMPANY) ANTICIPATED OPERATING RESULTS AND FUTURE EARNINGS, INCLUDING STATEMENTS ABOUT THE COMPANY'S ABILITY TO ACHIEVE GROWTH AND PROFITABILITY, CONTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED. THE COMPANY'S OPERATING RESULTS MAY DIFFER SIGNIFICANTLY FROM THE RESULTS INDICATED BY SUCH FORWARD-LOOKING STATEMENTS. THE COMPANY'S OPERATING RESULTS MAY BE AFFECTED BY MANY 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 RENEGOTIATE ITS LINE OF CREDIT WITH

ITS BANK. THESE AND OTHER RISKS ARE DETAILED FROM TIME TO TIME IN THE COMPANY'S FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION, INCLUDING THE FORM 10-K FOR THE FISCAL YEAR ENDED SEPTEMBER 29, 2001 AND THIS FORM 10-Q FOR THE QUARTER ENDED DECEMBER 29, 2001.

PART I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The Company is in the business of designing, manufacturing and marketing communications security equipment. The Company receives orders for equipment from customers, which may take several months or longer to manufacture and ship. With the exception of long-term contracts where revenue is recognized under the percentage of completion method, the Company generally recognizes income on a unit-of-delivery basis. This latter method can cause revenues to vary widely from quarter to quarter and therefore quarterly comparisons of revenue may not be indicative of any trend.

Three Months ended December 29, 2001 as compared to the Three Months ended December 30, 2000

The Company showed net income of $24,000 for the first quarter of fiscal 2002 as compared to a net loss of $603,000 for the same period in fiscal 2001. This increase in profitability is primarily attributable to the significant decrease in selling, general and administrative expenses.

Net sales for the quarter ended December 29, 2001 and December 30, 2000, were $1,318,000 and $1,321,000, respectively. Gross profit for the first quarter of fiscal 2002 was $817,000 as compared to gross profit of $897,000 for the same period of fiscal 2001. This represented a decrease in gross profit of 9% for the quarter. Gross profit expressed as a percentage of sales was 62% in 2002 as compared to 68% for the same period in fiscal 2001. These decreases were primarily attributable to lower margin sales in fiscal 2002.

Selling, general and administrative expenses for the first quarter of fiscal 2002 were $497,000 and $1,216,000 for the same quarter in fiscal 2001. This decrease of 59% was primarily attributable to $246,000 reduction in general and administrative expenses and a reduction of $473,000 in selling and marketing costs.

The decrease in general and administrative costs were attributable to a $42,000 decrease in personnel related costs associated with a reduced headcount and overall cost reductions of approximately $113,000 associated with a restructuring program and the related workforce reductions. In addition the write-off of

amortizable assets in fiscal 2001 has resulted in a reduction of $58,000 in amortization expense in the current fiscal quarter.

The decrease in selling costs was primarily attributable to decreased third party sales commissions and marketing contracts totaling $152,000. The decrease also included a reduction in travel, payroll and benefit related costs associated with the lower sales volume, of approximately $65,000. During the first quarter of fiscal 2001 the Company developed a major proposal, a marketing study and a market research project. These efforts were not repeated in fiscal 2002 and resulted in lower expenditures of $231,000 in the current fiscal quarter.

Product development costs for the quarter ended December 29, 2001 were $310,000 compared to $241,000 for the same period in fiscal 2001. This increase of 29% was attributable to a shift away from billable product development in fiscal 2002, which increased product development cost in fiscal 2002 by approximately $160,000. This was offset by a decrease associated with a reduced headcount of approximately $82,000.

Recent Accounting Pronouncement

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company is required to apply the new rules on accounting for goodwill and other intangible assets by fiscal year 2003. The Company currently does not have any goodwill or intangible assets and does not expect a material impact from the adoption of these standards.

In August 2001, the Financial Accounting Standards Board issued SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"). This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and amends the accounting and reporting provisions of APB Opinion No. 30. Reporting the Results of Operations -- Reporting the Effect of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. The provisions of FAS 144 will be effective for fiscal years beginning after December 15, 2001.

Liquidity and Capital Resources

Cash and cash equivalents decreased by $701,000 or 43% to $918,000 as of December 29, 2001, from a balance of $1,619,000 at September 29, 2001. This decrease was primarily due to an increase of accounts receivable and a decrease in accounts payable and accrued expenses, which were partially offset by non-cash adjustments and a reduction in, inventories.

The Company has a $1 million asset-based credit facility with Coast Business Credit ("Coast"). The line carries an interest rate of prime plus 1/2% (5.25% at December 29, 2001). This revolving line of credit is collateralized by substantially all the assets of the Company and requires no compensating balances. There are financial covenants associated with the line, which call for a minimum net tangible worth of $1,651,000 at December 29, 2001 and increasing over time based on certain criteria. The agreement also contains a rolling six month EBIT requirement. The amount of borrowings is limited to a percentage of certain accounts receivable balances and the line of credit matures in December 2002. There were no outstanding borrowings during the quarter.

As of December 29, 2001, the Company has two outstanding standby letters of credit amounting to $137,000, which are secured by compensating cash collateral.

The Company's revenues have historically included significant transactions with foreign governments and other organizations. The Company expects this trend to continue. The timing of these transactions has in the past and will in the future have a significant impact on the cash flow of the Company. Delays in the

timing of significant expected sales transactions would cause a significant negative effect on the Company's operations, however the Company has some ability to mitigate this effect through further cost cutting measures. The Company believes there are currently sufficient cash and available funds under the line of credit to meet its working capital needs.

PART II. Other Information

Item 1. Legal Proceedings:

There are no current matters pending.

Item 2. Changes in Securities and Use of Proceeds:

Not applicable.

Item 3. Defaults Upon Senior Securities:

Not applicable.

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

None.

Item 5. Other Information:

None.

Item 6. Exhibits and Reports on Form 8-K:

a. Exhibits:

None.

b. Reports on Form 8-K:

None.

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)

February 11, 2002	By: /s/ Carl H. Guild, Jr.
Date	Carl H. Guild, Jr., President and Chief Executive Officer
February 11, 2002	By: /s/ Michael P. Malone
Date	Michael P. Malone, Chief Financial Officer