FORM 10-K405/A

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405 [amend]

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FILER

TECHNICAL COMMUNICATIONS CORP

CIK:**96699**| IRS No.: **042295040** | State of Incorp.:**MA** | Fiscal Year End: **0930**
Type: **10-K405/A** | Act: **NE** | File No.: **000-08588** | Film No.: **99574824**
SIC: **3663** Radio & tv broadcasting & communications equipment

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100 DOMINO DRIVE
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
AMENDMENT NO. 1

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED	COMMISSION FILE NUMBER
October 3, 1998	0-8588

Or

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _______________TO_______________.

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)

(978) 287-5100
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12 (b) of the Act:

NONE	NONE
(Title of each class)	(Name of each exchange on which registered)

SECURITIES REGISTERED PURSUANT TO SECTION 12 (g) OF THE ACT:

COMMON STOCK, $.10 PAR VALUE

(Title of Class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Based on the closing price of the stock as of December 11, 1998, the aggregate market value of the registrant's Common Stock, par value $ .10 per share, held by non-affiliates of the registrant as of December 11, 1998, was approximately $7,000,000.

The number of shares of the registrant's Common Stock, par value $ .10 per share, outstanding as of December 11, 1998, was 1,294,541.

FORWARD-LOOKING STATEMENTS

NOTE: THE DISCUSSIONS IN THIS FORM 10-K/A, INCLUDING ANY DISCUSSION OF OR IMPACT, EXPRESSED OR IMPLIED, ON TECHNICAL COMMUNICATIONS CORPORATION'S (THE COMPANY) ANTICIPATED OPERATING RESULTS AND FUTURE EARNINGS CONTAIN FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF

1933, AS AMENDED. THE COMPANY'S 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 THE FOLLOWING: 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, THE COMPANY'S ABILITY TO RENEGOTIATE ITS LINE OF CREDIT WITH ITS BANKS, THE CORRECTNESS OF MANAGEMENT JUDGMENT THAT CERTAIN EXPENDITURES WILL BENEFIT THE COMPANY IN THE FUTURE, AND THE ACCURACY OF MANAGEMENT'S ESTIMATES OF THE VALUE OF THE COMPANY'S ASSETS AND OF THE ADEQUACY OF ITS RESERVES. THESE AND OTHER RISKS ARE DETAILED FROM TIME TO TIME IN THE COMPANY'S FILINGS WITH THE SECURITIES & EXCHANGE COMMISSION, INCLUDING THIS FORM 10-K/A FOR FISCAL YEAR ENDED OCTOBER 3, 1998.

This Amendment No. 1 on Form 10-K/A amends and restates the Report of Independent Public Accountants on the Financial Statements of the Company, as filed under Item 14 of the Annual Report on Form 10-K filed with the Securities and Exchange Commission on December 21, 1998 by Technical Communications Corporation., for the purpose of correcting a typographical error which resulted in the inadvertent omission of the conformed signature of the independent public accountants. In addition this Form 10-K/A also amends and restates the Management 's Discussion and Analysis of Financial Condition and Results of Operations as filed under Item 7, for the purpose of including a discussion on the Company's Market Risk as required under Item 305 of Regulation S-K.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and the results of operations should be read in conjunction with the Company's audited consolidated financial statements and notes thereto appearing elsewhere herein.

CERTAIN FACTORS AFFECTING FUTURE OPERATING RESULTS

The discussions in this Form 10-K/A, including any discussion of or impact, expressed or implied, on the Company's anticipated operating results and future earnings contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended. The Company's results may differ significantly from results indicated by such forward-looking statements. The Company's operating results may be affected by many factors, including but not limited to the following: 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, the Company's ability to renegotiate its line of credit with its banks, the correctness of management judgment that certain current expenditures will benefit the Company in the future and the accuracy of management's estimates of the value of the Company's assets and of the adequacy of its reserves. These and other risks are detailed from time to time in the Company's filings with the Securities & Exchange Commission, including this Form 10-K/A, for the fiscal year ended October 3, 1998.

YEAR 2000 COMPLIANCE UPDATE

Technical Communications Corporation has been actively addressing the Year 2000 (Y2K) problem since April 1998. Generally speaking, the Y2K problem results from the use of two-digit, rather than four-digit, date years in computer systems and software applications. Today, many systems rely on two (or one) digits to represent the year portion of a date. For example, 1997 is usually stored as 97 (or 7). As a result, the year 2000, represented by 00 (or 0), could be interpreted as 1900. This type of error could cause problems when systems display, calculate, store and print dates.

The Company understands the importance of identifying and solving the Y2K problem. As a supplier of mission-critical encryption products, the Company is committed to providing products that will function, without interruption, into the year 2000. In addition, Technical Communications Corporation is taking proactive steps to ensure that all critical systems, from both an internal and external perspective, are reviewed and, if necessary, corrected.

COMPANY'S STATE OF READINESS

Technical Communications Corporation has divided its Y2K efforts into three major areas: (i) products and customers, (ii) enterprise business systems and information technology and (iii) external systems and suppliers. The review of each area will consist of an inventory of potentially affected systems, an assessment of Y2K readiness and corrective action deployment. As indicated, the Company has been actively working on Y2K related issues for eight months, and is prioritizing its efforts based on how severe an effect a potential noncompliance would have on customer service and core business functions. It is anticipated that the entire Y2K initiative will be complete by June 1999. Product testing and internal/ external system evaluations are expected to be complete by the end of January 1999. To facilitate the plan, the Company has appointed a program manager to oversee all Y2K initiatives.

Technical Communications Corporation has tested approximately 90% of its products for Y2K problems to date. A product is deemed Y2K compliant if the product, when used in accordance with its associated documentation, is capable of processing, receiving, and/ or providing data within or between the 20th and 21st centuries, provided that all other products used in conjunction with the product in question properly exchange date data with that product. It should be noted that certain TCC products deemed to be Y2K compliant may require a service update in order to achieve Y2K compliant status.

Although no assurances can be given, the Company believes that all current products are either Y2K compliant or can be made Y2K compliant with minor adjustments or software upgrades. This product assessment has identified date-related issues with certain older products that TCC no longer manufactures or sells. It is the Company's intent to offer upgrades or alternative products where reasonably practicable. In some cases the Company sells encryption systems that interact with third party products or operate with computer systems not under the Company's control. There can be no assurances that such third party equipment will function correctly into the year 2000.

TCC's internal Y2K initiative includes a review of all computer hardware and software related systems including; internal LAN, product development tools, facility operations, interfaces with third parties via EDI links and desktop systems. The inventory and assessment phase of this review is approximately 80% complete. The Company's enterprise information system, which includes manufacturing, financial accounting and sales administration, is now Y2K compliant. Supporting systems will continue to be tested and evaluated. At this time, the Company does not anticipate that any internal system will create a substantive disruption in the Company's operation into the year 2000.

The Y2K external systems review process consists of identifying and contacting suppliers and service providers that are believed to be significant to the Company's business operations. The Company will assess each supplier's Y2K readiness based on its formal response to a TCC Y2K status request. The Company intends to monitor the Y2K compliant process of key suppliers that either indicate they are not yet Y2K compliant or do not respond to the Company's requests. This process is ongoing and is expected to continue into 1999.

COSTS TO ADDRESS THE COMPANY'S YEAR 2000 ISSUES

As of October 3, 1998, the Company has incurred expenses related to the Y2K problem of approximately $25,000. The main portion of these costs relates to the evaluation and testing of products for Y2K compliance. The Company anticipates additional costs ranging from $45,000 - $110,000 in order to complete the Y2K process and to upgrade a small number of older products currently still in use. The preceding numbers represent TCC's best estimate of remediation costs pertaining to Y2K issues. There can be no assurances that the Company will not encounter unexpected costs or delays in achieving Y2K compliance.

RISKS OF THE COMPANY'S YEAR 2000 ISSUES

Based on current information, the Company believes that the Y2K problem will not have a material adverse effect on the Company's overall business and financial condition. Since all current products are either Y2K compliant or can be made Y2K compliant, future sales of all such products do not represent a Y2K risk to the Company. Even though TCC is adopting a proactive strategy, there can be no assurances that Y2K problems will not have any impact on the business. Despite efforts to ensure that products will function correctly into the year 2000, The Company may see an increase in warranty and other claims, especially those related to older products or products that incorporate third party software or hardware. If any of the Company's material suppliers or service providers experience unforeseen Y2K issues, the Company's production, product development and operations may also be materially adversely effected.

COMPANY'S CONTINGENCY PLAN

TCC is working diligently to minimize the risks associated with Y2K issues. The Company plans to dedicate appropriate resources to address all known Y2K related issues in an expeditious manner. In addition, the Company is prepared to take immediate action on unforeseen problems as they arise. Such action may include the use of alternative sources of supply to support manufacturing and product development.

RESULTS OF OPERATIONS

FISCAL 1998 COMPARED TO FISCAL 1997

Consolidated net sales for the year ended October 3, 1998, were $13,855,781 compared with sales of $12,258,638 for the prior fiscal year. This increase of $1,597,143, or 13.0%, is mainly attributed to shipment of a large order for encryption equipment to a foreign customer.

Foreign sales increased by $2,700,374, or 28.4%, to $12,224,322, primarily due to the aforementioned sale. On the other hand, domestic sales decreased $1,103,231, or 40.3%, to $1,631,459; the decrease is predominantly due to continued procurement reductions by U. S. government agencies.

Gross profit for fiscal year 1998 was $8,393,173, compared to $7,104,975 in fiscal 1997, an increase of 18.1%. Gross profit expressed as a percentage of sales was 61% in fiscal 1998 compared to 58% in the prior year, which was primarily due to improved product mix and tighter cost controls.

Engineering, design and product development costs in fiscal 1998 were $1,414,746, compared to $2,378,564 in fiscal 1997. The $ 963,818, or 40.5%, decrease is attributable in part to charging more support engineering costs directly to the aforementioned customized systems orders and the capitalization of certain software development costs related to the Company's KEYNET 2 product. In addition, outside product development costs were sharply reduced by focusing engineering design developments on selected products and by bringing most of these efforts in house.

Selling, general and administrative expenses decreased slightly from $6,282,108 in fiscal 1997 to $6,220,992 for the year just ended, primarily due to significantly lower marketing and business development expenditures reflecting more realistic new product introduction schedules, largely offset by increased sales support costs and higher legal expenses related to the aforementioned litigations.

Investment income earned during fiscal 1998 was $24,068, compared to $128,722 in fiscal 1997. The decrease was largely the result of increased working capital requirements associated with the aforementioned large foreign contract, which was not shipped until the fourth quarter of fiscal 1998.

The Company attained a net profit of $481,603, or $.37 per diluted share during fiscal 1998, compared to a net loss of $1,243,501, or $.98 per share during fiscal 1997. The improvement in fiscal 1998 profitability was a result of an improved mix of higher margin foreign sales combined with reductions in fixed expense, particularly in internal product development.

The effects of inflation and changing costs have not had a significant impact on sales or earnings in recent years. As of October 3, 1998, none of the Company's monetary assets or liabilities were subject to foreign exchange risks. The Company usually includes an inflation factor in its pricing when negotiating multi-year contracts with customers.

FISCAL 1997 COMPARED TO FISCAL 1996

Consolidated net sales for the year ended September 27, 1997, were $12,258,638, compared with sales of $14,012,802 for the prior fiscal year. This decrease of $1,754,164, or 13%, is attributed to declining sales of certain Datotek products acquired during fiscal 1995 which are reaching the end of their product life cycle and the failure to receive certain customer orders in time to ship before year-end. Other products helped to offset some of the revenue decline in Datotek products.

Domestic and foreign sales declined by $898,735 and $855,429 in fiscal 1997, or 25% and 8%, respectively. The decline in domestic sales is predominantly due to procurement reductions by U.S. Government agencies. This is not expected to be a trend that will continue into the current fiscal year. The decline in Datotek product sales combined with the late or non-receipt of customer orders that could not be shipped before year-end contributed to the decrease in foreign sales.

Gross profit for fiscal year 1997 was $7,104,975, compared to $8,231,388 in fiscal 1996. The 14% decrease in gross profit is primarily the result of the decline in revenue. Gross profit expressed as a percentage of sales was 58% in fiscal 1997 compared to 59% in the prior year. Higher margins tend to be associated with higher sales because not all manufacturing costs are truly variable.

Engineering, design and product development costs in fiscal 1997 were $2,378,564, compared to $1,955,852 in fiscal 1996. The $422,712, or 22%, increase represents an investment in high-speed communications security systems that is intended to enable the Company to compete for emerging opportunities in the corporate enterprise and business-to-business electronic commerce security markets during fiscal 1998 and future years.

Selling, general and administrative expenses increased by $699,555 from $5,582,553 in fiscal 1996 to $6,282,108 for fiscal 1997. The increase is predominantly the result of higher selling and business development charges as the Company increased its staff in those areas and entered into service support agreements with overseas representatives.

Investment income earned during fiscal 1997 was $128,722, compared to $239,142 in fiscal 1996. The decrease of $110,420 was predominantly the result of the Company's lower average cash balances during the current year caused by the payment of the Datotek acquisition and ESOP loans. Interest expense also declined by $179,493 from $243,472 in fiscal 1996 to $63,979 for the year just ended, again as a result of the payment of these loans. The $167,047 in other expense incurred during fiscal 1997 was primarily the result of the Company's disposal loss associated with certain capital equipment.

The Company incurred a net loss of $1,243,501, or $.98 per share, during fiscal 1997 compared to net earnings of $532,147, or $.41 per diluted share, in the prior year. The loss in the current year was a direct consequence of lower sales coupled with a higher investment in new product and a substantial increase in selling and business development expenses.

MARKET RISK

The Company is exposed to market risk from changes in equity prices, which could affect its future results of operations and financial condition. The Company's long-term available-for-sale investment, in Visual Networks, Inc., represents a publicly traded equity security that is sensitive to fluctuations in price. Changes in equity prices would result in changes in the fair value of the Company's long-term available-for-sale investment due to the difference between the current market price and the market price at the last balance sheet date. A 10% decrease in the fiscal year-end 1998 market equity prices would result in a negative impact of $90,080 on the book value of the Company's stockholders' equity. The investment is more fully described in Note 18 of the Notes to Consolidated Financial Statements in the Company's 1998 Annual Report.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased from $1,876,748 at September 27, 1997 to $740,049 at October 3, 1998. This decrease was primarily due to increased accounts receivable associated with a $7.4 million sale which was essentially completed during the fourth quarter of fiscal 1998. The current ratio of the Company decreased from 3.5 to 1 as of September 27, 1997 to 2.5 to 1 as of October 3, 1998. This decrease was primarily caused by a $2,250,000 increase in borrowings against the Company's line of credit which relates directly to a build up of working capital associated with the aforementioned $7.4 million sale.

The Company's short-term capital requirements are funded primarily from cash from operations and borrowings under the Company's bank credit line. Long-term capital requirements have historically been funded from the Company's operations. Effective May 1, 1998, the Company and its bank increased its existing Revolving Line of Credit Agreement from $3,500,000 to $5,000,000. This line of credit is available until May 1, 1999. Borrowings under the Agreement bear interest at the bank's prime rate plus one-half percent per annum. The line of credit is secured by a lien on substantially all of the Company's assets and is used for working capital requirements and to support letters of credit. During fiscal 1998, the Company borrowed $4,500,000 against this credit line in order to accommodate additional working capital requirements in conjunction with a $7.4 million sale which was substantially completed during the fourth quarter of FY 1998. $2,250,000 of the amount borrowed was repaid during fiscal 1998, reducing the outstanding borrowings at October 3, 1998 to $2,250,000. Availability under the line of credit as of October 3, 1998 has been further reduced by $911,526 for outstanding letters of credit. During the first week of October 1998, the Company repaid the entire outstanding amount upon receipt of payment in full of the outstanding receivable balance on the $7.4 million sale. As of December 11, 1998, no borrowings were outstanding under the line of credit.

In connection with the acquisition of the assets of Datotek, Inc., a subsidiary of AT & T Corp., in May 1995, the Company entered into a reseller agreement whereby it would commit to purchasing minimum annual levels of various AT & T Secure Communications System's (now General Dynamics) products, in exchange for exclusive distribution rights. This agreement, as modified in October 1997, would have required the Company to purchase $850,000 and $1,000,000 for the years ended September 30, 1998 and September 30, 1999 respectively.

On December 8, 1998, the Company entered into a new agreement with General Dynamics (Addendum No. 5) which replaced the previous agreement. Under terms of this agreement, the Company will: a) purchase selected General Dynamics inventory at General Dynamics' cost of $1.1 million during Fiscal 1999; b) receive expanded distribution rights for the United States, Canada and Europe, areas previously excluded from the agreement by General Dynamics; and c) assume responsibility for certain product warranties granted by General Dynamics on sales within the U.S., Canadian and European territories. Most of the affected products were sold by General Dynamics during 1998 under one year warranties scheduled to expire during 1999, although there are a small number of extended warranty products with expiration dates in 2000. The Company does not believe that its total warranty exposure is material. The Company does not believe that its obligations under this Agreement will materially adversely impact its liquidity or operations. Although no assurances can be given that certain purchased products will not eventually become technologically obsolete, the Company believes that the selected product inventory that will be purchased from General Dynamics can either be sold to certain foreign customers of the Company or to new customers in the expanded distribution territories of the U.S., Canada and Europe in the forseeable future.

In connection with the litigation set forth in Item 3 above, the Company has agreed to reimburse members of the 13D Group $395,000 ($300,000 payable in the first quarter of fiscal 1999; 50,000 payable before the end of fiscal 1999; and $45,000 payable before the end of fiscal 2000) and incurred approximately $300,000 in additional legal fees related to its defense of this litigation in fiscal 1998. The Company has made and expects to make such future payments from available working capital.

PART IV

Item 14 EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K

[a] (1) The following Consolidated Financial Statements, Notes thereto and Independent Auditors'Report of the Company are filed on the pages listed below, as part of Part II, Item 8 of this report:

[a] (2) The following Consolidated Financial Statement Schedule is included herein:

Schedule II - Valuation Accounts and Report of Independent Auditors F-20

(a) 3 LIST OF EXHIBITS

3.3 (a)* Articles of Organization of the Company

3.3 (b)** By-laws of the Company

10.1 Employment Agreement for Carl H. Guild, Jr.

10.2 Standstill Agreement

21 List of Subsidiaries of the Company

27.1 Financial Data Schedule

- * Incorporated by reference to previous filings with the Commission
-
- ** Incorporated by reference to the Company's 8-K filed on May 5, 1998.

(b) REPORTS ON FORM 8-K

During the fourth quarter of fiscal 1998, Technical Communications Corporation made four (4) filings on Form(s) 8-K. Current Reports on Form(s) 8-K were filed with the Securities and Exchange Commission on July 9, 1998, on July 16, 1998, on August 14, 1998 and on August 27, 1998. In all cases, Item 5 was reported.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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

By: /s/ Carl H. Guild, Jr.

Carl H. Guild, Jr.
Chief Executive Officer and President
Vice Chairman of the Board
March 25, 1999

CONSOLIDATED BALANCE SHEETS
OCTOBER 3, 1998, AND SEPTEMBER 27, 1997

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 740,049	$ 1,876,748
Accounts receivable, less allowance for doubtful accounts of $70,000 and $25,000	8,196,296	3,259,549
Unbilled revenue	--	198,038
Inventories (Note 3)	3,119,291	3,423,979
Refundable income taxes (Note 7)	361,532	292,629
Deferred income taxes (Note 7)	499,521	830,382
Other current assets	88,483	117,947
Total current assets	13,005,172	9,999,272
Equipment and leasehold improvements (Note 16)	4,818,515	4,382,655
Less accumulated depreciation and amortization	3,773,457	3,200,075
Equipment and leasehold improvements--net	1,045,058	1,182,580
Goodwill	1,614,131	1,614,131

Less accumulated amortization	716,443	501,533
Goodwill--net	897,688	1,112,598
Available for Sale Securities (Note 18)	900,800	250,800
Other assets	324,011	347,649
	$ 16,172,729	$ 12,892,899
LIABILITIES AND STOCKHOLDERS'EQUITY		
Current Liabilities:		
Line of Credit (Note 6)	$ 2,250,000	$ --
Accounts payable	302,742	861,633
Accrued liabilities:		
Compensation and related expenses	401,596	290,093
Other (Note 4)	2,241,434	1,693,269
Total current liabilities	5,195,772	2,844,995
Other long-term liabilities (Notes 7 and 15)	456,356	537,858
Commitments and contingencies (Notes 11, 14, 15 and 20)		
Stockholders' Equity:		
Common stock--par value $.10 per share; authorized 3,500,000 shares, issued 1,283,238 shares and 1,273,703 shares	128,324	127,370
Treasury stock at cost, 30,678 shares and 10,000 shares (Notes 6 and 17)	(241,861)	(80,000)
Additional paid-in capital (Note 17)	1,266,197	1,526,110
ESOP deferred compensation (Notes 6 and 17)	--	(527,772)
Unrealized gain on investment, net (Note 18)	422,000	--
Retained earnings	8,945,941	8,464,338
Total stockholders' equity	10,520,601	9,510,046
	$ 16,172,729	$ 12,892,899

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED OCTOBER 3, 1998, SEPTEMBER 27, 1997, AND SEPTEMBER 28, 1996

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Net sales (Note 13)	$ 13,855,781	12,258,638	$ 14,012,802
Cost of sales	5,462,608	5,153,663	5,781,414
Gross profit	8,393,173	7,104,975	8,231,388
Operating expenses:			
Selling, general and administrative expenses	6,220,992	6,282,108	5,582,553
Product development costs	1,414,746	2,378,564	1,955,852
Total operating expenses	7,635,738	8,660,672	7,538,405
Operating profit (loss)	757,435	(1,555,697)	692,983
Other income (expense):			
Investment income	24,068	128,722	239,142
Interest expense	(142,056)	(63,979)	(243,472)
Other	2,690	(167,047)	20,876
Total other income (expense)	(115,298)	(102,304)	16,546
Income (loss) before income taxes	642,137	(1,658,001)	709,529
Provision (benefit) for income taxes (Note 7)	160,534	(414,500)	177,382
Net income (loss)	$ 481,603	$ (1,243,501)	$ 532,147

Net income (loss) per common share (Notes 2 and 5)

Basic	$0.38	$(0.98)	$0.42
Diluted	$0.37	$(0.98)	$0.41
Weighted average common shares outstanding used in computation (Notes 2 and 5)			
Basic	1,281,924	1,270,625	1,257,384
Diluted	1,288,007	1,270,625	1,298,387

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 3, 1998, SEPTEMBER 27, 1997, AND SEPTEMBER 28, 1996

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
OPERATING ACTIVITIES:			
Net income (loss)	$ 481,603	$ (1,243,501)	$ 532,147
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	873,642	911,331	882,905
Net loss on disposal of fixed assets	20,000	192,425	--
Non-cash compensation	18,263	--	--
Deferred income taxes	9,907	(70,904)	(427,077)
Compensation associated with ESOP	--	167,403	246,136
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(4,936,747)	(40,425)	1,792,842
Decrease (increase) in unbilled revenue	198,038	(198,038)	--
Decrease (increase) in inventories	304,688	(808,207)	(187,944)
(Increase) decrease in refundable income taxes	(68,903)	(292,629)	139,944
Decrease in other current assets	29,464	81,175	143,634
Increase (decrease) in accounts payable and accrued liabilities	114,723	(277,086)	689,165
Net cash (used) provided by operating activities	(2,955,322)	(1,578,456)	3,811,752
INVESTING ACTIVITIES:			
Additions to equipment and leasehold improvements	(511,423)	(533,177)	(597,452)
Proceeds from disposal of equipment	--	38,884	--
Cancellation of life insurance policies	152,787	--	--
Long-term receivable	114,665	(104,841)	--
Investment in capitalized software	(275,101)	(34,104)	(48,240)
Other assets	1,500	(796)	(7,900)
Cash paid for Datotek acquisition	--	--	(44,511)
Net cash (used) by investing activities	(517,572)	(634,034)	(698,103)
FINANCING ACTIVITIES:			
Exercise of stock options, including income tax benefits	88,689	53,387	85,723
Borrowings under line of credit	4,500,000	500,000	--
Payment of line of credit	(2,250,000)	(500,000)	--
Payment of debt	(2,494)	(2,345,175)	(696,136)
Net cash provided (used) by financing activities	2,336,195	(2,291,788)	(610,413)
Net (decrease) increase in cash and cash equivalents	(1,136,699)	(4,504,278)	2,503,236
Cash and cash equivalents at beginning of year	1,876,748	6,381,026	3,877,790
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 740,049	$ 1,876,748	$ 6,381,026
Supplemental disclosures:			
Interest paid	$ 139,063	$ 70,991	$ 243,472
Income taxes paid (net of refunds received)	108,765	408,193	103,497

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED OCTOBER 3, 1998, SEPTEMBER 27, 1997, AND SEPTEMBER 28, 1996

<TABLE>

<CAPTION>

	1998	1997	1996
Shares of Common Stock:			
Beginning balance	1,273,703	1,264,496	1,254,426
Exercise of stock options	9,535	9,207	10,070
Ending balance	1,283,238	1,273,703	1,264,496
Common Stock at par value:			
Beginning balance	$ 127,370	$ 126,450	$ 125,443
Exercise of stock options	954	920	1,007
Ending balance	128,324	127,370	126,450
Additional Paid-in Capital:			
Beginning balance	1,526,110	1,473,643	1,388,927
Exercise of stock options	87,735	52,467	84,716
Termination of ESOP (Note 17)	(347,648)	--	--
Ending balance	1,266,197	1,526,110	1,473,643
ESOP Deferred Compensation:			
Beginning balance	(527,772)	(695,175)	(941,311)
Principal payments on ESOP debt (Note 6)	--	167,403	246,136
Termination of ESOP (Note 17)	527,772	--	--
Ending balance	--	(527,772)	(695,175)
Unrealized Gain on Investment:			
Beginning balance	--	--	--
Available for sale investment (Note 18)	422,000	--	--
Ending balance	422,000	--	--
Retained Earnings:			
Beginning balance	8,464,338	9,707,839	9,175,692
Net income (loss)	481,603	(1,243,501)	532,147
Ending balance	8,945,941	8,464,338	9,707,839
Treasury Stock:			
Beginning balance	(80,000)	(80,000)	(80,000)
Termination of ESOP (Note 17)	(180,124)	--	--
Issuance of stock grants (Note 17)	18,263	--	--
Ending balance	(241,861)	(80,000)	(80,000)
Total stockholders' equity	$ 10,520,601	$ 9,510,046	$ 10,532,757

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) COMPANY OPERATIONS

Technical Communications Corporation, incorporated in 1961 in Massachusetts, and its wholly-owned subsidiaries (the Company) operate in one industry segment: the design, development, manufacture, distribution and sale of communications security devices and systems.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, TCC Foreign Sales Corporation (FSC), a qualified foreign sales corporation, and TCC Investment Corporation, a Massachusetts Security Corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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 period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include demand deposits at banks, and certificates of deposit and other investments (including mutual funds) readily convertible into cash. Cash equivalents are stated at cost, which approximates market value.

INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful life of the asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized. (Note 16)

CAPITALIZED SOFTWARE COSTS

The Company sells software as a component of its communications systems. Certain computer software costs are capitalized in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," and are reported at the lower of unamortized cost or net realizable value. Upon initial product release, these costs are amortized based upon the straight-line method, over three years. As of October 3, 1998, the Company's aggregate investment in capitalized software was $357,445 ($327,658 after accumulated amortization).

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
INTANGIBLE ASSETS

Intangible assets consist primarily of the costs of goodwill, patents and trademarks purchased in business acquisitions. Intangible assets are amortized on a straight-line basis over either 7 1/2 years or an estimated useful life, whichever is shorter. The Company accounts for long-lived and intangible assets in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of".

The Company acquired substantially all of the assets of Datotek, Inc. in May 1995; the acquisition was accounted for as a purchase and, accordingly, an allocation of purchase cost to the Company's assets and liabilities was made to reflect fair values. The allocation resulted in unallocated excess purchase cost over net assets acquired (goodwill) of $1,614,131, which is being amortized on a straight-line basis over 7 1/2 years.

RECOGNITION OF REVENUE

The Company generally recognizes revenue upon shipment of products, except in the case of long-term contracts for which the revenue is recognized under the percentage-of-completion method. In 1998, the Company recorded a significant amount of deferred revenue due to customer billings in excess of the revenue recognized under the percentage of completion accounting method.

STOCK-BASED COMPENSATION

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees," and related Interpretations.

RECLASSIFICATION

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the 1998 presentation.

INCOME TAXES

The Company records income tax expense in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes," which requires the use of the liability method in accounting for income taxes. Under the 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 and tax bases of assets and liabilities.

WARRANTY COSTS

The Company provides for warranty costs at the time of sale based upon actual experience.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a.) Cash and Cash Equivalents, Accounts Receivable and Accounts Payable--The carrying amount of these assets and liabilities on the Company's consolidated balance sheet approximates their fair value because of the short maturity of these instruments.

b) Available for Sale Investment--The carrying amount of this asset on the Company's consolidated balance sheet equals fair market value based on market valuation.

c.) Line of Credit--The carrying amount of this liability on the Company's consolidated balance sheet approximates its fair value because of the short maturity of this instrument.

EARNINGS PER SHARE

At the beginning of fiscal year 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share," which establishes standards for computing and presenting earnings per share for entities with publicly held common stock (Note 5). As a result, all prior period EPS data has been restated to conform with the provisions of this statement, which includes the presentation of both a "Basic" and a "Diluted" EPS. Basic EPS has been computed by dividing net income by a weighted average number of shares of common stock outstanding during the period. In computing diluted EPS, only stock options that are dilutive--those that reduce earnings per share--have been calculated in the calculation of EPS using the Treasury Stock Method. Exercise of outstanding stock options is not assumed 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.

AVAILABLE FOR SALE INVESTMENT

Pursuant to Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities", the Company's investments in marketable equity securities are accounted for at market value, with the difference between cost and market value, net of related tax effects, recorded currently to stockholders equity as "Net Unrealized Gain on Available for Sale Investment" (Note 18).

FISCAL YEAR-END POLICY

The Company by-laws call for its fiscal year to end on the Saturday closest to the last day of September, unless other-wise decided by its Board of Directors. The year ended October 3, 1998, included 53 weeks, while the years 1997 and 1996 ended on September 27, 1997 and September 28, 1996 each included 52 weeks.

NEWLY ISSUED PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board issued Statement of

Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income" and Statement of Financial Accounting Standards No. 131 (SFAS 131), "Disclosures About Segments of an Enterprise and Related Information". SFAS 130 establishes standards for the reporting and display of comprehensive income and its components. SFAS 131 establishes standards for the way that public companies report information about operating segments in financial statements. This Statement supercedes Statement of Financial Accounting Standards No. 14, "Financial Reporting for Segments of a Business Enterprise", but retains the requirement to report information about major customers. The Statements are effective for fiscal years beginning

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
after December 15, 1997. The Company does not believe that the adoption of these Statements will have a material effect on the Company's financial statements.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities". The Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. Management does not expect the adoption of this statement to have a material impact on its financial condition or results of operations, based upon current business practices.

(3) INVENTORIES

Inventories consist of the following:

	OCTOBER 3, 1998	SEPTEMBER 27, 1997
Finished goods	$ 173,141	$ 64,781
Work in process	776,047	1,220,152
Raw materials and supplies	2,170,103	2,139,046
Total inventories	$ 3,119,291	$ 3,423,979

(4) OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	OCTOBER 3, 1998	SEPTEMBER 27, 1997
Reserve for product warranty	$ 167,772	$ 163,480
Customer advance payments	83,885	149,011
Sales representative commissions	135,514	746,833
Deferred revenues	447,375	--
Customer support agreements	914,585	519,839
Income taxes payable	289,513	--
Other	202,790	114,106
Total accrued liabilities	$ 2,241,434	$ 1,693,269

(5) EARNINGS PER SHARE

In accordance with SFAS No. 128, "Earnings Per Share", basic and diluted EPS were calculated as follows:

<TABLE>
<CAPTION>

<S>	1998	1997	1996
BASIC NET INCOME/(LOSS)	$ 481,603	$ (1,243,501)	$ 532,147
WEIGHTED AVERAGE SHARES OUTSTANDING	1,281,924	1,270,625	1,257,384
Outstanding dilutive stock options with option price less than average market price	6,083	--	41,003
ADJUSTED WEIGHTED AVERAGE SHARES	1,288,007	1,270,625	1,298,387
BASIC EARNINGS PER SHARE	$0.38	$(0.98)	$0.42
DILUTED EARNINGS PER SHARE	$0.37	$(0.98)	$0.41

</TABLE>

Outstanding potentially dilutive stock options which were not included in the above calculations for the respective fiscal years were as follows: 138,316 in 1998; 261,155 in 1997; and 192,902 in 1996.

(6) DEBT

At October 3, 1998, the Company had a $5,000,000 line of credit (increased from $3,500,000 on May 1, 1998) at a rate of prime plus 1/2 of 1% (8.75% at October 3, 1998). Availability under the line of credit has been reduced by $911,526 for outstanding standby letters of credit (see Note 11). During the twelve months ended October 3, 1998, the Company borrowed $4,500,000 against its credit line in order to accommodate additional working capital requirements in conjunction with a $7.4 million sale which was substantially completed during the final quarter of fiscal 1998. The Company repaid $2,250,000 during the year, reducing the outstanding indebtedness to $2,250,000 at the end of fiscal 1998. On October 8, 1998, the Company repaid the entire amount borrowed following receipt of payment in full of the outstanding receivable balance on the $7.4 million sale.

Other than outstanding standby letters of credit, the Company had no borrowings under the line of credit in 1997 or 1996. This line of credit is secured by a pledge of substantially all the assets of the Company. This line of credit expires on May 1, 1999, unless renewed.

On November 17, 1989, the Company established the Technical Communications Corporation Employees' Stock Ownership Trust (the "Trust") for the benefit of its employees. During 1990 and 1991, the Trust borrowed $1,212,500 and $1,287,488, respectively, from two banks, and purchased 190,350 shares of the Company's common stock at fair market value. The Company acted as guarantor on these loans and, as a result, recorded the principal balance of such loans on its balance sheet as long-term debt with an offsetting charge to "ESOP deferred compensation" within the Stockholders' Equity section. On April 30, 1997, the Company provided a loan of $82,702 to the Trust in order to pay off the remaining balance of the 1990 bank loan. This new loan, which bears interest at 9% per annum, required equal monthly payments of principal of $3,446, commencing on May 31, 1997. On August 28, 1997, the Company provided a second loan of $472,222 to the Trust in order to pay off the 1991 bank loan. This second Company loan to the Trust bore interest at 13.6% per annum and required equal monthly principal payments of $9,838 beginning on September 28, 1997.

At its August 27, 1997 meeting, the Board of Directors voted to terminate the Employee Stock Ownership Plan effective October 1, 1997. Actual termination of the Company's ESOP was effected in

(6) DEBT (CONTINUED)

fiscal 1998 by transferring all remaining shares that had not been allocated to participants to Treasury Stock (Note 17).

The Company made contributions to the Trust equal to the monthly payment of principal and interest on the ESOP loans as they became due. Because the payment of principal resulted in the release of shares from collateral, which shares were then available for allocation to employees, the principal portion of these contributions was recorded as compensation expense. Such contributions were, therefore, expensed to compensation and interest when they were made or accrued. The compensation and interest elements are as follows:

	OCTOBER 3, 1998	SEPTEMBER 27, 1997	SEPTEMBER 28, 1996
Compensation	$ --	$ 167,403	$ 246,136
Interest	--	49,104	71,996
Total contributions	$ --	$ 216,507	$ 318,132

On May 31, 1995, the Company completed an asset purchase of the secure communications business of Datotek, Inc., a subsidiary of AT&T Corp., for $3,687,000. This acquisition was funded partly by the Company's cash reserves and partly through loans amounting to $2,250,000 from two banks. These loans, payable in equal installments of principal over a period of five years, plus interest at The First National Bank of Boston's prime rate plus 1/2 of 1%, were paid in full during November 1996.

(7) INCOME TAXES

The provisions (credits) for income taxes consist of the following:

	OCTOBER 3, 1998	SEPTEMBER 27, 1997	SEPTEMBER 28, 1996
Current:			
Federal	$ 29,629	$ (294,024)	$ 502,784
State	26,706	113,495	132,028
Total current taxes	56,335	(180,529)	634,812
Deferred:			
Federal	111,641	(16,519)	(365,442)
State	(7,442)	(217,452)	(91,988)
Total deferred taxes	104,199	(233,971)	(457,430)
Total provision (benefit)	$ 160,534	$ (414,500)	$ 177,382

(7) INCOME TAXES (CONTINUED)

The provisions for income taxes are different from those that would be obtained by applying the statutory federal income tax rate to earnings before income taxes due to the following:

	OCTOBER 3, 1998	SEPTEMBER 27, 1997	SEPTEMBER 28, 1996
Tax at U.S. statutory rate	$ 220,210	$ (563,720)	$ 241,240
Benefit of Foreign Sales Corp	(74,269)	--	(23,604)
State income taxes, net of Federal benefit	12,714	(103,957)	28,260
Tax-exempt interest	--	--	(6,875)
Other	32,933	(17,912)	5,861
Increase (reduction) in valuation allowance	(31,054)	271,089	(67,500)
Total	$ 160,534	$ (414,500)	$ 177,382

Deferred income taxes consist of the following:

	OCTOBER 3, 1998	SEPTEMBER 27, 1997
NOL carryforward	$ --	$ 543,891
FAS 115 investment	(228,000)	--
Goodwill	126,671	88,823
Inventory reserve	457,158	426,247
Warranty reserve	67,562	98,237
Payroll related accruals	476,082	144,589
Other	193,914	153,515
Total	1,093,387	1,455,302
Less: Valuation allowance	$ (593,866)	$ (624,920)
Total	$ 499,521	$ 830,382

The valuation allowance relates to uncertainty with respect to the Company's ability to realize prepaid tax assets.

Refundable income taxes represent estimated refunds from the Federal government from carryback claims. All refunds are expected to be received within the next fiscal year.

(8) STOCK OPTIONS

At the February 1992 Annual Meeting of Stockholders, the Company adopted the Technical Communications Corporation 1991 Stock Option Plan (the SOP Plan) to replace a previous, expired plan. The Company reserved 250,000 shares of common stock for issuance to employees at prices not less than the fair market value on the date of grant.

At the February 1997 Annual Meeting of Stockholders, the Company increased the reserve for shares under the SOP Plan to 350,000. Options under this plan generally expire ten years from the date of grant and are exercisable in cumulative annual increments commencing one year after the date of grant.

The Company had previously adopted an Incentive Stock Option Plan (the ISO Plan) which reserved shares of common stock for issuance to employees at prices not less than the fair market value on the date of grant. The ISO Plan expired December 15, 1991. Options are still outstanding, generally expire ten years

(8) STOCK OPTIONS (CONTINUED)

from the date of grant, and are exercisable in cumulative annual increments commencing one year after the date of grant.

In 1991, the stockholders approved a Non-Qualified Stock Option Plan which reserved 50,000 shares of common stock for issuance to non-employee Directors of the Company at prices not less than the fair market value on the date of grant. This plan was discontinued in February 1997, but options are still outstanding and are exercisable at any time after the date of the grant until expiration, which is five years from the date of grant.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," which sets forth a fair-value based method of recognizing stock-based compensation expense. As permitted by SFAS No. 123, the Company has elected to continue to apply Accounting Principles Board Opinion No. 25 to account for its stock-based compensation plans. Had compensation for awards in fiscal years 1996 through 1998 under the Company's stock-based compensation been determined based on the fair value at the grant dates consistent with the method set forth under SFAS No. 123, the effect on the Company's net income and earnings per share would have been as follows:

	OCTOBER 3,	SEPTEMBER 27,	SEPTEMBER 28,

	1998	1997	1996
<S>	<C>	<C>	<C>
Net Income (loss)			
As reported..	$ 481,603	$(1,243,501)	$ 532,147
Pro forma..	$ 296,646	$(1,432,295)	$ 376,293
Basic Earnings per common share			
As reported..	$0.38	$(0.98)	$0.42
Pro forma..	$0.26	$(1.23)	$0.31

</TABLE>

Because the method prescribed by SFAS No. 123 has not been applied to options granted prior to September 1, 1994, the resulting pro forma compensation expense may not be representative of the amount to be expensed in future years. Pro forma compensation expense for options granted is reflected over the vesting period; future pro forma compensation expense may be greater as additional options are granted.

The fair value of each option granted was estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rates of 4.08%, 6.00%, and 6.43% for 1998, 1997, and 1996, respectively, expected life equal to each grant's vesting period (1 to 10 years), expected volatility of 100%, and an expected dividend yield of 0%.

(8) STOCK OPTIONS (CONTINUED)

A summary of the Company's stock option activity is as follows:

<TABLE>
<CAPTION>

	1998		1997		1996
	NUMBER OF SHARES	AVERAGE EXERCISE PRICE	NUMBER OF SHARES	AVERAGE EXERCISE PRICE	NUMBER OF SHARES
<S>	<C>	<C>	<C>	<C>	<C>
Options outstanding, beginning of year..................	261,155	$ 10.14	233,905	$ 10.13	167,550
Options granted					
Option Price = Fair Market Value.....................	106,369	$ 6.58	34,700	$ 9.33	46,950
Option Price > Fair Market Value.....................	--	--	16,000	$ 11.45	50,000
Options exercised......................................	(3,100)	$ 4.00	(7,500)	$ 6.90	(10,070)
Options forfeited......................................	(220,025)	$ 9.57	(15,950)	$ 10.92	(20,525)
Options outstanding, end of year.......................	144,399	$ 8.58	261,155	$ 10.14	233,905
Options exercisable....................................	69,029	$ 8.12	72,965	$ 9.50	51,470
Weighted average fair value per share of options granted during the year......................................		$ 4.65		$ 7.76	

<CAPTION>

	AVERAGE EXERCISE PRICE
<S>	<C>
Options outstanding, beginning of year..................	$ 10.24
Options granted	
Option Price = Fair Market Value.....................	$ 8.71
Option Price > Fair Market Value.....................	$ 11.24
Options exercised......................................	$ 11.26
Options forfeited......................................	$ 11.03
Options outstanding, end of year.......................	$ 10.13
Options exercisable....................................	$ 9.78
Weighted average fair value per share of options granted during the year......................................	$ 6.77

</TABLE>

The following summarizes certain data for options outstanding at October 3, 1998;

<TABLE>
<CAPTION>

WEIGHTED

	NUMBER OF SHARES	RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE EXERCISE PRICE	AVERAGE REMAINING CONTRACTUAL LIFE
Options outstanding, end of year:.........................	78,619	$ 4.00-- $8.00	$ 5.97	9.36
	55,670	$ 8.01--$12.00	$ 9.57	8.90
	10,110	$ 12.01--$16.75	$ 13.61	10.20
	144,399		$ 8.58	9.25
Options exercisable:....................................	46,219	$ 4.00-- $8.00	$ 5.84	
	17,970	$ 8.01--$12.00	$ 9.56	
	4,840	$ 12.01--$16.75	$ 13.64	
	69,029		$ 8.12	

(9) PROFIT-SHARING PLAN

The Company has a qualified, contributory, trusteed 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. No provision for contributions was made for 1997. However, the Board of Directors approved a corporate match of 25 cents per dollar of the first 6% of each participant's contributions to the plan for fiscal 1998 and elected to extend the 25 cents per dollar of the first 6% throughout fiscal 1999. The Company contributed approximately $37,700 and $46,000 in 1996 for the Company's contribution to the plan.

(10) EXECUTIVE INCENTIVE BONUS PLAN

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 in the plan. Bonuses of $104,500 were earned and accrued in fiscal 1996 for key management employees, while no bonuses were earned and accrued under the plan in either 1997 or 1998.

(11) OFF-BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK

At October 3, 1998, and September 27, 1997, the Company was contingently liable under open standby letters of credit totaling $911,526 and $839,158, respectively. These letters of credit are issued in the ordinary course of business to secure the Company's performance under contracts with its customers. These letters of credit expire as provided for in the contracts, unless exercised or renewed. To date, no letters of credit have been exercised. The Company does not expect to incur any loss associated with these letters of credit.

As of October 3, 1998, management believes it has no significant concentrations of credit risk due to placement of its cash equivalents with high-credit-quality financial institutions, and the fact that the majority of its foreign trade receiv-ables are secured by letters of credit or foreign credit insurance.

(12) RELATED PARTY TRANSACTIONS

During fiscal years 1997 and 1996, the Company incurred expenses of $116,038 and $96,360, respectively, with FutureComms, Inc., for telecommunications software consulting services. FutureComms is owned and operated by Michelle D. Gerard, the wife of the Company's President and CEO prior to his termination in February, 1998. FutureComm's work ended in August, 1997.

Lawrence A. Kletter, Esq., who resigned as a director during fiscal 1997, is a member of a law firm which provided legal services to the Company.

During 1996, the Company leased a sales office from Arnold McCalmont, former Chairman of the Board; the lease payment for the year was $1.00. The fair value of such rent was estimated at less than $5,000.

On November 19, 1998, the Company settled certain litigation as set forth in Note 20 below.

On June 27, 1995, the Company invested $250,800 for a minority interest in Corporation, a privately held company that develops high performance management and analysis systems for Asynchronous Transfer Mode (ATM) networks. The Company also paid a deposit for inventory, purchased at a discounted price, valued at $244,200 as well as entered into a distribution agreement with Net2Net that gave TCC the exclusive right to sell Net2Net products to certain U.S. Government departments. As of October 3, 1998, $144,283 of the inventory had been sold and the remaining $99,917 has been either written down or fully reserved. On May 15, 1998, Visual Networks, Inc. ("Visual"), a public company, merged with and into Net2Net. Under the terms of the merger, all outstanding shares of Net2Net were exchanged for an aggregate of 2,250,000 shares of Visual common stock. Pursuant to an Escrow Agreement by State Street Bank & Trust Company to indemnify and hold Visual and the Merger Subsidiary harmless from the breach of default of representations, warranties, covenants and agreements given or made by Net2Net, seven and one-half percent (7.5%) of the aggregate number of shares of Visual Common Stock issued to Net2Net stockholders in connection with the merger are being held in escrow until the earlier of (i) three business days after the delivery by Visual's independent certified public accountants of its reports for the fiscal year ended December 31, 1998 and (ii) the close of business on March 31, 1999. Pursuant to a Registration Rights Agreement, Visual has agreed to file a registration

(12) RELATED PARTY TRANSACTIONS (CONTINUED)

statement covering the shares of Visual Common Stock issued in the Merger by no later than one month after March 1, 1999. Until this registration has been completed, Visual shares are considered restricted, in that they may not be transferred or resold except as permitted under the Securities Act of 1933.

Net2Net's President was Stephen McCalmont, son of Arnold McCalmont, a former director and former Chairman of Technical Communications Corporation, and brother of James McCalmont, another former Director of the Company. Both of these gentlemen, in addition to Herbert A. Lerner, a former director and former Treasurer of the Company, were also investors in Net2Net Corporation. This investment, which represents less than a 5% interest, was accounted for using the cost method; however, under Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities", the Company's investment in Visual securities is now accounted for at market value (Note 18).

(13) MAJOR CUSTOMERS AND EXPORT SALES

In fiscal 1998, the Company had two customers representing 71% (54% and 17%) of net sales. In fiscal 1997, the Company had three customers, including the U.S. Government as one customer, representing 51% (25%, 13%, and 13%) of net sales. In fiscal 1996, the Company had three customers, including the U.S. Government, representing 54% (26%, 16%, and 12%) of net sales.

A breakdown of net sales is as follows:

	OCTOBER 3, 1998	SEPTEMBER 27, 1997	SEPTEMBER 28, 1996
Domestic	$ 1,631,459	$ 2,734,690	$ 3,633,425
Foreign	$ 12,224,322	$ 9,523,948	$ 10,379,377
Total Sales	$ 13,855,781	$ 12,258,638	$ 14,012,802

A summary of foreign sales by geographic area follows:

	OCTOBER 3, 1998	SEPTEMBER 27, 1997	SEPTEMBER 28, 1996
North America (excluding the U.S.)	0.1%	1.0%	1.3%
Central and South America	5.0%	33.8%	6.7%

Europe	4.2%	6.1%	11.6%
Mid-East and Africa	84.4%	53.8%	46.0%
Far East	6.3%	5.3%	34.4%

</TABLE>

(14) COMMITMENTS AND CONTINGENCIES

The Company is the defendant in GERARD V. TECHNICAL COMMUNICATIONS CORPORATION, ET AL., filed in United States District Court for the District of Massachusetts in 1998. This case arises from disputes concerning the hiring and termination of Roland Gerard, former president of the Company. According to the Complaint, the Company violated federal securities laws in the hiring process for Mr. Gerard by making false statements about the Company which induced him to accept employment, the compensation for which included certain stock options. The Complaint also alleges breach of contract, wrongful termination, and civil conspiracy. At present, the Company's motion to dismiss is pending. Because of the

(14) COMMITMENTS AND CONTINGENCIES (CONTINUED)
early stage of the litigation, it is impossible to determine the ultimate outcome. The Company is determined to contest this suit vigorously.

The Company is also party to various claims arising in the normal course of business. Management believes that these are adequately provided for or will not result in a significant additional liability to the Company.

(15) LEASES

The Company leases its headquarters under an operating lease. The Company has renewed the lease on its headquarters located in Concord, Massachusetts through June 30, 2000. Future minimum lease payments depend on the Consumer Price Index at December 31, 1998, but are estimated at $158,700 a year through fiscal 1999 and $119,000 for the first nine months of fiscal 2000. This lease may be further renewed for an additional two and one-half years through December 31, 2002. The Company also retains an option to purchase the building at fair market value, but not to exceed $2,262,000, exercisable at the end of the current renewal term, and of the additional renewal term, if elected. Annual rental expense amounted to $155,300 in fiscal year 1998 and $146,160 per year for fiscal years 1996 and 1997.

On April 6, 1998, the Company entered into a capital lease for computer equipment valued and recorded at $20,370 ($17,876 after accumulated depreciation) which is included in the Engineering and Manufacturing Equipment category of the Company's equipment and leasehold improvements. The lease term is for three years and contains a bargain purchase option which may be exercised upon lease expiration. Minimum annual principal payments over the next three years are: $6,404 in 1999; $7,043 in 2000; and $4,429 in 2001.

(16) EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following:

<TABLE>
<CAPTION>

<S>	OCTOBER 3, 1998 <C>	SEPTEMBER 27, 1997 <C>	ESTIMATED USEFUL <C>
Engineering and manufacturing equipment	$ 2,221,594	$ 1,920,289	3-8 years
Demonstration equipment	1,058,550	922,696	3-5 years
Furniture and fixtures	1,079,569	1,036,423	3-8 years
Automobiles	44,335	89,899	5 years
Leasehold improvements	414,467	413,348	2-5 years
Total equipment and leasehold improvements	$ 4,818,515	$ 4,382,655	2-8 years

</TABLE>

(17) TREASURY STOCK TRANSACTIONS

Following termination of its ESOP on October 1, 1997 (Note 6), the Company accounted for the termination in the manner specified in AICPA Statement of Position (SOP) 93-6, EMPLOYERS' ACCOUNTING FOR EMPLOYEE STOCK OWNERSHIP PLANS, paragraph 38. Specifically, the Company transferred the remaining 23,543 shares that had not been allocated to participants to Treasury Stock and valued the transaction at the fair market value of the shares at the October 1, 1997 reacquisition date. Unearned ESOP shares were credited for the cost of the shares, zeroing out the balance remaining in the Deferred Compensation liability contra account, and the difference was recognized in Additional Paid in Capital.

(17) TREASURY STOCK TRANSACTIONS (CONTINUED)

On August 14, 1998, 2,865 shares of Technical Communications Corporation Common Stock were granted to members of the Company's Board of Directors at a price per share of $6.38, which was equal to current market value on date of grant. These shares were issued from the Company's Treasury Stock.

(18) AVAILABLE-FOR-SALE INVESTMENT

The Company's investment in Visual Network's Common Stock following the merger of Net2Net into Visual Networks, Inc. on May 15, 1998 (Note 12), although restricted pending the filing of a registration statement by Visual in March, 1999, is considered an available-for-sale investment in the accompanying balance sheet and is carried at market value. At October 3, 1998, the market value of this investment was $900,800, giving rise to an unrealized gain of $650,000 ($422,000 net of tax effects) when compared to the $250,800 cost.

(19) RISKS

The Company is exposed to a number of business risks. These include, but are not limited to, concentration of its business among a relatively small number of customers (Note 13), technological change (which can cause obsolescence of the Company's products and inventories), actions of competitors (some of whom have access to considerably greater financial resources than the Company), cancellation of major contracts (either before or after award), variations in market demand, the loss of key personnel, etc. The Company attempts to protect itself in various ways against such risks, but its success cannot be guaranteed.

(20) SUBSEQUENT EVENTS

On November 19, 1998, the Company reached agreement on and subsequently announced the settlement of shareholder litigation initiated by Philip Phalon and Dr. Mahmud Awan, which had been pending in Middlesex County, Massachusetts Superior Court since February 1998. The settlement agreement and standstill agreement executed by the Company and members of the opposition group that had filed a Form 13D (the "13D Group") in the settlement of the above described litigation set forth mutual full releases as to the litigation and also include provisions requiring (i) the Company to reimburse the 13D Group's expenses in payments aggregating $395,000 ($300,000 expensed and payable in the first quarter of fiscal 1999; $50,000 payable before the end of fiscal 1999; and $45,000 payable before the end of fiscal 2000), (ii) the dissolution of the 13D Group (Note: Members of the 13D Group plan to file an amendment to their Form 13D dissolving the 13D Group in either December 1998 or January 1999.), and (iii) the former proxy contestants to abide by certain standstill provisions until October 1, 2000.

On November 19, 1998, Carl H. Guild, Jr., the Company's Chief Executive Officer and President, was granted warrants to purchase 100,000 shares of the Company's Common Stock under the 1991 Stock Option Plan. These options are all at a price of $4.00 per share, equal to fair market value at date of grant, and are exercisable as follows: (i) 60,000 shares became exercisable on November 19, 1998; (ii) 20,000 are exercisable on June 30, 1999; and 20,000 are exercisable on September 30, 1999.

On December 8, 1998, the Company entered into a new agreement with General Dynamics (Addendum No. 5) which replaced the previous minimum purchase agreement for AT&T Secure Communications Systems products. Under terms of this agreement, the Company will: a) purchase selected General Dynamics inventory at General Dynamics' cost of $1.1 million during Fiscal 1999; b) receive expanded distribution rights for the United States and Europe, areas previously excluded from the agreement by General Dynamics; and c) assume responsibility for certain product warranties granted by General

(20) SUBSEQUENT EVENTS (CONTINUED)

Dynamics on sales within the U. S. and European territories. Most of the affected products were sold by General Dynamics during 1998 under one year warranties scheduled to expire during 1999, although there are a small number of extended warranty products with expiration dates in 2000. The Company does not believe that its total warranty exposure is material. The Company does not believe that its obligations under this Agreement will materially adversely impact its liquidity or operations. Although no assurances can be given that certain purchased products will not eventually become technologically obsolete, the Company believes that the selected product inventory that will be purchased from General Dynamics can either be sold to certain foreign customers of the Company or to new customers in the expanded distribution territories of the U.S. and Europe in the forseeable future.

(21) SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

For the years ended October 3, 1998, and September 27, 1997.

FISCAL 1998	FIRST QUARTER DECEMBER 27, 1997	SECOND QUARTER MARCH 28, 1998	THIRD QUARTER JUNE 27, 1998	FOURTH QUARTER OCTOBER 3, 1998
Net sales	$2,935,048	$3,405,457	$3,281,399	$4,233,877
Gross profit	1,363,962	2,110,584	2,123,894	2,794,733
Net (loss) income	(128,719)	178,142	222,415	209,765
Net (loss) income per share				
Basic	$(.10)	$.14	$.17	$.16
Diluted	$(.10)	$.14	$.17	$.16

FISCAL 1997	FIRST QUARTER DECEMBER 28, 1996	SECOND QUARTER MARCH 29, 1997	THIRD QUARTER JUNE 28, 1997	FOURTH QUARTER SEPTEMBER 27, 1997
Net sales	$3,058,114	$4,054,348	$2,027,070	$3,119,106
Gross profit	1,853,362	2,664,537	803,410	1,783,666
Net income (loss)	35,951	121,924	(998,674)	(402,702)
Net income (loss) per share				
Basic	$.03	$.09	$(.78)	$(.32)
Diluted	$.03	$.09	$(.78)	$(.32)

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Technical Communications Corporation:

We have audited the accompanying consolidated balance sheets of Technical Communications Corporation (a Massachusetts corporation) and its subsidiaries as of October 3, 1998, and September 27, 1997 and the related consolidated statements of operations, cash flows, and stockholders' equity for the years ended October 3, 1998, September 27, 1997 and September 28, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Technical Communications Corporation and subsidiaries as of October 3, 1998 and September 27, 1997 and the results of their operations and their cash flows for the years ended October 3, 1998, September 27, 1997 and September 28, 1996, in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

Boston, Massachusetts
October 30, 1998 (except for the matters discussed in Note 20, as to which the date is December 8, 1998)