

TESSCO TECHNOLOGIES INC  
Form 10-K  
June 06, 2016  
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

FORM 10 K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED March 27, 2016

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

Commission file number 001-33938

TESSCO Technologies Incorporated

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	52-0729657 (I.R.S. Employer Identification No.)
---	---

11126 McCormick Road, Hunt Valley, Maryland (Address of principal executive offices)	21031 (Zip Code)
---	---------------------

Registrant's telephone number, including area code (410) 229-1000

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

Title of each class	Name of each exchange on which registered
---------------------	---

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-K

Common Stock, \$0.01 par value

NASDAQ Global Select Market

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

None

---

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Act). Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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  No

Indicate by check mark whether the registrant submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or other information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act). Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of Common Stock, \$0.01 par value, held by non-affiliates of the registrant based on the closing sales price of the Common Stock as quoted on the NASDAQ Global Market as of September 27, 2015, was

\$125,779,828.

The number of shares of the registrant's Common Stock, \$0.01 par value, outstanding as of May 26, 2016, was 8,309,241.

**DOCUMENTS INCORPORATED BY REFERENCE:** Portions of the definitive Proxy Statement for the registrant's 2016 Annual Meeting of Shareholders, scheduled to be held July 26, 2016, are incorporated by reference into Part III of this Annual Report on Form 10-K.

---

Table of Contents

TABLE OF CONTENTS

<u>PART I</u>		Page
<u>Item 1.</u>	<u>Business</u>	3
<u>Item 1A.</u>	<u>Risk Factors</u>	12
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	23
<u>Item 2.</u>	<u>Properties</u>	24
<u>Item 3.</u>	<u>Legal Proceedings</u>	24
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	24
<u>PART II</u>		
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	25
<u>Item 6.</u>	<u>Selected Financial Data</u>	27
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	41
<u>Item 9.</u>	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	65
<u>Item 9A.</u>	<u>Controls and Procedures</u>	65
<u>Item 9B.</u>	<u>Other Information</u>	67
<u>PART III</u>		
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	67
<u>Item 11.</u>	<u>Executive Compensation</u>	67
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	67
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	67
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	67
<u>Part IV</u>		
<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedule</u>	67
	<u>Schedule II: Valuation and Qualifying Accounts</u>	72
	<u>Signatures</u>	73

Table of Contents

Part I

Item 1. Business.

General

TESSCO Technologies Incorporated (TESSCO, we, or the Company) is Your Total Source® for making wireless work. The convergence of wireless and the internet is revolutionizing the way the world lives, works and plays. New systems and applications are unlocking potential at an unprecedented rate. TESSCO is there, thinking in new ways for exceptional outcomes. TESSCO architects and delivers the product and value chain solutions to organizations responsible for building, operating, maintaining and reselling cellular, mobile communications, Wi-Fi, machine-to-machine, Internet of Things and wireless backhaul systems.

Our customers include a diversified mix of carrier and public network operators, tower owners, program managers, contractors and integrators, wireless internet service providers, industrial and enterprise self-maintained users (including railroads, utilities, mining operators, oil and gas operators and technicians), governments, manufacturers, value-added resellers, tier 1, 2 and 3 retail carrier stores and their independent agents, dealers and consumers, as well as other local and national retailers. We currently serve an average of approximately 12,200 non-consumer customers per month.

We provide our customers with support, products and services to build and maintain these primary systems:

- Enhanced Cellular Coverage and Capacity
- Wireless Base Station
- In-Vehicle and Mobile Communications
- Wi-Fi Networks
- Site Survey Test and Maintenance
- Wireless Backhaul
- Machine to Machine
- Internet of Things
- Mobility and User Devices

We offer products in these categories: base station infrastructure, network systems, mobile devices and accessories, and installation, test and maintenance products. We source and develop our product offer from leading manufacturers throughout the world.

Our operational platform allows customers and manufacturers the opportunity to streamline the supply chain process and lower total inventories and costs by providing guaranteed availability and complete, on-time delivery to the point of use.

We began our “total source” operations in 1982, reincorporated as a Delaware corporation in 1987, and have been listed on the NASDAQ Market (currently, NASDAQ Global Select) (symbol: TESS), since 1994. We operate under ISO 9001:2008 and TL 9000 registrations.

For information regarding our website address and material available free of charge through the website, see the information appearing under the heading “Available Information” included in Item 7 to this Annual Report on Form 10-K for the fiscal year ended March 27, 2016.

#### Customers

We evaluate our business and customers as one segment. However, to provide investors with increased visibility into the markets we serve, we report revenue and gross profit by the following customer market units: (1) public carriers, contractors and program managers that are generally responsible for building and maintaining the infrastructure system and provide airtime service to individual subscribers; (2) government system operators including federal agencies as well as state and local governments that run wireless networks for their own use; (3) private system operators such as major

## Table of Contents

utilities and transportation companies that run wireless networks for their own use; (4) commercial dealers and resellers that sell, install and/or service cellular telephone, wireless networking, broadband and two-way radio communications equipment primarily for the enterprise market; and (5) retailers, dealer agents and carriers. Beginning in the third quarter of fiscal year 2015, we began reporting private system operators and government operators as two separate market units. All periods have been restated to reflect this change.

Public carriers, contractors and program managers are system operators that are generally responsible for building and maintaining the public infrastructure system and providing airtime service to individual subscribers, and accounted for approximately 17% of fiscal year 2016 revenue. Government system operators including federal agencies and state and local governments accounted for 6% of fiscal year 2016 revenues. Private system operators, including commercial entities, major utilities, transportation companies, manufacturers, and installation centers, accounted for 16% of fiscal year 2016 revenues. Commercial dealers and resellers include dealers and resellers that sell, install and/or service cellular telephone, wireless networking, broadband and two-way radio communications equipment for the enterprise and consumer markets. These resellers include local and national value-added resellers and retailers, and accounted for 25% of fiscal year 2016 revenues. Our retailers, independent dealer agents and carriers market accounted for 36% of fiscal year 2016 revenues.

Our top ten customer relationships totaled 22% of our total revenue for fiscal year 2016, and no customer relationship accounted for more than 4% of our total revenues.

Approximately 98% of our sales have been made to customers in the United States during each of the past three fiscal years, although we currently sell to customers in over 90 countries. Due to our diverse product offering and our wide customer base, our business is not significantly affected by seasonality in the aggregate. However, sales to our retailers generally peak in our second and third quarters in preparation for the winter holiday season and decline significantly in our fourth quarter. Also, our base station infrastructure sales are typically affected by weather conditions in the United States, especially in our fourth quarter.

For more detailed financial information regarding customer market and product category activity within our sole operating segment for each of the past three fiscal years, see Note 10 to the Consolidated Financial Statements included in Item 8 to this Annual Report on Form 10-K for the fiscal year ended March 27, 2016.

## Products and Services

We principally offer competitively priced, manufacturer brand-name products, ranging from simple hardware items to sophisticated test equipment, with per item prices ranging from less than \$1 to over \$150,000 and gross profit margins ranging from less than 5% to 99%. We offer products classified into our four business categories: base station infrastructure; network systems; installation, test and maintenance products; and mobile devices and accessories,

which accounted for approximately 39%, 15%, 7%, and 39% of fiscal year 2016 revenues, respectively. Base station infrastructure products are used to build, repair and upgrade wireless broadband systems. Products include base station antennas, cable and transmission lines, small towers, lightning protection devices, connectors, power systems, enclosures, grounding, jumpers, miscellaneous hardware, and mobile antennas. Our base station infrastructure service offering includes connector installation, custom jumper assembly, site kitting and logistics integration. Network systems products are used to build and upgrade public and private wireless broadband networks. Products include fixed and mobile broadband radio equipment, wireless networking filtering systems, distributed antenna systems, two-way radios and security and surveillance products. This product category also includes training classes, technical support and engineering design services. Installation, test and maintenance products are used to install, tune, and maintain wireless communications equipment. Products include sophisticated analysis equipment and various frequency-, voltage- and power-measuring devices, as well as an assortment of tools, hardware, GPS, safety and replacement and component parts and supplies required by service technicians. Mobile devices and accessory products include cellular, smart phone and data device accessories such as replacement batteries, cases, screen protectors, speakers, mobile amplifiers, power supplies, bluetooth and corded headsets, mounts, car antennas, music accessories and data and memory cards.

While we principally provide manufacturer brand-name products, a variety of products are developed, manufactured and offered under TESSCO-owned brands including Ventev , Wireless Solutions , and TerraWave®. The products we offer under these brands generally consist of device accessory products that fall into the mobile device and



Table of Contents

accessory product category, as well as WLAN and network systems accessory products and remote monitoring and control solutions that fall into the network systems category. Also, our WLAN certification training is offered under our training unit GigaWave® trade name and is reported in the network systems category. We have not incurred significant research and development expenditures in any of the last three fiscal years. Sales of proprietary products were 14% of our total sales in fiscal year 2016.

Our products are sold as part of our integrated product and supply chain solutions. Our supply chain services for all product areas are grouped under Knowledge, Configuration, Delivery and Control. Knowledge solutions include the entire suite of TESSCO knowledge tools that focus on educating the industry, including product highlights, showcases and/or comparisons, with comprehensive specifications on the products, solutions and applications that are offered and reinforced by engineering, sales and technical support, as well as hands-on training programs. Configuration services are comprised of customized product solution kitting and assembly, logistics management and consumer and retail merchandising and marketing, allowing the products to be delivered ready for immediate use, installation or resale. Our delivery system allows the customer to select speed of delivery options, to specific delivery locations, designed to eliminate the customer's need for staging and warehousing. Our services that increase customer control include predetermined monthly pricing levels, the ability to monitor multi-site purchasing with pre-approved, customized parameters indicating who is able to order how much of which specific products, order delivery tracking, product usage tracking, history reporting and alternative financing options.

As part of our commitment to customer service, we typically allow most customers to return most products for any reason, for credit, within 30 days of the date of purchase. Total returns and credits have been less than 3% of revenues in each of the past three fiscal years.

Revenues from sales of products purchased from our largest two vendors, Otter Products, LLC and CommScope Inc., accounted for 15% and 11%, respectively, of total fiscal year 2016 revenues. Sales of products purchased from our ten largest vendors generated approximately 42% of our total fiscal year 2016 revenues.

The amount of purchases we make from each of our approximately 400 vendors may significantly increase or decrease over time. As the level of business changes, we may request, or be requested by our vendors, to adjust the terms of our relationships. Therefore, our ability to purchase and re-sell products from each of our vendors depends on being able to reach and maintain agreements with these vendors on acceptable business terms. In addition, the agreements and arrangements on which most of our larger vendor relationships are based are typically of limited duration and terminable for any or no reason by either party upon notice of varying lengths, usually between several months and two years. Generally, we believe that alternative sources of supply are available for many of the product types we carry, although we may be unable, or find it more difficult, to source branded products from other than the manufacturer.

The scope of products available for purchase from a given vendor may fluctuate, and is generally limited only by the scope of the vendor's catalog and available inventory. Therefore, we often source the same product type from multiple

vendors, although in some instances branded products are available only from the manufacturer or a particular vendor, and in some instances, customers might favor one vendor or brand over another. The terms of the vendor contract typically apply to all products purchased from a particular vendor, whether or not the item is specifically identified in the contract.

When negotiating with vendors, we seek the most favorable terms available under the circumstances. Our preferred terms include among others, terms that provide for product warranty and return rights, as well as product liability and intellectual property indemnification rights, in each case consistent with our preferred business methods and objectives. We have not been able, nor do we expect in the future to be able, to negotiate the inclusion of all our preferred terms, or our preferred language for those terms, in every vendor contract. The degree of our success in this regard is largely a function of the parties' relative bargaining positions.

We are dedicated to superior performance, quality and consistency of service in an effort to maintain and expand vendor relationships but there can be no assurance that we will continue to be successful in this regard in the future, or that competitive pressures or other events beyond our control will not have a negative impact on our ability to maintain these relationships or to continue to derive revenues from these relationships.

## Table of Contents

### Method of Operation

We believe that we have developed a highly integrated, technologically advanced and efficient method of operation based on the following key tenets:

- Understanding and anticipating customers' needs and building solutions by cultivating lasting relationships;
- Allowing customers to make the best decisions by delivering product knowledge, not just information, through our knowledge tools, including The Wireless Journal® and the TESSCO.com® Solution and Transaction System;
- Responding to what we refer to as "the moments of truth" by providing customers with sales, service and technical support, 24 hours a day, 7 days a week, 365 days a year;
- Providing customers what they need, when and where they need it by delivering integrated product and supply chain solutions; and
- Helping customers enhance their operations by providing real-time order tracking and performance measurement.

We operate as a team of teams structured to enhance marketing innovation, customer focus and operational excellence.

**Market Development and Sales:** In order to meet the needs of a dynamic and diverse marketplace, our sales and marketing activities are organized on an end-market basis. Sales teams are focused on our customers: 1) public carriers, contractors, and program managers, 2) government system operators 3) private system operators, 4) commercial dealers and resellers, and 5) retailers, independent dealer agents and carriers. This organization allows for the development of unique product and solution offerings to meet the needs of our diverse customer base.

We attempt to understand and anticipate customers' needs and to build solutions by cultivating lasting relationships. Our commercial customer database contains detailed information on approximately 272,300 existing customers, including the names of key personnel, past contacts, inquiries, and buying and credit histories. Additionally, we have information on approximately 630,200 contacts that serve as potential new customers in our market. This extensive customer database enables us to identify and target potential customers and to market specific products to these targeted customers. Potential customers are identified through their responses to TESSCO.com®, direct marketing materials, advertisements in trade journals and industry trade shows, as well as through referrals from other TESSCO customers and vendors. Customer relationship representatives pursue these customer inquiries through distribution of our Knowledge Tools and through phone contact, electronic communications, and field visits. The information technology system tracks potential customer identification from the initial marketing effort through the establishment and development of a purchasing relationship. Once a customer relationship is established, we carefully analyze purchasing patterns and identify opportunities to encourage customers to make more frequent purchases of a broader array of products. Scheduled contacts are made to each regularly purchasing customer for the purpose of information dissemination, order generation, database maintenance, and the overall enhancement of the business relationship. The process is aimed at attracting prospects to TESSCO, converting these prospects to buying customers, and ultimately migrating them to loyal, total-source monthly buyers.



## Table of Contents

Solutions Development and Product Management: We actively monitor advances in technologies and industry trends, both through market research and continual customer and manufacturer interaction, and continue to enhance our product offering as new wireless communications products and technologies are developed. To complement our broad product portfolio, we provide technical expertise and consultation to assist our customers in understanding technology and choosing the right products for their specific application. Our Solution Architects offer applications engineering to market-specific applications such as DAS systems (Distributed Antennae Systems), wireless backhaul and fiber networks, custom integrated solutions for power systems, and site kitting and flexible custom network design services for areas such as in-building coverage, tower design, and wireless video surveillance systems.

In addition to determining the product offering, our Product and Solutions Development Teams provide the technical foundation for both customers and our personnel. The Wireless Product Knowledge System (WPKS) is continually updated to add new products and additional technical information in response to manufacturer specification changes and customer inquiries. WPKS contains detailed information on each stock keeping unit (SKU) offered, including full product descriptions, category classifications, technical specifications, illustrations, product cost, pricing and delivery information, alternative and associated products, and purchase and sales histories. This information is available on a real-time basis to all of our personnel for product development, procurement, technical support, cataloging and marketing.

Strategic Marketing – As a thought leader in the wireless industry, TESSCO's marketing materials are used for both educating the industry and for promoting TESSCO's value. We utilize our WPKS to develop both broad-based and customized product solution information materials. These materials are designed to encourage both existing and potential customers to realize the value we provide in their product solution and supply chain decisions. These Knowledge Tools are an integrated suite of informational print and electronic media. They include: The Wireless Guide®, our product catalogue which is readily available electronically on TESSCO.com; The Wireless Journal®, a trade journal with a bimonthly circulation of approximately 116,500, which is designed to introduce the reader to our capabilities and product offerings, and contains information on significant industry trends and product reviews; The Wireless Update®, which is emailed on a regular basis to an average of 94,300 different individuals and is uniquely produced for various portions of our customer base; The Wireless Bulletin® family, including The Wireless Bulletin for Accessories for Handsets, Tablets & Music Devices which has a bimonthly circulation of approximately 11,400, The Wireless Bulletin for Installation, Test & Maintenance Products, The Wireless Bulletin for Security & Surveillance, The Wireless Bulletin for Site Planning, The Wireless Bulletin for Training, and The Wireless Bulletin for Wireless Networking Solutions, which are distributed on an as-need basis in a given year; Technical Application Notes, interactive Systems Supported Reference Drawings, and White Papers, which provide in-depth planning and installation instructions and diagrams; and TESSCO.com®. In addition, TESSCO publishes online, web-browser-enabled, companion versions of its many printed publications, including The Wireless Bulletin Online, The Wireless Guide Online, and The Wireless Journal Online.

TESSCO.com® is our e-commerce site and the gateway to Your Total Source® for the knowledge, products, and solutions for building, using, and maintaining and reselling wireless broadband solutions. It offers online access to a real-time system of Knowledge, Configuration, Delivery and Control of product and supply chain solutions and is intended for our commercial customers. Its feature-rich capabilities include:

## Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-K

- Customer-specific home pages that offer customized presentations of relevant, market-specific content, tailored to logged-in users' specific roles in wireless;
- Powerful product and knowledge search capabilities enabled by Google search engine logic;
- Real-time pricing and product availability;
- Easy ordering capabilities, including a Worksheet ordering tool which is the foundation for building end-to-end solutions and requirements, and which allows for the construction and configuration of a total-source order; Worksheets can be immediately converted to an order, as well as saved, copied, shared, uploaded and emailed;
- A Knowledge Center that unlocks all assets of TESSCO.com and enables the streamlined navigation of TESSCO's knowledge content (articles, white papers, Systems Supported illustrations, videos, installation guides, product selection guides, or any other content featured on TESSCO.com);

7

---

## Table of Contents

- A recommendation engine that offers product alternatives based on product attributes and past purchase history;
- A variety of useful customer service, financial and technical support pages, including the Your Account page which includes all of the tools necessary to manage or modify orders, update the account, find the right support, review Worksheets, handle warranty claims, and explore TESSCO's capabilities;
- Order confirmation – specifying the contents, order status, delivery date, tracking number and total cost of an order;
- An Order Tracking Center that provides online order status, at every step of the way, of all order items, available in the real-time Your Account Portal;
- Order reservations, order status, back-order details and four-month order history;
- The ability to view invoices online and customer specific pricing, based on our tiered pricing levels tied to a customer's aggregate purchase volume;
- Systems and Devices Supported pages feature interactive, how-to illustrations for a range of wireless applications that help with system design or device accessory support; the illustrations show the product required for a given application, allowing the user to configure an end-to-end solution and build a Worksheet;
- Manufacturer portal pages designed to showcase each manufacturer partner's offer in a custom fashion;
- A Feedback Center that makes it easy for customers to provide input on our services, Knowledge Tools and Website; and
  - Interactive versions of various Knowledge Tools, including: several customized versions of The Wireless Bulletin®, The Wireless Update®, The Wireless Guide®, and The Wireless Journal®.

Our Knowledge Tools empower our customers to make better decisions by delivering product knowledge, rather than just information. These tools also afford our manufacturers the opportunity to develop their brands and promote their products to a broad and diverse customer base.

**Customer Support and Order Entry:** Our customer support teams are responsible for responding to what we refer to as "the moments of truth" by delivering sales and customer support services through an effective and efficient transaction system. We also continually monitor our customer service performance through report cards sent for each product delivery, customer surveys and regular interaction with customers. By combining our broad product offering with a commitment to superior customer service, we seek to reduce a customer's overall procurement costs by enabling the customer to consolidate the number of suppliers from which it obtains products, while also reducing the customer's need to maintain high inventory levels.

Our information technology system provides detailed information on every customer account, including recent inquiries, buying and credit histories, separate buying locations within a customer account and contact diaries for key personnel, as well as detailed product information, including technical, product availability and pricing information. The information technology system increases sales productivity by enabling any customer support representative to provide any customer with personalized service and also allows non-technical personnel to provide a high level of technical product information and order assistance.

We believe that our commitment to providing prompt, friendly and efficient customer service before, during and after the sale enables us to maximize sales, customer satisfaction and customer retention. The monthly average number of non-consumer customers decreased slightly from approximately 12,400 for fiscal year 2015 to approximately 12,200 in fiscal year 2016. The average monthly purchase per customer remained flat at approximately \$3,700 in fiscal year

2015 and fiscal year 2016.

**Procurement and Inventory Management:** Our product management and purchasing system aims to provide customers with a total source of broad and deep product availability, while maximizing the return on our inventory investment.

8

---



## Table of Contents

We use our information technology system to monitor and manage our inventory. Historical sales results, sales projections and information regarding vendor lead times are all used to determine appropriate inventory levels. The information technology system also provides early warning reports regarding upcoming inventory requirements. As of March 27, 2016 and March 29, 2015, we had an immaterial level of backlog orders. Most backlog orders as of March 27, 2016 are expected to be filled within 90 days of fiscal year-end. For the fiscal years ended March 27, 2016 and March 29, 2015, inventory write-offs were 0.7% and 0.5% of total purchases, respectively. In many cases, we are able to return slow-moving inventory to our vendors pursuant to stock rotation agreements. Inventory turns for fiscal years 2016 and 2015 were 6.6 and 6.4, respectively.

**Fulfillment and Distribution:** Orders are received at our Timonium, Maryland, Reno, Nevada and San Antonio, Texas customer sales support centers. As orders are received, customer representatives have access to technical information, alternative and complementary product selections, product availability and pricing information, as well as customer purchasing and credit histories and recent inquiry summaries. An automated warehouse management system, which is integrated with the product planning and procurement system, allows us to ensure inventory control, to minimize multiple product shipments to complete an order and to limit inventory duplication. Bar-coded labels are used on every product, allowing distribution center personnel to utilize radio frequency scanners to locate products, fill orders and update inventory records in real-time, thus reducing overhead associated with the distribution functions. We contract with a variety of freight line and parcel transportation carrier partners to deliver orders to customers.

**Performance and Delivery Guarantee (PDG)** charges are generally calculated on the basis of the weight of the products ordered and on the delivery service requested, rather than on distance to the customer. We believe that this approach emphasizes on-time delivery instead of shipment dates, enabling customers to minimize their inventories and reduce their overall procurement costs while guaranteeing date specific delivery, thereby encouraging them to make us their total source supplier.

**Information Technology:** Our information technology system is critical to the success of our operations. We have made substantial investments in the development of this system, which integrates cataloging, marketing, sales, fulfillment, inventory control and purchasing, financial control and internal and external communications. The information technology system includes highly developed customer and product databases and is integrated with our Configuration, Fulfillment and Delivery system. The information contained in the system is available on a real-time basis to all of our employees as needed and is utilized in every area of our operations.

We believe that we have been successful to date in pursuing a highly integrated, technologically advanced and efficient method of operations; however, disruption to our day-to-day operations, including failure of our information technology or distribution systems, or freight carrier interruption, could impair our ability to receive and process orders or to ship products in a timely and cost-efficient manner.

Competition

The wireless communications distribution industry is competitive and fragmented, and is comprised of distributors such as Brightstar, D&H, Genco ATC Logistics, Superior Communications and VoiceComm in our retail market and Alliance Corporation, Anixter, Comstor, Graybar, Hutton Communication, KPG Logistics, Ingram Micro, Talley Communications, Tech Data, Site Pro 1, VAV Wireless, Westcon and Winncom in our other markets. In addition, many manufacturers sell and fulfill directly to customers. Barriers to entry for distributors are relatively low, particularly in the mobile devices and accessory market, and the risk of new competitors entering the market is high. In addition, the agreements or arrangements with our customers or vendors looking to us for product and supply chain solutions are typically of limited duration and are terminable by either party upon several months or otherwise short notice. Accordingly, our ability to maintain these relationships is subject to competitive pressures and challenges. Some of our current competitors have substantially greater capital resources and sales and distribution capabilities than we do. In response to competitive pressures from any of our current or future competitors, we may be required to lower selling prices in order to maintain or increase market share, and such measures could adversely affect our operating results. We believe, however, that our strength in service, the breadth and depth of our product offering, our information technology system, our knowledge and expertise in wireless technologies and the wireless marketplace, and our large customer base and

## Table of Contents

purchasing relationships with approximately 400 manufacturers, provide us with a significant competitive advantage over new entrants to the market.

Continuing changes in the wireless communications industry, including risks associated with conflicting technology, changes in technology, inventory obsolescence, and consolidation among wireless carriers, could adversely affect future operating results.

We believe that the principal competitive factors in supplying products to the wireless communications industry are the quality and consistency of customer service, particularly timely delivery of complete orders, breadth and quality of products offered and total procurement costs to the customer. We believe that we compete favorably with respect to each of these factors. In particular, we believe we differentiate ourselves from our competitors based on the breadth of our product offering, our ability to quickly provide products and supply chain solutions in response to customer demand and technological advances, our knowledge and expertise in wireless technologies and the wireless marketplace, the level of our customer service and the reliability of our order fulfillment process.

## Intellectual Property

We seek to protect our intellectual property through a combination of trademarks, service marks, confidentiality agreements, trade secret protection and, if and when appropriate, patent protection. Thus far, we have generally sought to protect our intellectual property, including our product data and information, customer information and information technology systems, through trademark filings and nondisclosure, confidentiality and trade secret agreements. We typically require our employees, consultants, and others having access to our intellectual property, to sign confidentiality and nondisclosure agreements. There can be no assurance that these confidentiality and nondisclosure agreements will be honored, or whether they can be fully enforced, or that other entities may not independently develop systems, technologies or information similar to that on which we rely.

TESSCO Communications Incorporated, a wholly-owned subsidiary of TESSCO Technologies Incorporated, maintains a number of registered trademarks and service marks in connection with our business activities, including: A Simple Way of Doing Business Better®, Delivering Everything for Wireless®, Delivering What You Need...When and Where You Need It®, GigaWave Technologies®, Going Beyond the Ordinary®, LinkUPS®, ORDERflow®, Solutions That Make Wireless Work®, TerraWave Solutions®, TESSCO®, TESSCO Making Wireless Work®, TESSCO Technologies®, TESSCO.com®, Ventev®, Ventev Innovations®, The Vital Link to a Wireless World®, The Wireless Bulletin®, The Wireless Guide®, The Wireless Journal®, Wireless Solutions®, The Wireless Update®, Your Total Source®, and Your Virtual Inventory®, among many others. Our general policy is to file for trademark and service mark protection for each of our trademarks and trade names and to enforce our rights against any infringement.

We currently hold one patent related to our online order entry system. We intend, if and when appropriate, to seek patent protection for any additional patentable technology. The ability to obtain patent protection involves complex legal and factual questions. Others may obtain patent protection for technologies that are important to our business, and as a result, our business may be adversely affected. In response to patents of others, we may need to license the right to use technology patented by others, or in the event that a license cannot be obtained, to design our systems around the patents of others.

#### Environmental Regulation

We are subject to various laws and governmental regulations concerning environmental matters and employee safety and health in the United States. We are also subject to regulation by the Occupational Safety and Health Administration concerning employee safety and health matters. Compliance with these federal, state and local laws and regulations related to protection of the environment and employee safety and health has had no material effect on our business. There were no material capital expenditures for environmental projects in fiscal year 2016 and there are no material expenditures planned for such purposes in fiscal year 2017.

Table of Contents

## Employees

As of March 27, 2016, we had 786 full-time equivalent employees. Of our full-time equivalent employees, 423 were engaged in customer and vendor service, marketing, sales and product management, 271 were engaged in fulfillment and distribution operations and 92 were engaged in administration and technology systems services. No employees are covered by collective bargaining agreements. We consider our employee relations to be excellent.

## Executive Officers

Executive officers are appointed annually by the Board of Directors and, subject to the terms of any applicable employment agreement, serve at the discretion of the Board of Directors. Information regarding our executive officers is as follows:

Name	Age	Position	
Robert B. Barnhill, Jr.	72	Chairman, President and Chief Executive Officer	Robert B. Barnhill, Jr. has served as President and Chief Executive Officer since founding the current business in 1982. Mr. Barnhill has been a director of the Company since 1982, and has served as Chairman of the Board since November 1993.
Aric Spitulnik	44	Senior Vice President, Secretary, and Chief Financial Officer	Aric Spitulnik joined the Company in 2000. Mr. Spitulnik was appointed Controller in 2005 and Vice President in 2006. In 2012, he was appointed Corporate Secretary and in 2014, he was appointed Senior Vice President. Since October 2013, Mr. Spitulnik has served as the Company's Chief Financial Officer.
Douglas A. Rein	56	Senior Vice President of Performance Systems and Operations	Douglas A. Rein joined the Company in July 1999 as Senior Vice President of Performance Systems and Operations. Previously, he was director of operations for Compaq Computer Corporation and vice president, distribution and logistics operations for Intelligent Electronics.
Craig A. Oldham	46	Senior Vice President, Strategic Marketing	Craig Oldham joined the Company in 2014 as Vice President, Strategic Marketing. In 2015, Mr. Oldham was appointed to Senior Vice President. Previously, Mr. Oldham served as Vice President of Digital Engagement at the Red Cross from August 2010 to March 2014.
Steven K. Tom	35	Senior Vice President, Analytics, Innovation and Learning	Steve Tom joined the Company in 2011. Mr. Tom was appointed Vice President in 2013 and Senior Vice President in 2015. Previously, Mr. Tom led marketing strategy and analytics at Algeco Scotsman.



Table of Contents

Item 1A. Risk Factors.

We are not able to identify or control all circumstances that could occur in the future that may adversely affect our business and operating results. The following are certain risk factors that could adversely affect our business, financial position and results of operations. These risk factors and others described in this Annual Report on Form 10-K should be considered in connection with evaluating the forward-looking statements contained in this Annual Report on Form 10-K because these factors could cause the actual results and conditions to differ materially from those projected in the forward-looking statements. Additional risks and uncertainties that management is not aware of or focused on, or that management currently deems immaterial may also adversely affect our business, financial position and results of operations. If our business, financial position and results of operations are adversely affected by any of these or other adverse events, our stock price would also likely be adversely affected.

RISKS RELATING TO OUR BUSINESS

We face significant competition in the wireless communications distribution industry.

The wireless communications distribution industry is competitive and fragmented, and is comprised of several national distributors, as well as numerous regional distributors. In addition, many manufacturers sell and fulfill directly to customers. Barriers to entry for distributors are relatively low, particularly in the mobile devices and accessory market, and the risk of new competitors entering the market is high. Some of our current competitors have substantially greater capital resources and sales and distribution capabilities than we do. In response to competitive pressures from any of our current or future competitors, we may be required to lower selling prices in order to maintain or increase market share, and such measures could adversely affect our operating results. We are also seeing increased competition in the form of e-commerce sites as consumers and business are increasingly looking to the internet to purchase goods.

We offer no assurance that we will not lose market share, or that we will not be forced in the future to reduce our prices in response to the actions of our competitors, thereby reducing our gross margins. Furthermore, to remain competitive we may be forced to offer more credit or extended payment terms to our customers. This could increase our required capital, financing costs, and the amount of our bad debt expenses.

We typically purchase and sell our products and services on the basis of individual sales or purchase orders, and even in those cases where we have standing agreements or arrangements with our customers and vendors, those agreements and arrangements typically contain no purchase or sale obligations and are otherwise terminable by either party upon several months or otherwise short notice.

Our sales to customers and our purchases from vendors are largely governed by individual sales or purchase orders, so there is no guarantee of future business. In some cases, we have formal agreements or arrangements with significant customers or vendors, but they are largely administrative in nature and are terminable by either party upon several months or otherwise short notice, and they typically contain no purchase or sale obligations. Many of our customer and vendor contracts contain “evergreen” clauses, although this too is largely a matter of administrative convenience, because the contracts are nevertheless typically terminable on short notice, and because no purchase and sale obligation in any event arises other than pursuant to an accepted purchase order. When negotiating with customers and vendors, we seek the most favorable terms available under the circumstances. Our preferred vendor terms include, among others, terms that provide for product warranty and return rights, as well as product liability and intellectual property indemnification rights, in each case consistent with our preferred business methods and objectives. We have not been able, nor do we expect in the future to be able to negotiate the inclusion of all our preferred terms, or our preferred language for those terms, in every contract. The degree of our success in this regard is largely a function of the parties’ relative bargaining positions.



Table of Contents

When unable to negotiate the inclusion of our preferred terms or preferred language in a particular vendor contract, we assess any increased risk presented, as well as mitigating factors, analyze our overall business objectives, and then proceed accordingly. In some instances, we refuse the contract and seek other sources for the product, and in other instances business objectives and circumstances are determined to outweigh or mitigate any increased risk, or otherwise dictate that we proceed with the contract notwithstanding. We consistently seek to manage contractual risks resulting from vendor contracts not including our preferred terms or language. However, these risks persist, and even when we are successful in negotiating our preferred terms, performance of these terms is not assured.

If our vendors or suppliers refuse to, or for any reason are unable to supply products to us, in sufficient quantities to meet demand, or at all, and if we are not able to procure those products from alternative sources, we may not be able to maintain appropriate inventory levels to meet customer demand and our financial position and results of operations would be adversely affected. Similarly, if customers decide to purchase from other sources, instead of from us, or experience significant changes in demand internally or from their own customer bases, become financially unstable, or are acquired by another company, our ability to generate revenues from these customers may, or in some cases would, be significantly affected, resulting in an adverse effect on our financial position and results of operations.

The loss or any change in the business habits of key customers or vendors, including vendors Otter Products LLC and CommScope Inc. may have a material adverse effect on our financial position and results of operations.

Because our standing arrangements and agreements with our customers and vendors typically contain no purchase or sale obligations and are terminable by either party upon several months or otherwise relatively short notice, we are subject to significant risks associated with the loss or change at any time in the business habits and financial condition of key customers or vendors. We have experienced the loss and changes in the business habits of key customer and vendor relationships in the past and expect to do so again in the future. It is the nature of our business. In fiscal year 2013, sales to our largest customer relationship, AT&T Mobility, accounted for approximately 30% of total revenues. Revenues from this business terminated in the fourth quarter of fiscal year 2013.

Sales of products purchased from our largest two vendors, Otter Products, LLC (15%) and CommScope Inc. (11%), generated approximately 26% of our total revenues in fiscal year 2016, and sales from our largest ten vendors generated approximately 42% of fiscal year 2016 total revenues. As is the case with many of our vendor and customer relationships, our contractual arrangements with Otter Products, LLC and CommScope Inc. are terminable by either party upon several months notice. If these contracts and our relationships with Otter Products, LLC or CommScope Inc. terminate for any reason, or if any of our other significant vendor relationships terminate for any reason, and we are not able to sell or procure a sufficient supply of those products from alternative sources, or at all, our financial position and results of operations would be adversely affected. Our vendors, including Otter Products, LLC and CommScope Inc., are subject to many if not all of the same (or similar) risks and uncertainties to which we are subject, as well as other risks and uncertainties, and we compete with others for their business. Accordingly, we are at a continual risk of loss of their business on account of a number of factors and forces, many of which are largely beyond our control.

In fiscal year 2016, no customer accounted for more than 5% of our total revenues. However, in the retail market, 40% of our sales are made to five customers. Also, customer mix can change rapidly, and we may see changes in customer concentrations in the future. If any of our significant customer relationships terminate for any reason, and we are not able to replace those customers and associated revenues, our financial position and results of operations would be adversely affected.

The loss of customer relationships and the corresponding reduction in the volume of product sales identified to those relationships, can also affect our negotiating ability with vendors supplying those products. This can affect our margins in sales of those products to other customers. If we are unable to replace those products at favorable pricing and terms, or if we are unable to acquire those products from vendors or offer those products to our customers on favorable terms, our competitiveness may suffer and result in reduced revenues and profits. Like our vendors, our customers are subject to many if not all of the same (or similar) risks and uncertainties to which we are subject, as well as other risks and uncertainties, and we compete with others for their business. Accordingly, we are at continual risk of loss of their business on account of a number of factors and forces, many of which are largely beyond our control.

Table of Contents

There can be no assurance that we will be successful in replacing any of our past, present or future vendor or customer relationships if and when lost, or that we will not suffer a substantial reduction in revenues as a result of loss of any such relationship. As such, vendor, customer, or revenue loss would adversely affect our financial position and results of operations.

Changes in customer or product mix could cause our gross margin percentage to decline.

We continually experience changes in customer and product mix that affects gross margin. Changes in customer and product mix result primarily from changes in customer demand, customer acquisitions, selling and marketing activities and competition. The growth in sales from the retail market over the past two fiscal years has had a negative impact on our overall margins. Also, while sales from the public carrier market have declined significantly over the past two years, significant future growth in that market could have a negative impact on gross margins as these customers are larger and demand lower overall pricing.

Our business depends on the continued tendency of wireless equipment manufacturers and network operators to outsource aspects of their business to us in the future.

We provide functions such as distribution, inventory management, fulfillment, customized packaging, e-commerce solutions, and other outsourced services for many wireless manufacturers and network operators. Certain wireless equipment manufacturers and network operators have elected, and others may elect, to undertake these services internally. Additionally, our customer service levels, industry consolidation, competition, deregulation, technological changes or other developments could reduce the degree to which members of the global wireless industry rely on outsourced logistic services such as the services we provide. Any significant change in the market for our outsourced services could have a material adverse effect on our business. Our outsourced services are generally provided under short-term contractual arrangements. The failure to obtain renewals or otherwise maintain these agreements on terms, including price, consistent with our current terms could have an adverse effect on our business.

We require substantial capital to operate, and the inability to obtain financing on favorable terms will adversely impact our business, financial position and results of operations.

Our business requires substantial capital to operate and to finance accounts receivable and product inventory that are not financed by trade creditors. We have historically relied upon cash generated from operations, revolving credit facilities and trade credit from our vendors to satisfy our capital needs and finance growth. As the financial markets change and new regulations come into effect, the cost of acquiring financing and the methods of financing may change. Changes in our credit rating or other market factors may increase our interest expense or other costs of capital, or capital may not be available to us on competitive terms to fund our working capital needs. Our credit facilities and long-term debt arrangements are of specified terms and contain various financial and other covenants that may limit

our ability to borrow or limit our flexibility in responding to business conditions. While we generally expect to either extend or replace our credit facilities at or prior to term expirations, there can be no assurances that we will be able to do so on favorable terms, or at all. We are engaged in ongoing discussions and negotiations to replace our existing unsecured revolving credit facility and term loan, discussed above, with an asset based revolving credit facility. The new facility, if established, will be secured by certain of our assets. The inability to maintain or when necessary obtain adequate sources of financing could have an adverse effect on our business. Some of our existing financing instruments involve variable rate debt, thus exposing us to risk of fluctuations in interest rates. Such fluctuations in interest rates could have an adverse effect on our business, financial position and results of operations. We may in the future use interest rate swaps in an effort to achieve a desired proportion of fixed and variable rate debt. We would utilize these derivative financial instruments to enhance our ability to manage risk, including interest rate exposures that exist as part of our ongoing business operations. However, our use of these instruments may not effectively limit or eliminate our exposure to a decline in operating results due to changes in interest rates.

Table of Contents

Our ability to maintain and borrow under our revolving credit agreement, and our ability to maintain our term loan, are each conditioned upon our continued compliance with certain financial and other covenants included in our revolving credit and term loan agreements. While we met these covenants at the end of fiscal year 2016, but we believe it likely that we will not meet one of these covenants at the end of the first quarter of fiscal year 2017, in which case our ability to borrow might cease and we may be required to repay in full any outstanding balances on these facilities,

At the end of fiscal year 2016, we were in compliance with the financial covenants applicable under our revolving credit facility and term loan with SunTrust Bank and Wachovia Bank, National Association. Many of our covenants are, however, measured on a rolling four quarter basis. Accordingly, our fourth quarter fiscal year 2016 operating results put pressure on these covenants going forward. We previously issued financial guidance that suggests that our first quarter fiscal year 2017 operating results will be lower than the first quarter fiscal year 2016, which would put yet additional pressure on these covenants, and likely result in us not meeting one of our current financial covenants at the end of the first quarter of fiscal year 2017. Absent a covenant waiver or adjustment, any such violation would eliminate our borrowing capacity under our revolving line of credit and entitle the banks to exercise the remedies available to them under the applicable loan documents, including to demand payment of all amounts outstanding. At the end of fiscal year 2016, there was no balance outstanding under our revolving credit facility and \$1.9 million outstanding under the term loan. We have not borrowed under our revolving credit facility since the third quarter of fiscal year 2016. In an effort to mitigate this potential bank covenant violation risk and any corresponding impact on liquidity, we are engaged in ongoing discussions and negotiations with SunTrust Bank to replace our existing unsecured revolving credit facility and term loan with an asset based revolving credit facility. This new facility, if established, would be secured by certain assets and would therefore in some respects be more restrictive, but also should allow for improved pricing and greater flexibility in terms of financial covenants and ratios going forward. We are actively pursuing the establishment of this new facility with a goal of it being in place by the end of the first quarter of fiscal 2017. However, there is no binding commitment on the part of SunTrust Bank and no assurance that we will be successful in establishing this facility by then, or at all. Therefore, if we fail to meet one of the financial covenants under our credit facilities at the end of the first quarter of our fiscal year 2017 (or if not then at a later date), and our ability to borrow under our revolving credit facility is terminated, and we are not successful in establishing the new facility or obtaining financing elsewhere, we would not have access to capital from others and our access to capital would be limited to our cash on hand and cash generated from operations. The inability to maintain or when necessary obtain adequate sources of financing could have an adverse effect on our business.

Compliance with regulations regarding the use of “conflict minerals” could limit the supply and increase the cost of certain of our products, and customers may seek other sources if we are unable to demonstrate to their satisfaction that our products are conflict free.

Increased focus on environmental protection and social responsibility initiatives led to the passage of Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), and its implementing SEC regulations. The Dodd-Frank Act imposes supply chain diligence and disclosure requirements for certain manufacturers of products containing specific minerals that may originate in or near the Democratic Republic of the Congo (the "DRC") and finance or benefit local armed groups. These "conflict minerals" are commonly found in certain of the products that we acquire from vendors and distribute to customers and are also found in certain products in our Ventev® product line that we contract to be manufactured by others or that we assemble. The

implementation of these regulations may limit the sourcing and availability of some of the raw materials used in certain of these products. This in turn may affect our ability to obtain sufficient quantities of our products and may affect related pricing. Because we are considered a manufacturer of certain of our Ventev® products, we are subject to additional “conflict minerals” diligence and disclosure requirements with regard to these products. Some of our customers may elect to disqualify us as a supplier if we are unable to verify that the products we sell to them are DRC conflict free.

Weakness in the global economic environment may have significant effects on our customers and suppliers that could result in material adverse effects on our business, operating results, and stock price.

Notwithstanding the slow economic recovery in the U.S., weakness in the global economic environment – which has included, among other things, significant reductions in available capital and liquidity from banks and other providers of credit, substantial reductions and/or fluctuations in equity and currency values worldwide, significant decreases in

Table of Contents

consumer confidence and consumer and business spending, high rates of unemployment and concerns that the worldwide economy may continue to experience significant challenges – may materially adversely affect our customers' access to capital or willingness to spend capital on our products, and/or their levels of cash liquidity with which to pay for our products. In addition, our suppliers' access to capital and liquidity may continue to be affected, which may in turn adversely impact their ability to maintain inventories, production levels, and/or product quality, or cause them to raise prices or lower production levels, or result in their ceasing operation.

The potential effects of the weakness in the global economic environment are difficult to forecast and mitigate. As a consequence, our operating results for a particular period may be more difficult to predict. Any of the foregoing effects could have a material adverse effect on our results of operations and financial condition, and could adversely affect our stock price.

We may be unable to successfully execute our merchandising and marketing strategic initiatives.

We are focusing our sales and marketing efforts and initiatives to maximize sales. If we fail to successfully execute these initiatives, our business, financial position and results of operations could be adversely affected.

The telecommunications products marketplace is dynamic and challenging because of the continued introduction of new products and services.

We must constantly introduce new products, services and product features to meet competitive pressures. We may be unable to timely change our existing merchandise sales mix in order to meet these competitive pressures, which may result in increased inventory costs, inventory write-offs or loss of market share.

Additionally, our inventory may also lose value due to price changes made by our significant vendors, in cases where our arrangements with these vendors do not provide for inventory price protection, or in cases that the vendor is unable or unwilling to provide these protections.

Consolidation among wireless service carriers could result in the loss of significant customers.

The wireless service carrier industry has experienced significant consolidation in recent years. If any of our significant customers or partners are acquired or consolidate with other carriers, or are otherwise involved in any significant transaction that results in them ceasing to do business with us, or significantly reducing the level of business that they

do with us, our revenues from those customers could be affected, resulting in an adverse effect on our financial position and results of operations.



Table of Contents

The failure of our information systems, or our inability to maintain or upgrade our information systems without incident or delay, could have a material adverse effect on our business, financial position and results of operations.

We are highly dependent upon our internal computer and telecommunication systems, many of which are proprietary, to operate our business. These systems support all aspects of our business operations, including inventory and order management, shipping, receiving and accounting. Most of our information systems contain a number of internally developed applications. In addition, these systems require continued maintenance and also require upgrading or replacement from time to time. There can be no assurance that our information systems will not fail or experience disruptions, that we will be able to attract and retain qualified personnel necessary for the operation of such systems, that we will be able to expand and improve our information systems, that we will be able to convert to new systems efficiently as and when necessary, or that we will be able to integrate new programs effectively with our existing programs. Any of such problems, or any significant damage or destruction of these systems, could have an adverse effect on our business, financial position and results of operations.

We depend heavily on e-commerce, and website security breaches or internet disruptions could have a material adverse effect on our business, financial position and results of operations.

We rely on the internet (including TESSCO.com®) for a significant percentage of our orders and information exchanges with our customers. The internet and individual websites have experienced a number of disruptions and slowdowns, some of which were caused by organized attacks. In addition, some websites have experienced security breakdowns. There can be no assurances that our website will not experience any material breakdowns, disruptions or breaches in security. If we were to experience a security breakdown, disruption or breach that compromised sensitive information, this could harm our relationship with our customers or suppliers. Disruption of our website or the internet in general could impair our order processing or more generally prevent our customers and suppliers from accessing information or placing orders. This could have an adverse effect on our business, financial position and results of operations.

System security breaches or data protection breaches could adversely disrupt our business and harm our reputation, financial position and results of operations.

We manage and store various proprietary information and sensitive or confidential data relating to our business. In addition, we routinely process, store and transmit large amounts of data, including sensitive and personally identifiable information. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us or our customers or vendors, including the potential loss or disclosure of such information or data as a result of fraud, trickery or other forms of deception, could expose us, our customers or the individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. In addition, the cost and operational consequences of implementing further data protection measures could be significant. Such breaches, costs and consequences could adversely affect our business, results of operations or

cash flows.

The inability to hire or retain certain key professionals, management and staff could adversely affect our business, financial condition and results of operations.

The nature of our business includes (but is not limited to) a high volume of transactions, business complexity, wide geographical coverage, and broad scope of products, suppliers, and customers. In order to compete, we must attract, retain and motivate executives and other key employees, including those in managerial, technical, sales, marketing and support positions. Hiring and retaining qualified executives, information technology and business generation personnel are critical to our business. The loss of any of the members of our senior management team, could have an adverse effect on our business, financial position and results of operations. Our Board of Directors has recently approved a CEO succession plan and has retained a third party search firm to assist it in these efforts. Leadership transition may result in additional costs to us, including costs associated with the hiring of new leadership, and may result in distraction and uncertainty for our current management team. In addition, there are transactional and transitional risks associated with the process of new leadership selection and engagement, and the transfer to and assumption of responsibilities by new leadership.

17

---

Table of Contents

To attract, retain and motivate qualified employees, we rely heavily on stock-based incentive awards such as Performance Stock Units (PSUs). If performance targets associated with these PSUs are not met, or the value of such stock awards does not appreciate as measured by the performance of the price of our common stock and/or if our other stock-based compensation otherwise ceases to be viewed as a valuable benefit, our ability to attract, retain and motivate our employees could be adversely impacted, which could negatively affect our business, financial position and results of operations and/or require us to increase the amount we spend on cash and other forms of compensation. Our ability to issue PSUs is also limited by the provisions of and our available shares under our current and/or future stock incentive plans, which may be subject to shareholder approval. We may currently issue awards under our incentive plan only through July 21, 2016, and as of May 27, 2016, there were 225,296 shares available for future awards. We intend to seek shareholder approval at our 2016 Annual Meeting for an extension of the date through which awards may be granted and an increase in the number of shares available for future awards, but we may not be successful. Therefore, our ability to offer stock-based incentive awards may be limited, which may have an adverse effect on our continued ability to attract and retain, and motivate, our employees, and, subsequently, on our business, financial position and results of operations. In addition, if we are unsuccessful in obtaining this shareholder approval, we may have less flexibility in formulating a compensation arrangement sufficient to attract a new CEO in furtherance of our CEO succession plan.

The damage or destruction of any of our principal distribution or administrative facilities could materially adversely impact our business, financial position and results of operations.

If any of our distribution centers in Hunt Valley, Maryland or Reno, Nevada, were to be significantly damaged or destroyed, we could suffer a loss of product inventory and our ability to conduct our business in the ordinary course could be materially and adversely affected. Similarly, if our office locations in Maryland, Nevada or Texas were to be significantly damaged or destroyed, our ability to conduct marketing, sales and other corporate activities in the ordinary course could be adversely affected.

We depend on third parties to manufacture products that we distribute and, accordingly, rely on their quality control procedures.

Product manufacturers typically provide limited warranties directly to the end consumer or to us, which we generally pass through to our customers. If a product we distribute for a manufacturer has quality or performance problems, our ability to provide products to our customers could be disrupted, which could adversely affect our operations.

We are subject to potential declines in inventory value.

We are subject to the risk that the value of our inventory will decline as a result of price reductions by vendors or technological obsolescence. It is the policy of many of our vendors to protect distributors from the loss in value of

inventory due to technological change or the vendors' price reductions. Some vendors (including those who manufacture our proprietary products), however, may be unwilling or unable to pay us for price protection claims or products returned to them under purchase agreements. No assurance can be given that such practices to protect distributors will continue, that unforeseen new product developments will not adversely affect us, or that we will be able to successfully manage our existing and future inventories.

Our future operating results depend on our ability to purchase a sufficient amount of finished goods and bulk inventory to meet the demands of our customers.

Our ability to meet customers' demands depends, in part, on our ability to obtain timely and adequate delivery of inventory from our suppliers. We have experienced shortages in the past that have negatively impacted our operations. Although we work closely with our suppliers to avoid these types of shortages, there can be no assurances that we will not encounter these problems in the future. Furthermore, certain of our products or components are available only from a single source or limited sources. We may not be able to diversify sources in a timely manner. A reduction or interruption in supplies or a significant increase in the price of supplies could have a negative impact on our results of operations or financial condition.

## Table of Contents

If our business does not perform well, or if we otherwise experience a decline in the fair values of a portion or all of our business, we may be required to recognize impairments of our intangible or other long-lived assets, which could adversely affect our results of operations or financial condition.

Goodwill and indefinite lived intangible assets are initially recorded at fair value and are not amortized, but are reviewed for impairment at least annually or more frequently if impairment indicators are present.

In assessing the recoverability of goodwill and indefinite lived intangible assets, we make estimates and assumptions about sales, operating margin, growth rates and discount rates based on our budgets, business plans, economic projections, anticipated future cash flows and marketplace data. There are inherent uncertainties related to these factors and management's judgment in applying these factors. We first perform a qualitative analysis to determine if it is more likely than not that goodwill or indefinite lived intangible assets are impaired. This analysis includes assumptions and estimates related to macroeconomic, industry and company specific events and trends. In the event that we find it is more likely than not that an impairment has occurred a quantitative analysis is performed. Goodwill and indefinite lived asset valuations are calculated using an income approach based on the present value of future cash flows of each reporting unit. We could be required to evaluate the recoverability of goodwill and indefinite lived assets prior to the annual assessment if we experience disruptions to the business, unexpected significant declines in operating results, divestiture of a significant component of our business or sustained market capitalization declines. These types of events and the resulting analyses could result in goodwill and indefinite lived asset impairment charges in the future. Impairment charges could substantially affect our financial results in the periods of such charges. In addition, impairment charges would negatively impact our financial ratios and could limit our ability to obtain financing in the future. As of March 27, 2016, we had \$12.5 million of goodwill and indefinite lived intangible assets, which represented approximately 7.4% of total assets.

Deferred income tax represents the tax effect of the differences between the book and tax bases of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. Factors in management's determination include the performance of the business, projections of future taxable income, and the feasibility of ongoing tax planning strategies. If based on available information, it is more likely than not that the deferred income tax asset will not be realized then a valuation allowance must be established with a corresponding charge to net income. Such charges could have an adverse effect on our results of operations or financial condition.

Our future results of operations may be impacted by the prolonged weakness in the current economic environment which may result in an impairment of any goodwill recorded and/or other long lived assets or the recording of a valuation allowance on our deferred tax assets, which could adversely affect our results of operations or financial condition.

We primarily rely on trademark filings and confidentiality agreements to protect our intellectual property rights.

In an effort to protect our intellectual property, including our product data, customer information and information technology systems, through trademark filings and nondisclosure, confidentiality and trade secret agreements, we typically require our employees, consultants and others having access to this information or our technology to execute confidentiality and non-disclosure agreements. These agreements, however, may not provide us with adequate protection against improper use or disclosure of confidential information, and these agreements may be breached. A breach of confidentiality could adversely affect our business. In addition, in some situations, these agreements may conflict with, or be subject to, the rights of third parties with whom our employees, consultants and others have previous employment or consulting relationships. Also, others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets. Adequate remedies may not exist in the event of unauthorized use or disclosure of our confidential information. The disclosure of our proprietary information or trade secrets could impair our competitive position and could have an adverse effect on our business, financial condition and results of operations. Others may obtain patent protection for technologies that are important to our business, and as a result, our business, financial position and results of operations may be adversely affected. In response to patents of others, we may need to license the rights to use the technology patented by others, or in the event that a license cannot be obtained, design our systems around the patents of others. There can be no assurances as to our ability to obtain any such licenses or to design around the patents of others, and our inability to do so could have an adverse effect on our business, financial position and results of operations.

Table of Contents

We offer credit to our customers and, therefore, are subject to significant credit risk.

We sell our products to a large and diverse customer base. We finance a significant portion of such sales through trade credit, typically by providing 30-day payment terms. As a result, our business could be adversely affected in the event of a deterioration of the financial condition of our customers, resulting in the customers' inability to repay us. This risk may increase if there is a general economic downturn affecting a large number of our customers and in the event our customers do not adequately manage their business or properly disclose their financial condition. Also, several of our larger customers, including tier 1 carrier customers, require greater than 30-day payment terms which could increase our credit risk and decrease our operating cash flow.

We may explore additional growth through acquisitions.

As part of our growth strategy, we may continue to pursue the acquisition of companies that either complement or expand our existing business. As a result, we regularly evaluate potential acquisition opportunities, which may be material in size and scope. In addition to those risks to which our business and the acquired businesses are generally subject to, the acquisition of these businesses gives rise to transactional and transitional risks, and the risk that the anticipated benefits will not be realized.

Risks associated with the foreign suppliers from whom our products are sourced could adversely affect our financial performance.

The products we sell are sourced from a wide variety of domestic and international suppliers. Global sourcing of many of the products we sell is an important factor in our financial performance. Since the onset of the weakness in the global economic environment in 2008, certain of our suppliers, particularly those in the far-east, have experienced financial difficulties and we believe it is possible that a limited number of suppliers may either cease operations or require increased prices in order to fulfill their obligations. Changes in our relationships with suppliers or increases in the costs of purchased raw materials, component parts or finished goods could result in delays, inefficiencies or our inability to market products. In addition, our profit margins would decrease if prices of purchased raw materials, component parts, or finished goods increase and we are unable to pass on those increases to our customers.

We rely on independent shipping companies to deliver inventory to us and to ship products to customers.

We rely on arrangements with independent shipping companies, for the delivery of our products from vendors and to customers. The failure or inability of these shipping companies to deliver products, or the unavailability of their shipping services, even temporarily, could have a material adverse effect on our business. We may also be adversely

affected by an increase in freight surcharges due to rising fuel costs and added security. This could adversely impact our selling, general and administrative expenses or lead to price increases to our customers which could decrease customer demand for our products.

Changes in accounting rules could have a material adverse impact on our results of operations.

We prepare our financial statements in conformity with accounting principles generally accepted in the United States. These accounting principles are subject to interpretation by the Financial Accounting Standards Board, the Public Company Accounting Oversight Board, the United States Securities and Exchange Commission (SEC), the American Institute of Certified Public Accountants and various other bodies formed to interpret and create appropriate accounting policies. A change in these policies or a new interpretation of an existing policy could have a significant effect on our reported results and may affect our reporting of transactions.

Changes in income tax and other regulatory legislation.

We operate in compliance with applicable laws and regulations and make plans for our structure and operations based upon existing laws and anticipated future changes in the law. When new legislation is enacted with minimal advance notice, or when new interpretations or applications of existing laws are made, we may need to implement changes in our policies or structure. We are susceptible to unanticipated changes in legislation, especially relating to income and other



Table of Contents

taxes, import/export laws, hazardous materials and other laws related to trade, accounting and business activities. Such changes in legislation may have an adverse effect on our business.

We may be subject to litigation.

We may be subject to legal claims or regulatory matters involving stockholder, consumer, antitrust, intellectual property and other issues. Litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages or other adverse effects. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on our business, financial position and results of operations for the period in which the ruling occurred or future periods.

We may incur product liability claims which could be costly and could harm our reputation.

The sale of our products subjects us to the risk of product liability claims. We have also been increasing our focus on sales of our proprietary Ventev® products and on providing an increased level of support services, including product and network designs, which also subjects us to risk of product liability and performance claim risk. We seek to allocate product liability risk to our vendors where available, but may not be successful in doing so. We currently maintain product liability insurance, but our product liability insurance coverage is subject to various coverage exclusions and limits and may not be obtainable in the future on terms acceptable to us, or at all. We do not know whether claims against us with respect to our products and services, if any, would be successfully defended or whether we might be successful in allocating that risk to others, or whether our insurance would be sufficient to cover liabilities resulting from such claims. Any claims successfully brought against us could adversely affect our financial condition, and if substantial and relating to our products or industry generally, could adversely affect our business as a whole.

Our expanding offering of private labeled products may have a negative impact on our relationship with our manufacturer partners.

Our product offering includes a growing number of our own proprietary products, which represented approximately 14% of our sales in fiscal year 2016. Our proprietary products often compete with other manufacturers' branded items that we offer. A manufacturer may choose to not sell its products to us, or may substantially increase the price of products to us, in response to the competition created by the sales of our proprietary branded products. Either could have an adverse effect on our business and financial performance.

Claims that our products infringe the proprietary rights of others could harm our business and cause us to incur significant costs.

Our industry has increasingly been subject to patent and other intellectual property rights litigation. We expect this trend to continue and accelerate and expect that we may be required to defend against this type of litigation, not only asserted against our own intellectual property rights, but also against the intellectual property of products which we have purchased for resale. Further, we may be obligated to indemnify and defend our customers if the products or services we supply to them are alleged to infringe a third party's intellectual property rights. While we may be able to seek indemnification from our suppliers to protect our customers and us from such claims, there is no assurance that we will be successful in negotiating contractual terms with our suppliers to provide for such indemnification, or that we will otherwise be successful in obtaining such indemnification or that we will be protected from such claims. We may also be prohibited from marketing products, could be forced to market products without desirable features, or could incur substantial costs to defend legal actions, including where third parties claim that we or vendors who may or may not have indemnified us are infringing upon their intellectual property rights. In recent years, individuals and groups have begun purchasing intellectual property assets for the sole purpose of making claims of infringement and attempting to extract settlements from target companies. Even if we believe that such infringement claims are without merit, the claims can be time-consuming and costly to defend and divert management's attention and resources away from our business. Claims of intellectual property infringement may require us to enter into costly settlements or pay costly damage awards, or face a temporary or permanent injunction prohibiting us from marketing or selling certain products or services, which could affect our ability to compete effectively. If an infringement claim is successful, we may be required to pay damages or seek royalty or license arrangements, which may not be available on commercially reasonable terms. Even if we have an agreement that

Table of Contents

indemnifies us against such costs, the indemnifying party may be unable or unwilling to uphold its contractual obligations to us.

We may be adversely affected by future laws or regulations.

We are subject to various U.S. Federal, state and local, and non-U.S. laws and regulations. We cannot predict the substance or impact of pending or future legislation or regulations, or the application thereof. The introduction of new laws or regulations or changes in existing laws or regulations, or the interpretations thereof, could increase the cost of doing business for us or our customers or vendors or restrict our actions and adversely affect our financial condition, operating results and cash flows. For example, annual disclosure and reporting requirements relating to the SEC's conflict minerals rule require us to perform a reasonable country of origin inquiry and conduct further due diligence measures on our supply chain. There are costs and uncertainties associated with complying with these disclosure requirements, including for diligence to determine the sources of conflict minerals that we may find to be used in our products.

#### RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

A significant portion of our voting stock is controlled by our executive officers, directors and beneficial owners of 5% or more of our common stock.

Our executive officers, directors and beneficial owners of 5% or more of our common stock and their affiliates, in the aggregate, beneficially owned approximately 64% of our outstanding common stock as of March 27, 2016. Robert B. Barnhill, Jr., our chairman, president and chief executive officer beneficially owned approximately 22% of our outstanding common stock as of March 27, 2016. Should these shareholders decide to act together, they would have the ability to significantly influence all matters requiring shareholder approval, including the election of directors and any significant corporate transaction requiring shareholder approval.

We may not be able to continue to pay dividends on our common stock in the future, which could impair the value of our common stock.

We have paid a quarterly dividend on our common stock since the second quarter of fiscal year 2010. Any future declaration of dividends remains subject to further determination from time to time by our Board of Directors. Our ability to pay dividends in the future will depend on our financial results, liquidity and financial condition. Under Delaware law, dividends to shareholders may be made only from the surplus of a company, or, in certain situations, from the net profits for the current fiscal year or the fiscal year before which the dividend is declared. Our current revolving credit facility limits the amount of cash dividends that we may pay to \$9.0 million in any twelve month period and contains other financial covenants and ratios that could restrict future dividend payments. There is no

assurance that we will be able to pay dividends in the future, or if we are able to, that our Board of Directors will continue to declare dividends in the future, at current rates or at all. If we discontinue or reduce the amount or frequency of dividends, the value of our common stock may be impaired.

Table of Contents

Our quarterly financial results may fluctuate, which could lead to volatility in our stock price.

Our revenue and operating results have fluctuated from quarter to quarter in the past and may continue to do so in the future. As a result, you should not rely on quarter-to-quarter comparisons of our operating results as an indication of our future performance. Fluctuations in our revenue and operating results could negatively affect the trading price of our stock. In addition, our revenue and results of operations may, in the future, be below the expectations of analysts and investors, which could cause our stock price to decline. Factors that are likely to cause our revenue and operating results to fluctuate include the risk factors discussed throughout this section.

Without approval of our Board of Directors, it may be difficult for a third party to acquire control of the Company. This could affect the price of our common stock.

Certain provisions of our certificate of incorporation and bylaws, including advance notice bylaws, certain arrangements to which we are party, and applicable provisions of the Delaware General Corporation Law (DGCL) may each make it more difficult for or may prevent a third party from acquiring control of us or changing our Board of Directors and management. We are afforded the protections of Section 203 of the DGCL, which will prevent us from engaging in a business combination with a person who acquires at least 15% of our common stock for a period of three years from the date such person acquired such common stock, unless Board of Director or shareholder approval were obtained. Some believe that the provisions described above, as well as any resulting delay or prevention of a change of control transaction or changes in our Board of Directors or management, could deter potential acquirers or prevent the completion of a transaction in which our shareholders could receive a substantial premium over the then current market price for their shares. We, on the other hand, believe that these provisions serve to protect our shareholders against abusive takeover tactics, to preserve and maximize the value of the Company for all shareholders, and to better ensure that each shareholder will be treated fairly in the event of an unsolicited offer to acquire the Company.

Potential uncertainty resulting from unsolicited acquisition proposals and related matters may adversely affect our business.

In the past we have received, and in the future we may receive, unsolicited proposals to acquire our company or our assets. For example, in September 2010, the Board of Directors received an unsolicited non-binding proposal for the acquisition of all of our stock. The review and consideration of acquisition proposals and related matters could require the expenditure of significant management time and personnel resources. Such proposals may also create uncertainty for our employees, customers and vendors. Any such uncertainty could make it more difficult for us to retain key employees and hire new talent, and could cause our customers and vendors to not enter into new arrangements with us or to terminate existing arrangements. Additionally, we and members of our board of directors could be subject to future lawsuits related to unsolicited proposals to acquire us. Any such future lawsuits could become time consuming and expensive.

Our quarterly operating results are subject to significant fluctuation.

Our operating results have fluctuated from quarter to quarter in the past, and we expect that they will continue to do so in the future. Our earnings may not continue to grow at rates similar to the growth rates achieved in recent years and may fall short of either a prior fiscal period or investors' expectations. Most of our operating expenses, such as compensation expenses, do not vary directly with the amount of sales and are difficult to adjust in the short term. As a result, if sales in a particular quarter are below expectations for that quarter, we may not proportionately reduce operating expenses for that quarter, and therefore such a sales shortfall would have a disproportionate effect on our net income for the quarter.

Item 1B. Unresolved Staff Comments.

None.

23

---

Table of Contents

Item 2. Properties.

Our corporate headquarters and primary distribution center, known as the Global Logistics Center (GLC), is located in a Company-owned 184,000 square-foot facility north of Baltimore, in Hunt Valley, Maryland.

Our sales, marketing and administrative offices are located in 102,200 square feet of leased office space near the GLC, in Timonium Maryland. The monthly rent payments range from \$167,500 to \$177,700 throughout the remaining lease term, which expires on December 31, 2017.

In addition, we lease 66,000 square feet of office and warehouse space adjacent to the GLC in Hunt Valley, Maryland. The monthly rent for this facility ranges from \$34,300 to \$35,700 throughout the remaining lease term, which expires on July 31, 2017, subject to our annual option to terminate.

Additional sales and marketing offices are located in 13,100 square feet of leased office space in San Antonio, Texas. Monthly rent payments range from \$15,800 to \$16,900 and the lease expires October 31, 2018.

West coast sales and fulfillment are facilitated by our Company-owned 115,000 square-foot Americas Sales & Logistics Center (ALC) located in Reno, Nevada. The ALC is used to configure and fulfill product and supply chain solutions, provide disaster backup for the GLC, and allow for future growth of staffing and increased fulfillment capabilities.

While we anticipate the need for additional space, we believe our existing facilities are generally adequate for our current requirements and that suitable additional space will be available as needed to accommodate future expansion of our operations. The GLC is encumbered by a deed of trust as security for a term loan. See Note 8 to our Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Item 3. Legal Proceedings.

Lawsuits and claims are filed against us from time to time in the ordinary course of business. We do not believe that any lawsuits or claims currently pending against the Company, individually or in the aggregate, are material, or will have a material adverse effect on our financial condition or results of operations. In addition, from time to time, we are also subject to review from federal and state taxing authorities in order to validate the amounts of income, sales and/or use taxes which have been claimed and remitted. No federal, state and local tax returns are currently under

examination.

As we are routinely audited by state taxing authorities, we have estimated exposure and established reserves for our estimated sales tax audit liability.

Item 4. Mine Safety Disclosures

Not applicable.



Table of Contents

## Part II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock has been publicly traded since September 28, 1994, on the NASDAQ Market (currently NASDAQ Global Select), under the symbol "TESS." The quarterly range of prices per share during fiscal years 2015 and 2016 are as follows:

	High	Low	Dividends Declared
Fiscal Year 2015			
First Quarter	\$ 38.49	\$ 30.05	\$ 0.20
Second Quarter	32.76	29.37	0.20
Third Quarter	34.28	26.67	0.20
Fourth Quarter	29.45	21.63	0.20
Fiscal Year 2016			
First Quarter	\$ 27.56	\$ 17.94	\$ 0.20
Second Quarter	27.25	19.20	0.20
Third Quarter	24.39	17.75	0.20
Fourth Quarter	20.49	14.96	0.20

As of May 26, 2016, the number of shareholders of record of the Company was 145. We estimate that the number of beneficial owners as of that date was approximately 2,173.

On July 28, 2009, we announced that our Board of Directors decided to commence a dividend program and we have since declared dividends on a quarterly basis. Any future declaration of dividends and the establishment of any corresponding record and payment dates remains subject to further determination from time to time by the Board of Directors. Additional information with respect to the quarterly dividends declared in fiscal years 2016 and 2015 is contained in our Selected Financial Data. The declaration and payment of future dividends will depend on many factors, including, but not limited to, our earnings, financial condition, business development needs and regulatory considerations, and is at the discretion of our Board of Directors. Our revolving credit facility limits the amount of cash dividends that we may pay to \$9.0 million in any twelve month period and contains other financial covenants and ratios that may restrict the future payment of dividends.

On April 23, 2014, the Board of Directors expanded the Company's then existing stock buyback program and authorized the purchase on a non-accelerated basis of up to \$10.0 million of the Company's stock over a 24-month period, ending in April 2016. Shares could be purchased from time to time in the open market, by block purchase, or through negotiated transactions, or other transactions managed by broker-dealers. Through the end of fiscal year 2016, we had repurchased 157,954 shares under the expanded stock buyback program for approximately \$4.6 million, or an average cost of \$29.17 per share. No shares were repurchased during the fourth quarter of fiscal year 2016. As of March 27, 2016, \$5.4 million remained available for repurchase under this program. The stock buyback program expired in April 2016.

We also withhold shares from our employees and directors from time to time to facilitate employees' minimum federal and state tax withholdings related to vested performance stock units, restricted stock and exercised stock options. For fiscal years 2016 and 2015 the total value of shares withheld for taxes were \$937,300 and \$1,612,900, respectively.

Our revolving credit facility and term loan with Wells Fargo Bank, National Association and SunTrust Bank limit to \$30.0 million the aggregate dollar value of shares that may be repurchased from May 31, 2007 forward. At March 27, 2016, we had the ability to repurchase approximately \$11.7 million in additional shares of our common stock without violating this covenant.

Table of Contents

The information required by Item 201(d) of Regulation S-K, pursuant to paragraph (a) of Item 5 of Form 10-K, is incorporated by reference to the information set forth under the caption “Equity Compensation Plan Information” in the Company’s Proxy Statement for the 2016 Annual Meeting of Shareholders, which is anticipated to be filed pursuant to Regulation 14A no later than one hundred twenty (120) days following the end of the fiscal year reported on.

## Stock Performance Graph

The graph set forth below shows the value of an investment of \$100 on March 27, 2011 in each of the Company’s Common Stock, the Russell 2000 Index and a peer group for the period of March 27, 2011 to March 27, 2016. The graph assumes that all dividends, if any, were reinvested.

	3/27/2011	4/1/2012	3/31/2013	3/30/2014	3/29/2015	3/27/2016
TESSCO Technologies Incorporated	\$ 100	\$ 225.07	\$ 204.63	\$ 340.20	\$ 253.53	\$ 178.23
Russell 2000	100	102.25	118.92	145.84	159.11	140.42
Peer Group (1)	100	131.08	134.46	164.72	151.89	162.15

(1) – The Peer Group consists of the following: Ingram Micro Inc., W.W. Grainger, Inc., Anixter International Inc., ScanSource, Inc., InfoSonics Corporation, and Tech Data Corp.

Table of Contents

The peer group was selected based on a review of publicly available information about these companies and the Company's determination that they are engaged in business similar to that of the Company.

## Item 6. Selected Financial Data.

STATEMENT OF	Fiscal Years Ended				
	March 27, 2016	March 29, 2015	March 30, 2014	March 31, 2013	April 1, 2012
<b>INCOME DATA</b>					
Revenues	\$ 530,685,100	\$ 549,619,000	\$ 560,086,600	\$ 752,565,000	\$ 733,389,900
Cost of goods sold	418,716,200	431,980,500	433,728,700	620,328,800	599,465,700
Gross profit	111,965,900	117,638,500	126,357,900	132,236,200	133,924,200
Selling, general and administrative expenses	102,932,300	102,686,700	99,868,000	103,017,600	106,920,400
Restructuring charge	—	573,400	—	—	—
Operating expenses	102,932,300	103,260,100	99,868,000	103,017,600	106,920,400
Income from operations	9,033,600	14,378,400	26,489,900	29,218,600	27,003,800
Interest, net	161,300	167,300	177,700	224,200	292,900
Income before provision for income taxes	8,872,300	14,211,100	26,312,200	28,994,400	26,710,900
Provision for income taxes	3,531,800	5,576,800	10,063,100	11,200,500	10,274,000
Net income	\$ 5,340,500	\$ 8,634,300	\$ 16,249,100	\$ 17,793,900	\$ 16,436,900
Diluted earnings per share	\$ 0.65	\$ 1.04	\$ 1.94	\$ 2.15	\$ 2.03
Cash dividends declared per common share	\$ 0.8	\$ 0.8	\$ 0.74	\$ 1.47	\$ 0.55
<b>Percentage of Revenues</b>					
Revenues	100.0	% 100.0	% 100.0	% 100.0	% 100.0
Cost of goods sold	78.9	78.6	77.4	82.4	81.7
Gross profit	21.1	21.4	22.6	17.6	18.3
Selling, general and administrative expenses	19.4	18.7	17.8	13.7	14.6
Restructuring charge	—	0.1	—	—	—

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-K

Operating expenses	19.4		18.8		17.8		13.7		14.6	
Income from operations	1.7		2.6		4.7		3.9		3.7	
Interest, net	—		—		—		—		0.1	
Income before provision for income taxes	1.7		2.6		4.7		3.9		3.6	
Provision for income taxes	0.7		1		1.8		1.5		1.4	
Net income	1.0	%	1.6	%	2.9	%	2.4	%	2.2	%

	Fiscal Years Ended									
	March 27, 2016		March 29, 2015		March 30, 2014		March 31, 2013		April 1, 2012	
SELECTED OPERATING DATA										
Average non-consumer buyers per month	12,200		12,400		12,700		13,000		13,000	
Return on assets (1)	3.0	%	4.6	%	8.5	%	9.0	%	9.1	%
Return on equity (2)	4.7	%	7.6	%	14.9	%	18.1	%	19.1	%

Table of Contents

	As of Fiscal Years Ended				
	March 27, 2016	March 29, 2015	March 30, 2014	March 31, 2013	April 1, 2012
<b>BALANCE SHEET DATA</b>					
Working capital	\$ 82,523,600	\$ 82,220,900	\$ 88,090,400	\$ 76,551,700	\$ 65,779,800
Total assets	169,416,000	186,240,600	186,960,300	194,300,000	202,497,700
Short-term debt	251,100	250,700	250,200	249,700	249,200
Long-term debt	1,706,500	1,957,500	2,208,200	2,458,300	2,708,000
Shareholders' equity	112,527,300	113,142,100	114,828,100	102,802,600	93,651,900

- (1) Net income divided by the average total assets.  
(2) Net income divided by the average total equity.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Management's Discussion and Analysis of Results of Operations and Financial Condition (MD&A) should be read in conjunction with the other sections of this Annual Report on Form 10-K, including Part I, "Item 1: Business," Part II, "Item 6: Selected Financial Data," and Part II, "Item 8: Financial Statements and Supplementary Data." The various sections of this MD&A contain a number of forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this filing, including Part I, "Item 1A: Risk Factors." Our actual results may differ materially from those described in any such forward-looking statement.

## Business Overview and Environment

TESSCO Technologies Incorporated (TESSCO, we, or the Company) architects and delivers innovative product and value chain solutions to support wireless systems. Although we sell products to customers in over 90 countries, approximately 98% of our sales are to customers in the United States. We have operations and office facilities in Timonium and Hunt Valley, Maryland, Reno, Nevada and San Antonio, Texas.

We evaluate our business and customer base as one operating segment. This segment includes the following markets: (1) public carriers, contractors, and program managers that are generally responsible for building and maintaining the infrastructure system and provide airtime service to individual subscribers; (2) government system operators including federal agencies and state and local governments that run wireless networks for their own use; (3) private system operators including commercial entities such as major utilities and transportation companies that run wireless networks for their own use; (4) commercial dealers and resellers that sell, install and/or service cellular telephone, wireless networking, broadband and two-way radio communications equipment primarily for the enterprise market;

and (5) retailers, independent dealer agents and carriers.

We offer a wide range of products that are classified into four business categories: base station infrastructure; network systems; installation, test and maintenance; and mobile devices and accessories. Base infrastructure products are used to build, repair and upgrade wireless telecommunications. Sales of traditional base station infrastructure products, such as base station radios, cable and transmission lines and antennas are in part dependent on capital spending in the wireless communications industry. Network systems products are used to build and upgrade computing and internet networks. We have also been growing our offering of wireless broadband, network equipment, security and surveillance products, which are not as dependent on the overall capital spending of the industry. Installation, test and maintenance products are used to install, tune, and maintain wireless communications equipment. This category is made up of sophisticated analysis equipment and various frequency-, voltage- and power-measuring devices, replacement parts and components as well as an assortment of tools, hardware and supplies required by service technicians. Mobile devices and accessory products include cellular phone and data device accessories. Our customers generally have the ability to purchase any of our product categories.

Table of Contents

The wireless communications distribution industry is competitive and fragmented, and is comprised of several national distributors. In addition, many manufacturers sell direct. Barriers to entry for distributors are relatively low, particularly in the mobile devices and accessory market, and the risk of new competitors entering the market is high. Consolidation of larger wireless carriers has and will most likely continue to impact our current and potential customer base. In addition, the agreements or arrangements with our customers or vendors looking to us for product and supply chain solutions are typically of limited duration and are terminable by either party upon several months or otherwise short notice. Our ability to maintain these relationships is subject to competitive pressures and challenges. We believe, however, that our strength in service, the breadth and depth of our product offering, our information technology system, our large customer base and our purchasing relationships with approximately 400 manufacturers provide us with a significant competitive advantage over new entrants to the market.

## Results of Operations

The following tables summarize the results of our operations for fiscal years 2016, 2015 and 2014:

(in thousands, except per share data)	2016	2015	2015 to 2016		2014	2014 to 2015	
			\$ Change	% Change		\$ Change	% Change
Revenues							
Carriers, Contractors & Program							
ers	\$ 89,171	\$ 127,426	\$ (38,255)	(30.0)	% \$ 149,195	\$ (21,770)	(14.6)
ment System Operators	33,009	31,495	1,514	4.8	% 33,757	(2,262)	(6.7)
System Operators	85,563	86,725	(1,162)	(1.3)	% 81,560	5,166	6.3
ercial Dealers & Resellers	129,986	134,195	(4,209)	(3.1)	% 140,552	(6,357)	(4.5)
rs, Independent Dealer Agents &							
s	192,953	169,778	23,175	13.7	% 155,023	14,755	9.5
Revenues	\$ 530,682	\$ 549,619	\$ (18,937)	(3.4)	% \$ 560,087	\$ (10,468)	(1.9)
(in thousands, except per share data)							
	2016	2015	2015 to 2016		2014	2014 to 2015	
			\$ Change	% Change		\$ Change	% Change
Gross Profit							
Carriers, Contractors & Program							
ers	\$ 15,155	\$ 20,915	\$ (5,760)	(27.5)	% \$ 27,708	\$ (6,793)	(24.5)
ment System Operators	7,713	7,535	178	2.4	% 7,791	(256)	(3.3)
System Operators	20,601	20,866	(265)	(1.3)	% 21,475	(609)	(2.8)
ercial Dealers & Resellers	33,781	34,948	(1,167)	(3.3)	% 36,567	(1,619)	(4.4)
rs, Independent Dealer Agents &							
s	34,716	33,375	1,342	4.0	% 32,817	558	1.7
Gross Profit	111,967	117,639	(5,672)	(4.8)	% 126,358	(8,719)	(6.9)
, general and administrative expenses	102,932	102,687	245	0.2	% 99,868	2,819	2.8
cturing Charge	—	573	(573)	(100.0)	% —	573	—
ing Expenses	102,932	103,260	(328)	(0.3)	% 99,868	3,392	3.4



Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-K

Income from operations	9,034	14,378	(5,344)	(37.2)	%	26,490	(12,112)	(45.7)
Interest expense, net	161	167	(6)	(3.6)	%	178	(11)	(5.9)
Income before provision for income taxes	8,872	14,211	(5,339)	(37.6)	%	26,312	(12,101)	(46.0)
Provision for income taxes	3,532	5,577	(2,045)	(36.7)	%	10,063	(4,486)	(44.6)
Income before non-recurring items	\$ 5,341	\$ 8,634	(3,293)	(38.1)	%	\$ 16,249	(7,615)	(46.9)
Adjusted earnings per share	\$ 0.65	\$ 1.04	\$ (0.39)	(37.5)	%	\$ 1.94	(0.9)	(46.3)

Fiscal Year 2016 Compared to Fiscal Year 2015

Revenues. Revenues for fiscal year 2016 decreased 3.4% as compared to fiscal year 2015. Revenue from the public carriers, contractors and program managers market decreased by 30.0% due to a dramatic slowdown in purchases by our cellular carrier customers, primarily the two largest U.S. carriers and the general contractors and integrators doing work on their behalf. We believe this slowdown relates to many factors, including increased carrier competition, excess inventory in the channel, reduction in building of macro tower sites and increased concerns over costs. However, we believe the carriers will need to accelerate their build plans in the future, but the timing of such an acceleration is still uncertain. This slowdown also partially affected our commercial dealers and resellers market which decreased by 3.1%. Revenue within the government system operators market increased by 4.8% for fiscal year 2016 as compared to fiscal year 2015. This growth within the government system operators market in fiscal year 2016 was due to our continued investment in this market, which has led to more government contracts and deeper relationships with our customers. Revenues in our retail, independent dealer agent and carriers market increased 13.7%, and was largely driven by new customer sales of

Table of Contents

Otterbox and Ventev® products. Revenues from the private system operators market decreased 1.3%.

**Gross Profit.** Gross profit decreased 4.8% in fiscal year 2016 compared to fiscal year 2015. This decrease was primarily driven by a 27.5% decrease in our public carriers, contractors, and program managers market, and to a much lesser extent by a 3.3% decrease in our commercial dealers and resellers market and a 1.3% decrease in our private system operators market. These declines were partially offset by increases in our retail, independent dealer agents and carriers market of 4.0% and in our government system operators market of 2.4%. Overall gross profit margin decreased slightly to 21.1% in fiscal year 2016, compared to 21.4% in fiscal year 2015, primarily due to changes in customer and product mix. The largest driver of the reduced gross margin was in the retail market due to a higher percentage of sales of lower margin Otterbox products and increased customer consolidation which provides our customers with larger purchasing power.

Our ongoing ability to earn revenues and gross profits from customers and vendors looking to us for product and supply chain solutions is dependent upon a number of factors. The terms, and accordingly the factors, applicable to each relationship often differ. Among these factors are the strength of the customer's or vendor's business, the supply and demand for the product or service, including price stability, changing customer or vendor requirements, and our ability to support the customer or vendor and to continually demonstrate that we can improve the way they do business. In addition, the agreements or arrangements on which our customer and vendor relationships are based are typically of limited duration, typically do not include any obligation in respect of any specific product purchase or sale and are terminable by either party upon several months or otherwise short notice. Our customer relationships could also be affected by wireless carrier consolidation or global financial crisis.

We account for inventory at the lower of cost or market, and as a result, write-offs/write-downs occur due to damage, deterioration, obsolescence, changes in prices and other causes. These expenses have been less than 1% of overall purchases for each of the last three fiscal years.

**Selling, General and Administrative Expenses.** Total selling, general and administrative expenses were flat during fiscal year 2016 as compared to fiscal year 2015. Total selling, general and administrative expenses as a percentage of revenues increased slightly from 18.8% in fiscal year 2015 to 19.4% in fiscal year 2016. The following are descriptions of changes in significant components of selling, general, and administrative expenses:

- Marketing expenses increased by \$2.1 million, or 25.5%, in fiscal year 2016 as compared to fiscal year 2015, primarily due to direct marketing costs associated with improved design and content of our TESSCO.com website and increased market development funds associated with the increase in sales to our retail customers.
  - Compensation and benefits expense decreased by \$1.1 million, or 1.7%, in fiscal year 2016 as compared to fiscal year 2015.
- Pay for performance bonus expense (including both cash and equity plans) decreased by \$1.0 million in fiscal year 2016 as compared to fiscal year 2015. Our bonus programs are all based on annual performance targets. The relationship between targeted performance and actual performance led to lower bonus accruals in fiscal year 2016

than in fiscal year 2015.

- During the fourth quarter of fiscal year 2016, we received the results of a software license audit conducted by a major software provider. After significant negotiations, we settled the audit for \$1.5 million, which we accrued in the fourth quarter of fiscal year 2016 and will be paid in the first quarter of fiscal year 2017. The ongoing annual cost from the results of this audit is minimal.

We continually evaluate the credit worthiness of our existing customer receivable portfolio and provide an appropriate reserve based on this evaluation. We also evaluate the credit worthiness of prospective and current customers and make decisions regarding extension of credit terms to such customers based on this evaluation. Accordingly, we recorded a provision for bad debts of \$637,100 and \$943,300 for fiscal year 2016 and fiscal year 2015, respectively.

Interest, Net. Net interest expense was essentially flat, at \$167,300 in fiscal year 2015 and \$161,300 in fiscal year 2016.

Table of Contents

Income Taxes, Net Income and Diluted Earnings Per Share. The effective tax rates in fiscal year 2016 and 2015 were 39.8% and 39.2%, respectively. As a result of the factors discussed above, net income and diluted earnings per share for fiscal year 2016 decreased 38.1% and 37.5%, respectively, compared with fiscal year 2015.

Fiscal Year 2015 Compared to Fiscal Year 2014

Revenues. Revenues for fiscal year 2015 decreased 1.9% as compared to fiscal year 2014. Revenue from the public carriers, contractors and program managers market decreased by 14.6% due to a dramatic slowdown in purchases by our cellular carriers, primarily the two largest U.S. carriers and the general contractors and integrators doing work on their behalf. This slowdown also affected our commercial dealers and resellers market which decreased by 4.5%. Revenue within the government system operators market decreased by 6.7% for fiscal year 2015 as compared to fiscal year 2014. These declines were partially offset by increases in the private system operators and the retail, independent dealer agent and carriers markets of 6.3% and 9.5%, respectively. Growth in our retail, independent dealer agent and carriers market was largely driven by the launch of various new Samsung and Apple devices.

Gross Profit. Gross profit decreased 6.9% in fiscal year 2015 compared to fiscal year 2014. This decrease was primarily driven by a 24.5% decrease in our public carriers, contractors, and program managers market, and to a much lesser extent by a 4.4% decrease in our commercial dealers and resellers market, a 3.3% decrease in our government system operators market, and a 2.8% decrease in our private system operator market. The gross margin decline in the public carriers, contractors and program manager market was largely a result of increased lower margin DAS projects coupled with a decline in cellular site building and upgrades. Although we saw growth in the private system operator market in fiscal year 2015, we also saw margin compression due to several larger sales of lower margin test equipment and DAS products. These declines were partially offset by a 1.7% increase in retailers, independent dealer agents and carriers market. Overall gross profit margin decreased to 21.4%, compared to 22.6% in fiscal year 2014, primarily due to changes in customer and product mix.

Selling, General and Administrative Expenses. Total selling, general and administrative expenses increased by 2.8% during fiscal year 2015 as compared to fiscal year 2014. Total selling, general and administrative expenses as a percentage of revenues increased from 17.8% in fiscal year 2014 to 18.7% in fiscal year 2015, primarily as a result of investments in talent and technology. The following are descriptions of changes in significant components of selling, general, and administrative expenses:

- Marketing expenses increased by \$1.2 million, or 33.8%, in fiscal year 2015 as compared to fiscal year 2014, primarily due to direct marketing costs associated with improved design and content of our TESSCO.com website.
- Corporate support expense increased approximately \$1.7 million, or 25.5%, in fiscal year 2015 as compared to fiscal year 2014. This increase was primarily related to higher bad debt expense, as described below, in addition to higher new product development costs associated with our proprietary products.

- Compensation and benefits expense increased by \$3.2 million, or 5.4%, in fiscal year 2015 as compared to fiscal year 2014, primarily due to investments in key business generation positions.
- Pay for performance bonus expense (including both cash and equity plans) decreased by \$3.5 million in fiscal year 2015 as compared to fiscal year 2014. Our bonus programs are all based on annual performance targets. The relationship between targeted performance and actual performance led to lower bonus accruals in fiscal year 2015 than in fiscal year 2014.

We continually evaluate the credit worthiness of our existing customer receivable portfolio and provide an appropriate reserve based on this evaluation. We also evaluate the credit worthiness of prospective and current customers and make decisions regarding extension of credit terms to such customers based on this evaluation. Accordingly, we recorded a provision for bad debts of \$943,300 and \$202,000 for fiscal year 2015 and fiscal year 2014, respectively. During fiscal year 2014, we experienced lower than normal bad debt expense due in part to changes in estimates of amounts previously reserved.

Table of Contents

**Restructuring Charge.** During the fourth quarter of fiscal year 2015, we incurred a one-time restructuring charge of \$0.6 million related to severance costs.

**Interest, Net.** Net interest expense decreased from \$177,700 in fiscal year 2014 to \$167,300 in fiscal year 2015.

**Income Taxes, Net Income and Diluted Earnings Per Share.** The effective tax rates in fiscal year 2015 and 2014 were 39.2% and 38.2%, respectively. As a result of the factors discussed above, net income and diluted earnings per share for fiscal year 2015 decreased 46.9% and 46.3%, respectively, compared with fiscal year 2014.

## Liquidity and Capital Resources

In summary, our cash flows were as follows:

	2016	2015	2014
Cash flow provided by operating activities	\$ 20,141,100	\$ 11,079,800	\$ 18,665,400
Cash flow used in investing activities	(3,513,800)	(2,947,600)	(4,715,500)
Cash flow used in financing activities	(7,268,500)	(12,076,100)	(6,950,000)
Net increase (decrease) in cash and cash equivalents	\$ 9,358,800	\$ (3,943,900)	\$ 6,999,900

We generated \$20.1 million of net cash from operating activities during fiscal year 2016. This inflow was driven by net income (net of depreciation and amortization and non-cash stock compensation expense), a decrease in accounts receivable and product inventory, and a decrease in prepaid expenses and other current assets, partially offset by a decrease in trade accounts payable and accrued expense and other current liabilities. The decrease in accounts receivable was primarily related to better collections in the fourth quarter of fiscal year 2016 as compared to the fourth quarter of fiscal year 2015. The decrease in inventory was primarily due an effort to reduce overall inventory levels while maintaining high service levels. The reduction in prepaid expenses and other assets as well as the decrease in accrued expense and other liabilities are both primarily related to a tower owner customer whose inventory we have held on its behalf since fiscal year 2015. Because we held the inventory on the tower owner's behalf, the cost of these goods was recorded in prepaid expenses and other current assets, and we were unable to recognize the revenue and related cost of goods sold associated with the transaction until the product physically ships. During fiscal year 2016, the customer took possession of the majority of this inventory and therefore the deferred revenue and cost of goods sold were partially recognized.

We generated \$11.1 million of net cash from operating activities during fiscal year 2015. This inflow was driven by net income (net of depreciation and amortization and non-cash stock compensation expense), a decrease in accounts receivable, and an increase in accrued expenses and other current liabilities, partially offset by an increase in product inventory, prepaid expenses and other current assets. The decrease in accounts receivable was primarily related to lower sales volume in the fourth quarter of fiscal year 2015 as compared to the fourth quarter of fiscal year 2014. The increase in inventory was primarily due to a \$7.0 million increase in mobile device accessories inventory related to iPhone 6 products, the purchase of Apple connectors for our Ventev® charging solutions and increased inventory from key suppliers. Inventory related to our base station infrastructure product remained relatively flat. We increased inventory levels in fiscal year 2015 in preparation of the build season, but this increase was almost fully offset by payment in fiscal year 2015 from a tower owner customer of approximately \$8 million for inventory that we continued to hold on its behalf. Because the Company continued to hold the inventory on the tower owner's behalf, the cost of these goods was recorded in prepaid expenses and other current assets, and we were unable to recognize the revenue and related cost of goods sold associated with the transaction because the product had not physically shipped. This tower owner operates in the public carrier, contractor and program manager market. The \$8.1 million increase in accrued expenses and other current liabilities and offsetting increase of \$8.5 million in prepaid expenses and other current assets was primarily due to the deferral of this transaction.

Table of Contents

In fiscal year 2014 our cash inflow from operating activities of \$18.7 million was driven by net income (net of depreciation and amortization and non-cash stock compensation expense) and a decrease in accounts receivable, partially offset by a decrease in trade accounts payable and accrued payroll, benefits, and taxes. The decrease in accounts receivable was related to the transition of our former relationship with AT&T, which was completed during the fourth quarter of fiscal year 2013. The decrease in trade accounts payable was caused by the timing of inventory purchases in the fourth quarter. The decrease in accrued payroll, benefits, and taxes was driven by higher bonus accruals in fiscal year 2013 (and their subsequent payouts in fiscal year 2014) compared to bonus accruals in fiscal year 2014.

Capital expenditures of \$3.5 million in fiscal year 2016 were up from \$3.0 million in fiscal year 2015 and down from \$4.7 million in fiscal year 2014. Fiscal year 2016, 2015 and 2014 capital expenditures were largely comprised of investments in information technology of \$3.1 million, \$2.6 million and \$4.3 million, respectively.

Cash flows used in financing activities were primarily related to cash dividends paid to shareholders and purchases of stock from employees and directors for minimum tax withholdings related to equity compensation, partially offset by the excess tax benefit from stock-based compensation and proceeds from issuance of stock. The significant increase in cash used in financing activities during fiscal year 2015 was due to the purchase of shares under our expanded stock buyback program, as discussed below.

On April 23, 2014, our Board of Directors expanded our then existing stock buyback program and authorized the purchase on a non-accelerated basis of up to \$10.0 million of the Company's stock over a 24-month period, ending in April 2016. Our Board of Directors believes that the repurchase of our shares, when appropriate, is an excellent use of funds to enhance long-term shareholder value. Purchases were funded from working capital and/or our revolving credit facility. Shares could be purchased from time to time in the open market, by block purchase, or through negotiated transactions, or other transactions managed by broker-dealers. During fiscal year 2015, we purchased 157,954 shares under the expanded stock buyback program for approximately \$4.6 million, or an average cost of \$29.17 per share. No shares were repurchased during fiscal years 2016 or 2014. The stock buyback program expired in April 2016.

We also withhold shares from our employees and directors, at their request, equal to the minimum federal and state tax withholdings related to vested equity grants. For fiscal years 2016 and 2015 this totaled \$937,300 and \$1,612,900, respectively.

We have a term loan in the original principal amount of \$4.5 million from Wells Fargo Bank, National Association and SunTrust Bank, that is payable in monthly installments of principal and interest with the balance due at maturity, on October 1, 2018. The note bears interest at a floating rate of LIBOR plus 2.00%. The note is secured by a first position deed of trust encumbering our company-owned real property in Hunt Valley, Maryland. The loan is subject to generally the same financial covenants as are applicable to our revolving credit facility described below, and had a balance of \$1.9 million as of March 27, 2016.



We are party to an unsecured revolving credit facility with SunTrust Bank and Wells Fargo Bank, National Association, with interest payable monthly at the LIBOR rate plus an applicable margin. Borrowing availability under this facility is determined in accordance with a borrowing base, and the applicable credit agreement includes financial covenants, including a minimum tangible net worth, minimum cash flow coverage of debt service, and a maximum funded debt to EBITDA ratio. These financial covenants also apply to the separate but related term loan secured by our Hunt Valley, Maryland facility discussed below. The terms applicable to our revolving credit facility and term loan also limit our ability to engage in certain transactions or activities, including (but not limited to) investments and acquisitions, sales of assets, payment of dividends, issuance of additional debt and other matters. As of March 27, 2016 we had no balance outstanding on our \$35.0 million revolving credit facility; therefore, we had \$35.0 million available on our revolving line of credit facility, subject to the limitations imposed by the borrowing base and our continued compliance with the other applicable terms, including the covenants discussed above. We have entered into several modification agreements providing for term extensions and certain modifications to the provisions applicable to the credit facility.

Table of Contents

During the second quarter of fiscal year 2016, we entered into a Tenth Modification Agreement (the “Tenth Modification Agreement”), dated as of September 24, 2015, further modifying the Credit Agreement and related promissory note for the revolving credit facility discussed above. Pursuant to and in connection with the Tenth Modification Agreement, the term of the revolving credit facility was extended from October 1, 2016 to October 1, 2018. In addition, the amount of dividend payments allowable under the Credit Facility was increased from \$8.0 million (the previous stated amount) to \$9.0 million in any 12 month period, assuming continued compliance with the otherwise applicable terms.

The terms of this revolving credit facility, as amended, allow us to repurchase up to \$30.0 million of our common stock (measured forward to the present date from the date of inception of the Credit Agreement, May 31, 2007). As of March 27, 2016, we had repurchased an aggregate of \$18.3 million of common stock since May 31, 2007, leaving \$11.7 million available for future repurchases, without the consent of our lenders or a further amendment to the terms of the facility.

At the end of fiscal year 2016, we were in compliance with the financial covenants applicable under our revolving credit facility and term loan with SunTrust Bank and Wachovia Bank, National Association. Many of these covenants are, however, measured on a rolling four quarter basis. Accordingly, our fourth quarter fiscal year 2016 operating results put pressure on these covenants going forward. We previously issued financial guidance that suggests that our first quarter fiscal year 2017 operating results will be lower than the first quarter of fiscal year 2016, which would put yet additional pressure on these covenants, and likely result in us not meeting one of our current financial covenants at the end of the first quarter of fiscal year 2017. Absent a covenant waiver or adjustment, any such violation would eliminate our borrowing capacity under our revolving credit facility and entitle the banks to exercise the remedies available to them under the applicable loan documents, including to demand payment of all amounts outstanding.

At the end of fiscal year 2016, there was no balance outstanding under our revolving line of credit and \$1.9 million outstanding under the term loan. We have not borrowed under our revolving credit facility since the third quarter of fiscal year 2016.

To mitigate this potential bank covenant violation risk and any corresponding impact on liquidity, we are engaged in ongoing discussions and negotiations with SunTrust Bank to replace our existing unsecured revolving credit facility and term loan with an asset based revolving credit facility. This new facility, if established, would be secured and would therefore in some respects be more restrictive, but also should allow for improved pricing and greater flexibility in terms of financial covenants and ratios going forward. We are actively pursuing the establishment of this new facility with a goal of it being in place by the end of the first quarter of fiscal year 2017. However, there is no binding commitment on the part of SunTrust Bank and no assurance that we will be successful in establishing this facility by then, or at all. We consider our relationship with our banks to be good, but could also seek and expect that we would be able to access financing elsewhere, if needed. Although under some circumstances we may be forced to more closely manage our operating cash flow, we believe, based on our forecast operating cash flow and under the circumstances, that our anticipated cash on hand and access to financing will provide us with sufficient liquidity, and that the circumstances, as described above, will not have a material impact on our business or operations. We ended fiscal year 2016 with \$16.9 million in cash on our balance sheet and did not borrow on our existing credit facility at all

during the fourth quarter of fiscal year 2016 or through the first two months of fiscal year 2017.

On March 31, 2009, we entered into a term loan with the Baltimore County Economic Development Revolving Loan Fund for an aggregate principal amount of \$250,000. The term loan is payable in equal monthly installments of principal and interest of \$2,300, with the balance due at maturity on April 1, 2019. The term loan bears interest at 2.00% per annum and is secured by a subordinate position on our Hunt Valley, Maryland facility. At March 27, 2016, the principal balance of this term loan was approximately \$82,600.

Working capital (current assets less current liabilities) increased slightly to \$82.5 million as of March 27, 2016, from \$82.2 million as of March 29, 2015. Shareholders' equity decreased to \$112.5 million as of March 27, 2016, from \$113.1 million as of March 29, 2015, primarily due to fiscal year 2015 net income being offset by the combination of cash dividends paid.

Table of Contents

We believe that our existing cash, payments from customers, and availability under our revolving credit facility (including any amendment or replacement thereof), or if needed, financing we believe would be available to us from other sources, will be sufficient to support our operations for at least the next twelve months. We expect to meet short-term liquidity needs through cash on our balance sheet and operating cash flow, supplemented by our revolving credit facility, assuming it remains available; and we expect to meet long term liquidity needs through these same resources, except that we expect to replace our existing revolving credit facility, if needed, with a new asset based facility, as discussed above. If we were to undertake an acquisition or other major capital purchases that require funds in excess of its existing sources of liquidity, we would look to sources of funding from additional credit facilities, debt and/or equity issuances. There can be no assurances that such additional future sources of funding, either to fund an acquisition or major capital purchase, or to support our cash flow needs in the event of the termination of our existing revolving credit facility before it can be replaced with an asset based facility, would be available on terms acceptable to us, if at all.

In addition, our liquidity could be negatively impacted by decreasing revenues and profits resulting from a decrease in demand for our products or a reduction in capital expenditures by our customers, or by the weakened financial conditions of our customers or suppliers, in each case as a result of the downturn in the global economy, among other factors.

## Contractual Obligations

The following tables reflect a summary of our contractual cash obligations and other commercial commitments as of March 27, 2016:

	Payment Due by Fiscal Year				
	Total	Less Than 1 Year	Years 1-3	Years 4-5	More Than 5 Years
Long-Term Debt Obligations	\$ 1,957,500	\$ 251,200	\$ 504,000	\$ 1,202,300	\$ —
Revolving credit facility	—	—	—	—	—
Lease Obligations	5,176,200	2,987,400	2,172,700	16,100	—
Interest payments (1)	155,200	44,500	71,000	39,700	—
Other Long-Term Liabilities (2)	1,162,500	75,000	150,000	150,000	787,500
Tax contingency reserves (3)	528,600	—	—	—	—
Total contractual cash obligations	\$ 8,980,000	\$ 3,358,100	\$ 2,897,700	\$ 1,408,100	\$ 787,500

- (1) Interest payments include amounts owed on notes payable at their stated contractual rate, as well as interest payments on the note for our long term loan at a variable rate of LIBOR plus 2.00%.
- (2) Other Long-Term Liabilities reflected on the Consolidated Balance Sheet include amounts owed under a Supplemental Executive Retirement Plan.

- (3) We are unable to make a reasonably reliable estimate of the period of the cash settlement with the respective taxing authorities for the \$0.5 million balance of our tax contingency reserves, net of federal tax benefits. See further discussion in Note 13—"Income Taxes" to the consolidated financial statements set forth elsewhere herein.

#### Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of our operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

We have identified the policies below as critical to our business operations and the understanding of our results of operations:

## Table of Contents

Revenue Recognition. We record revenues when 1) persuasive evidence of an arrangement exists, 2) delivery has occurred or services have been rendered, 3) our price to the buyer is fixed or determinable, and 4) collectability is reasonably assured. Our revenue recognition policy includes evidence of arrangements for significant revenue transactions through either receipt of a customer purchase order or a web-based order. We record revenues when risk of loss has passed to the customer. In most cases, shipments are made using FOB shipping terms. For a portion of our sales, we use FOB destination terms and record the revenue when the product is received by the customer. Our prices are always fixed at the time of sale. Historically, there have not been any material concessions provided to or by customers, future discounts, or other incentives subsequent to a sale. We sell under normal commercial terms and, therefore, we only record revenues on transactions where collectability is reasonably assured.

Because a large portion of our sales transactions meet the conditions set forth in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) on revenue recognition, we recognize revenues from sales transactions containing sales returns provisions at the time of the sale. These conditions require that 1) our price be substantially fixed or determinable at the date of sale, 2) the buyer is obligated to pay us, and such obligation is not contingent on their resale of the product, 3) the buyer’s obligation to us does not change in the event of theft or physical destruction or damage of the product, 4) the buyer has economic substance apart from us, 5) we do not have significant obligations for future performance to directly bring about resale of the product by the buyer, and 6) the amount of future returns can be reasonably estimated. Because our normal terms and conditions of sale are consistent with conditions 1-5 above, and we are able to perform condition 6, we make a reasonable estimate of product returns in sales transactions and accrue a sales return reserve based on this estimate.

Our current and potential customers are continuing to look for ways to reduce their inventories and lower their total costs, including distribution, order taking and fulfillment costs, while still providing their customers excellent service. Some of these companies have turned to us to implement supply chain solutions, including purchasing inventory, assisting in demand forecasting, configuring, packaging, kitting and delivering products and managing customer and vendor relations, from order taking through cash collections. In performing these solutions, we assume varying levels of involvement in the transactions and varying levels of credit and inventory risk. As our offerings continually evolve to meet the needs of our customers, we constantly evaluate our revenue accounting based on the guidance set forth in accounting standards generally accepted in the United States. When applying this guidance in accordance with the FASB standard regarding revenue recognition for principal-agent considerations, we look at the following indicators: whether we are the primary obligor in the transaction; whether we have general inventory risk; whether we have latitude in establishing price; the extent to which we change the product or perform part of the service; whether we have responsibility for supplier selection; whether we are involved in the determination of product and service specifications; whether we have physical inventory risk; whether we have credit risk; and whether the amount we earn is fixed. Each of our customer relationships is independently evaluated based on the above guidance and revenues are recorded on the appropriate basis. Based on a review of the factors above, in the majority of our sales relationships, we have concluded that we are the principal in the transaction and we record revenues based upon the gross amounts earned and booked. However, we do have certain relationships where we are not the principal and we record revenues on a net fee basis, regardless of amounts billed (less than 1% of our total revenues for fiscal year 2016).

Allowance for Doubtful Accounts. We use estimates to determine the amount of the allowance for doubtful accounts necessary to reduce accounts receivable and unbilled receivables to their expected net realizable value. We estimate the amount of the required allowance by reviewing the status of past-due receivables and analyzing historical bad debt

trends. Actual collection experience has not varied significantly from estimates, due primarily to credit policies, collection experience and our stability as it relates to our current customer base. Typical payments from commercial customers are due 30 days from the date of the invoice. We charge-off receivables deemed to be uncollectible to the allowance for doubtful accounts. Accounts receivable balances are not collateralized.

**Inventory Reserves.** We establish inventory reserves for excess and obsolete inventory. We regularly review inventory to evaluate continued demand and identify any obsolete or excess quantities of inventory. We record a provision for the difference between excess and obsolete inventory and its estimated realizable value. Estimated realizable value is based on anticipated future product demand, market conditions and liquidation values. Actual results differing from these projections could have a material effect on our results of operations.

## Table of Contents

Impairment of Long-Lived and Indefinite-Lived Assets. Our Consolidated Balance Sheet as of March 27, 2016, includes goodwill of approximately \$11.7 million and other indefinite lived intangible assets of \$850,000. We perform annual impairment tests for goodwill and other indefinite lived assets on the first day of our fourth quarter. We also periodically evaluate our long-lived assets for potential impairment indicators. The goodwill and intangible assets impairment test involves an initial qualitative analysis to determine if it is more likely than not that an intangible asset's fair value is less than its carrying amount. If qualitative factors suggest a possible impairment the company then performs an additional two-step approach. Our judgments regarding the existence of impairment indicators are based on estimated future cash flows, market conditions, operational performance and legal factors. The key assumptions used to determine the fair value of our goodwill reporting units include (a) a cash flow period; (b) a terminal value based on a growth rate; and (c) a discount rate, which is based on our weighted average cost of capital adjusted for risks associated with our operations. Based on the Company's qualitative assessment for fiscal year 2016, we have concluded that it is not more likely than not that the carrying value of our sole reporting unit with goodwill or intangible assets is above the fair value of the related reporting unit. As a result, no quantitative testing was deemed necessary for fiscal year 2016. Future events, such as significant changes in cash flow assumptions, could cause us to conclude that impairment indicators exist and that the net book value of goodwill, long-lived assets or intangible assets are impaired. We will continue to monitor our market capitalization as a potential impairment indicator considering overall market conditions and specific industry events. Had the determination been made that the goodwill and other indefinite lived intangible assets were impaired, the value of these assets would have been reduced by an amount up to \$12.5 million, resulting in a corresponding charge to operations.

The methods of assessing fair value for reporting units with goodwill as well as for indefinite lived assets require significant judgments to be made by management, including future revenues, expenses, cash flows and discount rates. Changes in such estimates or the application of alternative assumptions could produce significantly different results.

Income Taxes. We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review our deferred tax assets for recoverability. This review is based on historical taxable income, projected future taxable income and the expected timing of the reversals of existing temporary differences. Based on this review, we have not established a valuation allowance because our deferred tax assets are more likely than not realizable. If we are unable to generate sufficient taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to establish a valuation allowance against all or a significant portion of our deferred tax assets that are not more likely than not realizable, resulting in a substantial increase in our effective tax rate and a material adverse impact on our operating results.

We account for income taxes under the FASB's ASC on accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of March 27, 2016, we had total net unrecognized tax benefits of approximately \$528,600, all of which, if recognized, would favorably affect the effective income tax rate in future periods.



Stock-Based Compensation. We record stock-based compensation in accordance with the FASB standard regarding stock compensation and share-based payments, which requires us to include in our calculation of periodic stock compensation expense an estimate of future forfeitures. The standard also requires stock awards granted or modified after the adoption of the standard that include both performance conditions and graded vesting to be amortized by an accelerated method rather than the straight-line method.

#### Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

Table of Contents

Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, Leases. This ASU requires lessees to recognize most leases on their balance sheets related to the rights and obligations created by those leases. The ASU also requires additional qualitative and quantitative disclosures related to the nature, timing and uncertainty of cash flows arising from leases. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact the adoption of this new standard will have on its Consolidated Financial Statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation – Stock Compensation. The new standard will modify several aspects of the accounting and reporting for employee share-based payments and related tax accounting impacts, including the presentation in the statements of operations and cash flows of certain tax benefits or deficiencies and employee tax withholdings, as well as the accounting for award forfeitures over the vesting period. The new standard is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact the adoption of this new standard will have on its Consolidated Financial Statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, Income Taxes. Current GAAP requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. The new standard simplifies the presentation of deferred tax assets and liabilities and requires that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, with early adoption permitted. The company elected to adopt this standard effective March 27, 2016, and has applied the guidance retrospectively. The Company restated its consolidated balance sheet as of March 29, 2015 to reflect the reclassification of \$3.9 million of deferred tax assets from current to noncurrent.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers. This guidance will supersede Topic 605, Revenue Recognition, in addition to other industry-specific guidance, once effective. The new standard requires a company to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, as a revision to ASU 2014-09, which revised the effective date to fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted but not prior to periods beginning after December 15, 2016 (i.e. the original adoption date per ASU 2014-09). In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations, which clarifies certain aspects of the principal-versus-agent guidance, including how an entity should identify the unit of accounting for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements, such as service transactions. The amendments also reframe the indicators to focus on evidence that an entity is acting as a principal rather than as an agent. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, which clarifies how an entity should evaluate the nature of its promise in granting a license of intellectual property, which

will determine whether it recognizes revenue over time or at a point in time. The amendments also clarify when a promised good or service is separately identifiable (i.e., distinct within the context of the contract) and allow entities to disregard items that are immaterial in the context of a contract. We are currently in the process of assessing what impact this new standard may have on our ongoing financial reporting and determining what transition method will be used.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30). This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, and is to be adopted on a retrospective basis. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect this ASU will have a material impact on the Company's consolidated financial statements or related disclosures.

Table of Contents

Forward Looking Statements

This Report may contain forward-looking statements. These forward-looking statements may generally be identified by the use of the words “may,” “will,” “expects,” “anticipates,” “believes,” “estimates,” and similar expressions, but the absence of these words or phrases does not necessarily mean that a statement is not forward looking. Forward looking statements involve a number of risks and uncertainties. Our actual results may differ materially from those described in or contemplated by any such forward-looking statement for a variety of reasons, including those risks identified in our most recent Annual Report on Form 10-K and other periodic reports filed with the Securities and Exchange Commission, under the heading “Risk Factors” and otherwise. Consequently, the reader is cautioned to consider all forward-looking statements in light of the risks to which they are subject.

We are not able to identify or control all circumstances that could occur in the future that may adversely affect our business and operating results. Without limiting the risks that we describe in our periodic reports and elsewhere, among the risks that could lead to a materially adverse impact on our business or operating results are the following: termination or non-renewal of limited duration agreements or arrangements with our vendors and affinity partners which are typically terminable by either party upon several months or otherwise relatively short notice; loss of significant customers or relationships, including affinity relationships; loss of customers either directly or indirectly as a result of consolidation among large wireless service carriers and others within the wireless communications industry; the strength of our customers’, vendors’ and affinity partners’ businesses; increasingly negative or prolonged adverse economic conditions, including those adversely affecting consumer confidence or consumer or business spending, or otherwise adversely affecting our vendors or customers, including their access to capital or liquidity or our customers’ demand for our ability to fund or pay for the purchase of our products and services; our dependence on a relatively small number of suppliers and vendors, which could hamper our ability to maintain appropriate inventory levels and meet customer demand; failure of our information technology system or distribution system; technology changes in the wireless communications industry, which could lead to significant inventory obsolescence and/or our inability to offer key products that our customers demand; third-party freight carrier interruption; increased competition from competitors, including manufacturers or national and regional distributors of the products we sell and the absence of significant barriers to entry which could result in pricing and other pressures on profitability and market share; our relative bargaining power and inability to negotiate favorable terms with our vendors and customers; our inability to access capital and obtain or retain financing as and when needed; transitional and other risks associated with acquisitions of companies that we may undertake in an effort to expand our business; the possibility that, for unforeseen reasons, we may be delayed in entering into or performing, or may fail to enter into or perform, anticipated contracts or may otherwise be delayed in realizing or fail to realize anticipated revenues or anticipated savings; our inability to protect certain intellectual property, including systems and technologies on which we rely; claims against us for breach of the intellectual property rights of third parties; product liability claims; and our inability to hire or retain for any reason our key professionals, management and staff.

Table of Contents

Available Information

Our internet web site address is: [www.tessco.com](http://www.tessco.com). We make available free of charge through our website, our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Exchange Act as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the Securities and Exchange Commission. Also available on our website is our Code of Business Conduct and Ethics. We have not incorporated herein by reference the information on our website, and it should not be considered a part of this filing.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk:

We are exposed to an immaterial level of market risk from changes in interest rates. We have from time to time previously used interest rate swap agreements to modify variable rate obligations to fixed rate obligations, thereby reducing our exposure to interest rate fluctuations. We do not have a current interest rate swap relating to our bank term loan. Our variable rate debt obligations of approximately \$1.9 million at March 27, 2016 expose us to the risk of rising interest rates, but management does not believe that the potential exposure is material to our overall financial position or results of operations. Based on March 27, 2016 borrowing levels, a 1.0% increase or decrease in current market interest rates would have an immaterial effect on our statement of income.

Foreign Currency Exchange Rate Risk:

We are exposed to an immaterial level of market risk from changes in foreign currency rates. Over 99% of our sales are made in U.S. Dollars so we have an immaterial amount of foreign currency risk. Those sales not made in U.S. Dollars are made in Canadian Dollars.

Table of Contents

## Item 8. Financial Statements and Supplementary Data.

## TESSCO TECHNOLOGIES INCORPORATED AND SUBSIDIARIES

## Consolidated Balance Sheets

	March 27, 2016	March 29, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 16,882,800	\$ 7,524,000
Trade accounts receivable, net of allowance for doubtful accounts of \$841,400 and \$664,900, respectively	58,315,700	59,572,100
Product inventory, net	53,903,900	72,363,600
Prepaid expenses and other current assets	5,917,100	10,868,900
Total current assets	135,019,500	150,328,600
Property and equipment, net	19,895,400	21,111,800
Goodwill, net	11,684,700	11,684,700
Deferred tax assets	—	495,900
Other long-term assets	2,816,400	2,619,600
Total assets	\$ 169,416,000	\$ 186,240,600
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$ 41,986,000	\$ 51,804,200
Payroll, benefits and taxes	4,927,900	5,531,900
Income and sales tax liabilities	1,456,800	1,832,400
Accrued expenses and other current liabilities	3,874,100	8,688,500
Revolving line of credit	—	—
Current portion of long-term debt	251,100	250,700
Total current liabilities	52,495,900	68,107,700
Deferred tax liabilities	379,400	—
Long-term debt, net of current portion	1,706,500	1,957,500
Other long-term liabilities	2,306,900	3,033,300
Total liabilities	56,888,700	73,098,500
Shareholders' equity:		
Preferred stock, \$0.01 par value, 500,000 shares authorized and no shares issued and outstanding	—	—
Common stock \$0.01 par value, 15,000,000 shares authorized, 13,970,394 shares issued and 8,272,124 shares outstanding as of March 27, 2016, and	97,600	96,100

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-K

13,817,239 shares issued and 8,159,592 shares outstanding as of March 29, 2015		
Additional paid-in capital	58,113,800	56,517,600
Treasury stock, at cost, 5,698,270 shares outstanding as of March 27, 2016 and 5,657,647 shares outstanding as of March 29, 2015	(57,245,200)	(56,307,900)
Retained earnings	111,561,100	112,836,300
Total shareholders' equity	112,527,300	113,142,100
Total liabilities and shareholders' equity	\$ 169,416,000	\$ 186,240,600

The accompanying Notes to the Consolidated Financial Statements are an integral part of these consolidated statements.

Table of Contents

## TESSCO TECHNOLOGIES INCORPORATED AND SUBSIDIARIES

## Consolidated Statements of Income

	Fiscal Years Ended		March 30,
	March 27, 2016	March 29, 2015	2014
Revenues	\$ 530,682,100	\$ 549,619,000	\$ 560,086,600
Cost of goods sold	418,716,200	431,980,500	433,728,700
Gross profit	111,965,900	117,638,500	126,357,900
Selling, general and administrative expenses	102,932,300	102,686,700	99,868,000
Restructuring Charge	—	573,400	—
Income from operations	9,033,600	14,378,400	26,489,900
Interest expense, net	161,300	167,300	177,700
Income before provision for income taxes	8,872,300	14,211,100	26,312,200
Provision for income taxes	3,531,800	5,576,800	10,063,100
Net income	\$ 5,340,500	\$ 8,634,300	\$ 16,249,100
Basic earnings per share	\$ 0.65	\$ 1.05	\$ 1.98
Diluted earnings per share	\$ 0.65	\$ 1.04	\$ 1.94
Cash dividends declared per common share	\$ 0.80	\$ 0.80	\$ 0.74

The accompanying Notes to these Consolidated Financial Statements are an integral part of these consolidated statements.



Table of Contents

## TESSCO TECHNOLOGIES INCORPORATED AND SUBSIDIARIES

## Consolidated Statements of Changes in Shareholders' Equity

	Common Stock		Additional	Treasury	Retained	Total
	Shares	Amount	Paid-in Capital	Stock	Earnings	Shareholders' Equity
Balance at March 31, 2013	7,987,900	91,500	50,481,600	(48,438,300)	100,667,800	102,802,600
Proceeds from issuance of stock	23,542	200	602,800	—	—	603,000
Treasury stock purchases	(72,116)	—	—	(1,646,300)	—	(1,646,300)
Non-cash stock compensation expense	241,158	2,500	2,084,600	—	—	2,087,100
Excess tax benefit from stock-based compensation	—	—	818,700	—	—	818,700
Cash dividends paid	—	—	—	—	(6,086,100)	(6,086,100)
Net income	—	—	—	—	16,249,100	16,249,100
Balance at March 30, 2014	8,180,484	94,200	53,987,700	(50,084,600)	110,830,800	114,828,100
Proceeds from issuance of stock	19,425	200	540,000	—	—	540,200
Treasury stock purchases	(211,033)	—	—	(6,223,300)	—	(6,223,300)
Non-cash stock compensation expense	170,716	1,700	1,159,600	—	—	1,161,300
Excess tax benefit from stock-based compensation	—	—	830,300	—	—	830,300
Cash dividends paid	—	—	—	—	(6,628,800)	(6,628,800)
Net income	—	—	—	—	8,634,300	8,634,300
Balance at March 29, 2015	8,159,592	96,100	56,517,600	(56,307,900)	112,836,300	113,142,100
Proceeds from issuance of stock	25,067	300	487,000	—	—	487,300
Treasury stock purchases	(40,623)	—	—	(937,300)	—	(937,300)
Non-cash stock compensation expense	128,088	1,200	727,800	—	—	729,000
Excess tax benefit from stock-based compensation	—	—	381,400	—	—	381,400
Cash dividends paid	—	—	—	—	(6,615,700)	(6,615,700)
Net income	—	—	—	—	5,340,500	5,340,500
Balance at March 27, 2016	8,272,124	\$ 97,600	\$ 58,113,800	\$ (57,245,200)	\$ 111,561,100	\$ 112,527,300

The accompanying Notes to these Consolidated Financial Statements are an integral part of these consolidated statements.

Table of Contents

## TESSCO TECHNOLOGIES INCORPORATED AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

	Year Ended		March 30,
	March 27, 2016	March 29, 2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 5,340,500	\$ 8,634,300	\$ 16,249,100
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,730,000	4,583,600	4,865,000
Gain on sale of property and equipment	—	(3,000)	(29,500)
Non-cash stock-based compensation expense	729,000	1,161,300	2,087,100
Deferred income taxes and other	(47,687)	1,347,200	(1,042,400)
Change in trade accounts receivable	1,256,400	7,923,600	14,681,900
Change in product inventory	18,459,700	(10,407,900)	(1,042,100)
Change in prepaid expenses and other current assets	4,951,800	(8,532,300)	1,145,700
Change in trade accounts payable	(9,818,200)	1,047,300	(14,452,400)
Change in payroll, benefits and taxes	(604,000)	(2,138,200)	(4,008,400)
Change in income and sales tax liabilities	(375,600)	(645,300)	(53,000)
Change in accrued expenses and other current liabilities	(4,480,800)	8,109,200	264,400
Net cash provided by operating activities	20,141,113	11,079,800	18,665,400
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property and equipment	(3,513,813)	(2,950,600)	(4,745,000)
Proceeds from sale of property and equipment	—	3,000	29,500
Net cash used in investing activities	(3,513,813)	(2,947,600)	(4,715,500)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments on long-term debt	(250,600)	(250,200)	(249,600)
Proceeds from issuance of stock	153,700	195,900	213,300
Cash dividends paid	(6,615,700)	(6,628,800)	(6,086,100)
Purchases of treasury stock and repurchases of common stock from employees and directors for minimum tax withholdings	(937,300)	(6,223,300)	(1,646,300)
Excess tax benefit from stock-based compensation	381,400	830,300	818,700
Net cash used in financing activities	(7,268,500)	(12,076,100)	(6,950,000)
Net increase (decrease) in cash and cash equivalents	9,358,800	(3,943,900)	6,999,900
CASH AND CASH EQUIVALENTS, beginning of period	7,524,000	11,467,900	4,468,000
CASH AND CASH EQUIVALENTS, end of period	\$ 16,882,800	\$ 7,524,000	\$ 11,467,900

The accompanying Notes to the Consolidated Financial Statements are an integral part of these consolidated statements.

Table of Contents

Note 1. Organization

TESSCO Technologies Incorporated, a Delaware corporation (TESSCO, we, or the Company), architects and delivers innovative product and value chain solutions to support wireless systems. The Company provides marketing and sales services, knowledge and supply chain management, product-solution delivery and control systems utilizing extensive internet and information technology. Approximately 98% of the Company's sales are made to customers in the United States. The Company takes orders in several ways, including phone, fax, online and through electronic data interchange. Almost all of the Company's sales are made in United States Dollars.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year is the 52 or 53 weeks ending on the Sunday falling on or between March 26 and April 1 to allow the financial year to better reflect the Company's natural weekly accounting and business cycle. The fiscal years ended March 27, 2016, March 29, 2015, and March 30, 2014 each contain 52 weeks.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with an original maturity of 90 days or less.

Allowance for Doubtful Accounts

The Company uses estimates to determine the amount of the allowance for doubtful accounts necessary to reduce accounts receivable to their expected net realizable value. The Company estimates the amount of the required allowance by reviewing the status of past-due receivables and analyzing historical bad debt trends and current economic conditions. Actual collection experience has not varied significantly from estimates, due primarily to consistent credit policies, collection experience, as well as the Company's stability as it relates to its current customer base. Typical payments from a large majority of commercial customers are due 30 days from the date of the invoice. The Company charges-off receivables deemed to be uncollectible to the allowance for doubtful accounts. Accounts receivable balances are not collateralized.

#### Product Inventory

Product inventory, consisting primarily of finished goods, is stated at the lower of cost or market, cost being determined on the first-in, first-out ("FIFO") method and includes certain charges directly and indirectly incurred in bringing product inventories to the point of sale. Inventory is written down for estimated obsolescence equal to the difference between the cost of inventory and the estimated market value, based upon specifically known inventory-related risks (such as technological obsolescence and the nature of vendor terms surrounding price protection and product returns), and assumptions about future demand. At March 27, 2016 and March 29, 2015, the Company had a reserve for excess and/or obsolete inventory of \$6,071,100 and \$5,780,600, respectively.

Table of Contents

## Property and Equipment

Property and equipment is stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

	Useful lives
Information technology equipment and software	1- 5 years
Configuration, Fulfillment and Delivery technology system	7 years
Furniture, telephone system, equipment and tooling	3- 10 years
Building, building improvements and leasehold improvements	2- 40 years

The Company capitalizes computer software costs incurred in connection with developing or obtaining computer software for internal use when both the preliminary project stage is completed and when management authorizes and commits to funding the project and it is probable that the project will be completed. Development and acquisition costs are capitalized when the software project is either for the development of new software, to increase the life of existing software or to add significantly to the functionality of existing software. Capitalization ceases when the software project is substantially complete and ready for its intended use.

Leasehold improvements are amortized over the shorter of their useful lives or the remaining lease term.

## Impairment of Long-Lived Assets

Long-lived assets, including amortizable intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be fully recoverable. These events or changes in circumstances may include a significant deterioration of operating results, changes in business plans, or changes in anticipated future cash flows. If an impairment indicator is present, the Company evaluates recoverability by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. Assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows generated by other asset groups. If future undiscounted cash flows are less than the carrying value of the asset group, the Company calculates the fair value of the asset group. If the assets are impaired, the impairment recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. Fair value is generally determined by estimates of discounted cash flows. The discount rate used in any estimate of discounted cash flows would be the rate required for a similar investment of like risk. There were no impairment charges in fiscal years 2016, 2015, or 2014.

Assets to be disposed of are reported at the lower of carrying value or fair values, less estimated costs of disposal.

#### Goodwill and Other Intangible Assets

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill amounts and indefinite lived intangible assets are not amortized, but rather are tested for impairment at least annually or whenever an impairment indicator is identified. The Company performs its annual impairment test on the first day of its fourth quarter. Intangible assets that are not considered to have an indefinite useful life are amortized over their useful life of 4 to 6 years using the straight-line method. Intangible assets other than goodwill are recorded within other long-term assets in the Company's Consolidated Balance Sheets. The goodwill impairment test involves an initial qualitative analysis to determine if it is more likely than not that an intangible asset's fair value is less than its carrying amount. If qualitative factors suggest a possible impairment, the Company then performs an additional two-step approach. Under the first step, the Company determines the fair value of each reporting unit to which goodwill has been assigned. The Company then compares the fair value of each reporting unit to its carrying value, including goodwill. The Company estimates the fair value of each reporting unit using various valuation techniques, with the primary technique being a discounted cash flow or income approach, under which the Company estimates the present value of the reporting unit's future cash flows. Key assumptions used to determine the present value of a reporting unit's future cash flows include (a) a cash flow period; (b) a terminal value based on a growth rate; and (c) a discount rate,



## Table of Contents

which is based on the Company's weighted average cost of capital adjusted for risks associated with our operations. If the fair value exceeds the carrying value, no impairment loss is recognized. If the carrying value exceeds the fair value, the goodwill of the reporting unit is considered potentially impaired and the second step is completed in order to measure the impairment loss. Under the second step, the Company calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets, including any unrecognized intangible assets, of the reporting unit from the fair value of the reporting unit as determined in the first step. The Company then compares the implied fair value of goodwill to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, the Company recognizes an impairment loss equal to the difference.

The indefinite lived intangible asset impairment test involves an initial qualitative analysis to determine if it is more likely than not that an intangible asset's fair value is less than its carrying amount. If qualitative factors suggest a possible impairment, the Company then determines the fair value of the intangible asset. If the fair value of the intangible asset is less than its carrying value, an impairment loss is recognized for an amount equal to the difference. The intangible asset is then carried at its new fair value. Fair value is determined using estimates of discounted cash flows. These estimates of discounted cash flows will likely change over time as impairment tests are performed. Estimates of fair value are also adversely affected by increases in interest rates and the applicable discount rate.

Based on the Company's qualitative and/or quantitative impairment testing performed, the Company did not recognize an impairment loss on goodwill or other indefinite lived intangible assets in fiscal years 2016, 2015, or 2014.

The methods of assessing fair value for our reporting unit with goodwill as well as for indefinite lived assets require significant judgments to be made by management, including future revenues, expenses, cash flows and discount rates. Changes in such estimates or the application of alternative assumptions could produce significantly different results.

## Revenue Recognition

The Company records revenues when 1) persuasive evidence of an arrangement exists, 2) delivery has occurred or services have been rendered, 3) price to the buyer is fixed or determinable, and 4) collectability is reasonably assured. The Company's revenue recognition policy includes evidence of arrangements for significant revenue transactions through either receipt of a customer purchase order or a web-based order. The Company records revenues when risk of loss has passed to the customer. In most cases, shipments are made using FOB shipping terms. FOB destination terms are used for a portion of sales, and revenue for these sales is recorded when the product is received by the customer. Prices are always fixed at the time of sale. Historically, there have not been any material concessions provided to or by customers, future discounts provided by the company, or other incentives subsequent to a sale. The Company sells under normal commercial terms and, therefore, only records sales on transactions where collectability is reasonably assured. The Company recognizes revenues net of sales tax.

Because the Company's sales transactions meet the conditions set forth in the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") No. 605 and/or 606, it recognizes revenues from sales transactions containing sales returns provisions at the time of the sale. These conditions require that 1) the price be substantially fixed or determinable at the date of sale, 2) the buyer is obligated to pay, and the payment is not contingent on their resale of the product, 3) the buyer's obligation to the Company does not change in the event of theft or physical destruction or damage of the product, 4) the buyer has economic substance apart from the Company, 5) the Company does not have significant obligations for future performance to directly bring about resale of the product by the buyer, and 6) the amount of future returns can be reasonably estimated. Because the Company's normal terms and conditions of sale are consistent with conditions 1-5 above, and the Company is able to perform condition 6, it makes a reasonable estimate of product returns in sales transactions and accrues a sales return reserve based on this estimate.

Certain companies have turned to TESSCO to implement supply chain solutions, including purchasing inventory, assisting in demand forecasting, configuring, packaging, kitting and delivering products and managing customer and vendor relations, from order taking through cash collections. In performing these solutions, the Company assumes varying levels of involvement in the transactions and varying levels of credit and inventory risk. As the Company's solutions offerings continually evolve to meet the needs of its customers, the Company constantly evaluates its revenue accounting based on the guidance set forth in accounting standards generally accepted in the United States. When applying this

## Table of Contents

guidance in accordance with the ASC No. 605-45, the Company looks at the following indicators: whether it is the primary obligor in the transaction; whether it has general inventory risk; whether it has latitude in establishing price; the extent to which it changes the product or performs part of the service; whether it has discretion in supplier selection; whether it is involved in the determination of product and service specifications; whether it has physical inventory risk; whether it has credit risk; and whether the amount it earns is fixed. Each of the Company's customer relationships is independently evaluated based on the above guidance and revenues are recorded on the appropriate basis. Based on a review of the factors above, in the majority of the Company's sales relationships, the Company has concluded that it is the principal in the transaction and records revenues based upon the gross amounts earned and booked. However, the Company does have relationships where it is not the principal and records revenues on a net fee basis, regardless of amounts billed (less than 1% of total revenues for fiscal year 2016). If applying this revenue recognition guidance resulted in recording revenues on a different basis from which the Company has previously concluded, or if the factors above change significantly, revenues could increase or decrease; however, gross profit and net income would remain constant.

Service revenue associated with training and other services is recognized when the training or work is complete and the four criteria discussed above have been met. Service revenues have represented less than 1% of total revenues for fiscal years 2016, 2015 and 2014.

Other than sales relating to the Company's private brands, we offer no product warranties in excess of original equipment manufacturers' warranties. The Company's warranty expense is estimated and accrued at the time of sale. Warranty expense was immaterial for fiscal years 2016, 2015, and 2014.

## Vendor Programs

Funds received from vendors for price protection, product rebates and marketing/promotion are recorded as a reduction in cost of goods sold in accordance with ASC 605-50-45: Customer's Characterization of Certain Considerations Received from a Vendor.

## Shipping and Handling Costs

Shipping costs incurred to ship products from our distribution centers to our customers' sites are included in selling, general and administrative expenses in the Consolidated Statements of Income and totaled \$13,642,700, \$13,700,000, and \$13,364,600 for fiscal years 2016, 2015, and 2014, respectively.

## Stock Compensation Awards Granted to Team Members

The Company records stock compensation expense for awards in accordance with ASC No. 718, which requires the Company to include in its calculation of periodic stock compensation expense an estimate of future forfeitures. The standard also requires stock awards granted or modified after the adoption of the standard that include both performance conditions and graded vesting based on service to the Company to be amortized by an accelerated method rather than the straight-line method.

## Income Taxes

The Company accounts for income taxes under the asset and liability method in accordance with ASC No. 740. Under this method, deferred income tax assets and liabilities arise from differences between the tax basis of assets or liabilities and their reported amounts in the financial statements. Deferred tax balances are determined by using the enacted tax rate to be in effect when the taxes are paid or refunds received. A valuation allowance related to deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

In accordance with ASC No. 740, the Company recognizes a provision for tax uncertainties in its financial statements. See Note 12 for further discussion of the standard and its impact on the Company's consolidated financial statements.

## Table of Contents

### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company reviews and evaluates its estimates and assumptions, including but not limited to, those that relate to tax reserves, stock-based compensation, accounts receivable reserves, inventory reserves and future cash flows associated with impairment testing for goodwill and other long-lived assets. Actual results could significantly differ from those estimates.

### Impact of Recently Issued Accounting Standards

In February 2015, the FASB issued Accounting Standards Update No. 2016-02, Leases. This ASU require lessees to recognize most leases on their balance sheets related to the rights and obligations created by those leases. The ASU also requires additional qualitative and quantitative disclosures related to the nature, timing and uncertainty of cash flows arising from leases. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact the adoption of this new standard will have on its Consolidated Financial Statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation – Stock Compensation. The new standard will modify several aspects of the accounting and reporting for employee share-based payments and related tax accounting impacts, including the presentation in the statements of operations and cash flows of certain tax benefits or deficiencies and employee tax withholdings, as well as the accounting for award forfeitures over the vesting period. The new standard is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact the adoption of this new standard will have on its Consolidated Financial Statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, Income Taxes. Current GAAP requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. The new standard simplifies the presentation of deferred tax assets and liabilities and requires that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, with early adoption permitted. The company elected to adopt this standard effective March 27, 2016, and has applied the guidance retrospectively. The Company restated its consolidated balance sheet as of March 29, 2015 to reflect the reclassification of \$3.9 million of deferred tax assets from current to noncurrent.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers. This guidance will supersede Topic 605, Revenue Recognition, in addition to other industry-specific guidance, once effective. The new standard requires a company to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, as a revision to ASU 2014-09, which revised the effective date to fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted but not prior to periods beginning after December 15, 2016 (i.e. the original adoption date per ASU 2014-09). In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations, which clarifies certain aspects of the principal-versus-agent guidance, including how an entity should identify the unit of accounting for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements, such as service transactions. The amendments also reframe the indicators to focus on evidence that an entity is acting as a principal rather than as an agent. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, which clarifies how an entity should evaluate the nature of its promise in granting a license of intellectual property, which will determine whether it recognizes revenue over time or at a point in time. The amendments also clarify when a promised good or service is separately identifiable (i.e., distinct within the context of the contract) and allow entities to disregard items that are immaterial in the context of a contract. The company

Table of Contents

is currently in the process of assessing what impact this new standard may have on our ongoing financial reporting and determining what transition method will be used.

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30). This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, and is to be adopted on a retrospective basis. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect this ASU will have a material impact on the Company's consolidated financial statements or related disclosures.

Note 3. Reclassification

Prior to the third quarter of fiscal year 2016, the Company classified indirect costs relieved from inventory upon a sale as selling, general and administrative expenses, as opposed to cost of goods sold. The financial results presented in these financial statements correctly reflect indirect costs relieved from inventory as cost of goods sold for all periods. The accompanying Consolidated Statements of Income have been adjusted to correct this immaterial error in the classification of indirect inventory costs in the income statement. This resulted in an increase in cost of goods sold, and a corresponding decrease in selling, general and administrative expenses, of \$13.3 million and \$11.8 million, respectively, for fiscal years 2015 and 2014. These corrections had no impact on previously reported revenues, operating margin, net income, earnings per share or on previously reported Consolidated Balance Sheets or Consolidated Statements of Cash Flows.

As of March 27, 2016 the Company adopted Accounting Standards Update No. 2015-17, Income Taxes, as discussed in Note 2. As such, the Company restated its consolidated balance sheet as of March 29, 2015 to reflect the reclassification of \$3.9 million of deferred tax assets from current to noncurrent.

Note 4. Property and Equipment

All of the Company's property and equipment is located in the United States and is summarized as follows:

2016

2015

Land	\$ 4,740,800	\$ 4,740,800
Building, building improvements and leasehold improvements	21,437,200	21,375,500
Information technology equipment and computer software	28,856,300	25,751,500
Furniture, telephone system, equipment and tooling	7,732,600	7,809,400
	62,766,900	59,677,200
Less accumulated depreciation and amortization	(42,871,500)	(38,565,400)
Property and equipment, net	\$ 19,895,400	\$ 21,111,800

Depreciation and amortization of property and equipment was \$4,730,000, \$4,583,600, and \$4,852,800 for fiscal years 2016, 2015 and 2014, respectively.

Capitalized internally developed computer software, net of accumulated amortization, as of March 27, 2016 and March 29, 2015 was \$2,212,400 and \$844,000, respectively. Amortization expense of capitalized internally developed computer software was \$1,194,200, \$797,800, and \$980,300 for fiscal years 2016, 2015, and 2014.

#### Note 5. Goodwill and Other Intangible Assets

Other intangible assets, which are included in other long-term assets on the accompanying Consolidated Balance Sheets as of March 27, 2016 and March 29, 2015, consists of indefinite lived intangible assets in the amount of \$850,000. Amortization expense relating to other intangible assets was \$12,300 for fiscal year 2014. At March 27, 2016 and March



Table of Contents

29, 2015, amortizable intangible assets were fully amortized. There were no changes in the carrying amount of goodwill for the fiscal years ended March 27, 2016 and March 29, 2015.

## Note 6. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consisted of the following:

	March 27, 2016	March 29, 2015
Deferred Revenue	\$ 2,136,600	\$ 6,959,300
Other Accrued Expenses	1,737,500	1,729,200
Total Accrued Expenses	\$ 3,874,100	\$ 8,688,500

## Note 7. Borrowings Under Revolving Credit Facility

On May 31, 2007, pursuant to a Credit Agreement, the Company established a revolving credit facility with both Wells Fargo Bank, National Association and SunTrust Bank. The facility is unsecured and provides for monthly payments of interest accruing at a rate of LIBOR plus an applicable margin. The terms of the revolving credit facility require the Company to meet certain financial covenants and ratios and contain other limitations, including certain restrictions on dividend payments. Borrowing availability under the facility is also subject to a borrowing base, based on levels of trade accounts receivable and inventory. This credit facility has been amended several times, most recently on September 24, 2015 (the Tenth Modification Agreement). Currently the credit facility has a maximum borrowing limit of \$35.0 million and has a term expiring in October 2018. In addition, the credit facility now contains an accordion feature that permits the lenders' aggregate commitment to be increased to a maximum of \$45.0 million, subject to lenders' discretion and other customary conditions. The amount of dividend payments allowed to be made by the Company under the Credit Facility is \$9.0 million in any 12 month period. The dollar amount of stock repurchases permitted under the term of the credit facility is \$30.0 million. As of March 27, 2016, the Company had the ability to purchase approximately \$11.7 million in additional shares of common stock without violating this covenant. The financial covenants included in the Credit Agreement for the unsecured revolving credit facility are also applicable to the Company's existing term loan (see Note 8) with the same lenders. Accordingly, any amendment to the financial covenants in the Credit Agreement also has the effect of amending the financial covenants applicable to the term loan.

The facility provides for monthly payments of interest accruing at a rate of LIBOR plus an applicable margin ranging from 1.50% to 2.50%. The weighted average interest rate on borrowings under the Company's revolving credit

facilities was 1.69%, 1.65%, and 2.35% for fiscal years 2016, 2015, and 2014, respectively. Interest expense on this revolving credit facility for fiscal years 2016, 2015, and 2014 totaled \$59,000, \$78,200, and \$53,400, respectively. Average borrowings under this revolving credit facility totaled \$3,454,500, \$4,672,300, and \$2,243,900 and maximum borrowings totaled \$12,301,100, \$17,331,900, and \$13,467,000, for fiscal years 2016, 2015, and 2014, respectively.

As of March 27, 2016 and March 29, 2015, the Company had no outstanding balance on its revolving credit facility. Therefore, the Company had \$35.0 million available on its revolving line of credit facility as of both March 27, 2016 and March 29, 2015.

The Company was in compliance with the terms and financial covenants applicable to each of the revolving credit facility and term loan facility at the end of fiscal years 2016, 2015, and 2014.

#### Note 8. Long-Term Debt

On June 30, 2004, the Company refinanced its previously existing term loan with a bank. The original principal amount of the loan was \$4.5 million, payable in monthly installments of principal and interest with the balance due at the initial maturity date, June 30, 2011. On October 7, 2015, the Company entered into an agreement with Wells Fargo Bank, National Association, and SunTrust Bank, to extend the maturity date of the existing term loan to October 1, 2020. The interest rate on this term loan is LIBOR plus 2.00%. The note is secured by a first position deed of trust encumbering Company-owned real property in Hunt Valley, Maryland. The loan is generally subject to the same financial covenants as

Table of Contents

the Company's revolving credit facility (see Note 7), which requires the Company to meet certain financial covenants and ratios and contains other limitations, including certain restrictions on dividend payments. The balance of this note at March 27, 2016 and March 29, 2015 was \$1,875,000 and \$2,100,000, respectively. The weighted average interest rate on borrowings under this note was 2.21%, 2.19%, and 2.18% for fiscal years 2016, 2015, and 2014, respectively. Interest expense under this note was \$43,900, \$48,400, and \$54,500 for fiscal years 2016, 2015, and 2014, respectively.

On March 31, 2009, the Company entered into a term loan with the Baltimore County Economic Development Revolving Loan Fund for an aggregate principal amount of \$250,000. At March 27, 2016 and March 29, 2015, the principal balance of this term loan was \$82,600 and \$108,200, respectively. The term loan is payable in equal monthly installments of principal and interest of \$2,300, with the balance due at maturity on April 1, 2019. The term loan bears interest at 2.00% per annum. Interest expense under this note was \$2,000, \$2,400, and \$2,900 for fiscal years 2016, 2015, and 2014, respectively. The term loan is secured by a subordinate position on Company-owned real property located in Hunt Valley, Maryland.

As of March 27, 2016, scheduled annual maturities of long-term debt are as follows:

Fiscal year:	
2017	\$ 251,100
2018	251,900
2019	252,300
2020	227,300
2021	975,000
Thereafter	—
	\$ 1,957,600

#### Note 9. Commitments and Contingencies

The Company is committed to making rental payments under non-cancelable operating leases covering various facilities and equipment. Rent expense for fiscal years 2016, 2015 and 2014 totaled \$3,035,600, \$2,970,300, and \$3,004,300, respectively.

The Company leases office space in Timonium, Maryland, where the Company's sales, marketing and administrative offices are located. This space is nearby to the Company's Global Logistics Center in Hunt Valley, Maryland. The Agreement of Lease expires on December 31, 2017. Monthly rent payments now range from \$167,600 to \$177,700

through the remaining lease term.

The Company also leases office and warehouse space in Hunt Valley, Maryland, adjacent to the Company's Global Logistics Center, expiring on July 31, 2017; however, the Company has an ongoing annual option to terminate the lease. The monthly rental fee ranges from \$34,300 to \$35,700 through the remaining lease term.

Additional sales and marketing offices are located in additional leased office space in San Antonio, Texas. This space is leased pursuant to a lease agreement expiring on October 31, 2018. Monthly rent payments range from \$15,800 to \$16,900 through the remaining lease term.

Table of Contents

The Company's minimum future obligations as of March 27, 2016 under existing operating leases are as follows:

Fiscal year:	
2017	\$ 2,987,400
2018	2,024,800
2019	147,900
2020	15,400
2021	700
Thereafter	—
	\$ 5,176,200

Lawsuits and claims are filed against the Company from time to time in the ordinary course of business. The Company does not believe that any lawsuits or claims pending against the Company, individually or in the aggregate, are material, or will have a material adverse effect on the Company's financial condition or results of operations. In addition, from time to time, the Company is also subject to review from federal and state taxing authorities in order to validate the amounts of income, sales and/or use taxes which have been claimed and remitted. No federal, state and local tax returns are currently under examination.

As the Company is routinely audited by state taxing authorities, the Company has estimated exposure and established reserves for its estimated sales tax audit liability.

#### Note 10. Operating Segment

The Company evaluates its business as one segment, as the chief operating decision maker reviews results as one unit. However, to provide investors with increased visibility into the markets it serves, the Company also reports revenue and gross profit by the following customer markets: (1) public carriers, contractors and program managers that are generally responsible for building and maintaining the infrastructure system and provide airtime service to individual subscribers; (2) government system operators including federal agencies and state and local governments that run wireless networks for their own use; (3) private system operators including commercial entities such as major utilities and transportation companies that run wireless networks for their own use; (4) commercial dealers and resellers that sell, install and/or service cellular telephone, wireless networking, broadband and two-way radio communications equipment primarily for the enterprise market; and (5) retailers, independent dealer agents and carriers. Beginning in the third quarter of fiscal year 2015, the Company began reporting private system operators and government system operators as two separate markets. All prior periods have been restated to reflect this change.

The Company evaluates revenue, gross profit and net profit contribution, and income before provision for income taxes in the aggregate. Net profit contribution is defined as gross profit less any expenses that can be directly

attributed. This includes sales, product management, purchasing, credit and collections and distribution team expenses, plus freight out and internal and external marketing costs. Corporate support expenses includes administrative costs – finance, human resources, information technology, operating facility occupancy expenses, depreciation, amortization and interest, plus the company-wide pay on performance bonus expense.

Certain cost of sales and other applicable expenses have been allocated to each market based on a percentage of revenues and/or gross profit, where appropriate.

Table of Contents

Market activity for the fiscal years ended 2016, 2015 and 2014 is as follows (in thousands):

	March 27, 2016	March 29, 2015	March 30, 2014
Revenues			
Public Carriers, Contractors & Program Managers	\$ 89,171	\$ 127,426	\$ 149,195
Government System Operators	33,009	31,495	33,757
Private System Operators	85,563	86,725	81,560
Commercial Dealers & Resellers	129,986	134,195	140,552
Retailer, Independent Dealer Agents & Carriers	192,953	169,778	155,023
Total revenues	\$ 530,682	\$ 549,619	\$ 560,087
Gross Profit			
Public Carriers, Contractors & Program Managers	\$ 15,155	\$ 20,915	\$ 27,708
Government System Operators	7,713	7,535	7,791
Private System Operators	20,601	20,866	21,475
Commercial Dealers & Resellers	33,781	34,948	36,567
Retailer, Independent Dealer Agents & Carriers	34,716	33,375	32,817
Total gross profit	\$ 111,966	\$ 117,639	\$ 126,358

The Company also reviews revenue and gross profit by its four product categories:

- Base station infrastructure products are used to build, repair and upgrade wireless telecommunications. Products include base station antennas, cable and transmission lines, small towers, lightning protection devices, connectors, power systems, miscellaneous hardware, and mobile antennas. Our base station infrastructure service offering includes connector installation, custom jumper assembly, site kitting and logistics integration.
- Network systems products are used to build and upgrade computing and internet networks. Products include fixed and mobile broadband equipment, wireless networking, filtering systems, distributed antenna systems, two-way radios and security and surveillance products. This product category also includes training classes, technical support and engineering design services.
- Installation, test and maintenance products are used to install, tune, and maintain wireless communications equipment. Products include sophisticated analysis equipment and various frequency-, voltage- and power-measuring devices, as well as an assortment of tools, hardware, GPS, safety and replacement and component parts and supplies required by service technicians.

Mobile devices and accessory products include cellular phone and data device accessories such as replacement batteries, cases, speakers, mobile amplifiers, power supplies, headsets, mounts, car antennas, music accessories and data and memory cards. Retail merchandising displays, promotional programs, customized order fulfillment services and affinity-marketing programs, including private label internet sites, complement our mobile devices and accessory product offering.



Table of Contents

Supplemental revenue and gross profit information by product category for the fiscal years 2016, 2015 and 2014 are as follows (in thousands):

	March 27, 2016	March 29, 2015	March 30, 2014
<b>Revenues</b>			
Base station infrastructure	\$ 206,604	\$ 224,135	\$ 252,983
Network systems	83,480	96,399	89,411
Installation, test and maintenance	34,936	41,790	45,343
Mobile device accessories	205,662	187,295	172,350
Total revenues	\$ 530,682	\$ 549,619	\$ 560,087
<b>Gross Profit</b>			
Base station infrastructure	51,610	55,732	64,318
Network systems	12,893	13,549	13,988
Installation, test and maintenance	6,607	8,351	9,306
Mobile device accessories	40,856	40,007	38,746
Total gross profit	\$ 111,966	\$ 117,639	\$ 126,358

## Note 11. Restructuring Charge

In the fourth quarter of fiscal year 2015, recognizing the ongoing challenging conditions caused by the carrier spending slowdown, the Company took actions to restructure costs, resulting in a \$0.6 million pre-tax charge, which is included in our Consolidated Statements of Income for fiscal year 2015. The restructuring charge primarily consists of severance-related expenses associated with a reduction in headcount paid in the fourth quarter of fiscal year 2015 through the first quarter fiscal year 2016.

## Note 12. Stock Buyback

On April 23, 2014, the Board of Directors expanded the Company's then existing stock buyback program and authorized the purchase on a non-accelerated basis of up to \$10.0 million of the Company's stock over a 24-month period, ending in April 2016. Shares may be purchased from time to time in the open market, by block purchase, or through negotiated transactions, or possibly other transactions managed by broker-dealers. During fiscal year 2015,

the Company purchased 157,954 shares under the expanded stock buyback program for approximately \$4.6 million, or an average cost of \$29.17 per share. No shares were repurchased under the program in fiscal years 2016 and 2014. As of March 27, 2016, \$5.4 million remained available for repurchase under this program. The stock buyback program expired in April 2016.

The Company also withholds shares from its employees and directors, at their request, equal to the minimum federal and state tax withholdings related to vested performance stock units, stock option exercises and restricted stock awards. For fiscal years 2016, 2015, and 2014 the total value of shares withheld for taxes was \$937,300, \$1,612,900, and \$1,646,300, respectively.

Table of Contents

## Note 13. Income Taxes

A reconciliation of the difference between the provision for income taxes computed at statutory rates and the provision for income taxes provided in the consolidated statements of income is as follows:

	2016	2015	2014
Statutory federal rate	34.0 %	34.2 %	35.0 %
State taxes, net of federal benefit	4.5	4.1	3.3
Non-deductible expenses	2.1	0.9	0.7
Other	(0.8)	—	(0.8)
Effective rate	39.8 %	39.2 %	38.2 %

The provision for income taxes was comprised of the following:

	2016	2015	2014
Federal: Current	\$ 2,350,000	\$ 3,035,400	\$ 9,252,700
Deferred	763,100	1,964,800	(396,600)
State: Current	345,100	398,500	1,212,400
Deferred	73,600	178,100	(5,400)
Provision for income taxes	\$ 3,531,800	\$ 5,576,800	\$ 10,063,100

Total net deferred tax assets as of March 27, 2016 and March 9, 2015, and the sources of the differences between financial accounting and tax basis of the Company's assets and liabilities which give rise to the deferred tax assets and liabilities, are as follows:

	2016	2015
Net deferred tax assets (liabilities):		
Deferred compensation	\$ 357,500	\$ 802,700
Accrued vacation	534,200	554,100
Deferred rent	459,100	687,500
Allowance for doubtful accounts	266,300	232,800
Inventory reserves	2,264,500	2,175,500
Sales tax reserves	366,500	459,600
Other assets	475,200	516,000

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-K

Restricted Stock	—	89,600
Tax contingency reserve	247,600	286,200
Depreciation and amortization	(3,646,200)	(3,354,600)
Other liabilities	(374,100)	(312,400)
Accrued compensation	(577,600)	(873,700)
Prepaid expenses	(752,400)	(767,400)
Net Deferred Tax Asset (Liability)	\$ (379,400)	\$ 495,900

The Company has reviewed its deferred tax assets realization and has determined that no valuation allowance is required as of March 27, 2016 or March 29, 2015.

As of March 27, 2016, the Company had gross unrecognized tax benefit of \$290,400 (\$188,800 net of federal benefit). As of March 30, 2015, the Company had gross unrecognized tax benefits of \$394,400 (\$256,400 net of federal benefit).

The Company's accounting policy with respect to interest and penalties related to tax uncertainties is to classify these amounts as income taxes. The total amount of interest and penalties related to tax uncertainties recognized in the

Table of Contents

consolidated statement of income for fiscal year 2016 was an expense of \$16,600 (net of federal benefit) and the cumulative amount included as a liability in the consolidated balance sheet as of March 27, 2016 was \$399,814 (net of federal benefit). The total amount of interest and penalties related to tax uncertainties recognized in the consolidated statement of income for fiscal year 2015 was a benefit of \$31,600 (net of federal expense) and the cumulative amount included in the consolidated balance sheet as of March 29, 2015 was \$323,800 (net of federal expense). The total amount of interest and penalties related to tax uncertainties recognized in the consolidated statement of income for fiscal year 2014 was a benefit of \$23,300 (net of federal benefit).

As of March 27, 2016, the total net amount of unrecognized tax benefits, inclusive of indirect tax benefits and deferred tax benefits was \$188,800 and associated penalties and interest were \$339,800. The net amount of \$528,600, if recognized, would affect the effective tax rate.

A reconciliation of the changes in the gross balance of unrecognized tax benefit amounts, net of interest, is as follows:

	2016	2015	2014
Beginning balance of unrecognized tax benefit	\$ 394,400	\$ 1,665,000	\$ 631,100
Decrease due to reclassification to income tax payable	—	(1,189,000)	—
Increase related to prior period tax positions	—	—	1,189,000
Increases related to current period tax positions	3,800	10,600	22,800
Reductions as a result of a lapse in the applicable statute of limitations	(107,800)	(92,200)	(177,900)
Ending balance of unrecognized tax benefits	\$ 290,400	\$ 394,400	\$ 1,665,000

The Company files income tax returns in U.S. federal, state and local jurisdictions. Income tax returns filed for fiscal years 2008 and earlier are no longer subject to examination by U.S. federal, state and local tax authorities. No federal, state and local income tax returns are currently under examination.

Certain income tax returns for fiscal years 2012 through 2016 remain open to examination by U.S. federal, state and local tax authorities.

#### Note 14. Retirement Plans

The Company has a 401(k) plan that covers all eligible employees. Contributions to the plan can be made by employees and the Company may make matching contributions at its discretion. Expense related to this matching contribution was \$635,500, \$524,200, and \$718,700 during fiscal years 2016, 2015, and 2014, respectively. As of

March 27, 2016 plan assets included 133,102 shares of common stock of the Company.

The Company maintains a Supplemental Executive Retirement Plan for Robert B. Barnhill, Jr., Chairman, President and CEO of the Company. This plan is funded through life insurance policies for which the Company is the sole beneficiary. The cash surrender value of the life insurance policies and the net present value of the benefit obligation of approximately \$1,966,400 and \$966,400, respectively, as of March 27, 2016 and \$1,769,600 and \$941,300, respectively, as of March 29, 2015, are included in other long-term assets and other long-term liabilities, respectively, in the accompanying Consolidated Balance Sheets.

#### Note 15. Earnings Per Share

The Company calculates earnings per share considering ASC No. 260 in regards to accounting for participating securities, which requires the Company to use the two-class method to calculate earnings per share. Under the two-class method, earnings per common share are computed by dividing the sum of the distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the weighted average shares outstanding during the period.

Table of Contents

The following table presents the calculation of basic and diluted earnings per common share:

Amounts in thousands, except per share amounts	Amounts in thousands, except per share amounts		
	2016	2015	2014
Earnings per share – Basic:			
Net earnings	\$ 5,341	\$ 8,634	\$ 16,249
Less: Distributed and undistributed earnings allocated to nonvested stock	(15)	(47)	(134)
Earnings available to common shareholders – Basic	\$ 5,326	\$ 8,587	\$ 16,115
Weighted average common shares outstanding – Basic	8,220	8,171	8,134
Earnings per common share – Basic	\$ 0.65	\$ 1.05	\$ 1.98
Earnings per share – Diluted:			
Net earnings	\$ 5,341	\$ 8,634	\$ 16,249
Less: Distributed and undistributed earnings allocated to nonvested stock	(1)	(19)	(132)
Earnings available to common shareholders – Diluted	\$ 5,340	\$ 8,615	\$ 16,117
Weighted average common shares outstanding – Basic	8,220	8,171	8,134
Effect of dilutive options	—	102	192
Weighted average common shares outstanding – Diluted	8,220	8,273	8,326
Earnings per common share – Diluted	\$ 0.65	\$ 1.04	\$ 1.94
Anti-dilutive equity awards not included above	100	—	—

There were no stock options with respect to shares of common stock outstanding as of March 29, 2015 and March 30, 2014. At March 27, 2016, stock options with respect to 100,000 shares of common stock were outstanding, all of which were anti-dilutive. There were no anti-dilutive Performance Stock Units or Restricted Stock outstanding as of March 27, 2016, March 29, 2015, or March 30, 2014.

#### Note 16. Stock Based Compensation

The Company's selling, general and administrative expenses for the fiscal years ended March 27, 2016, March 29, 2015, and March 30, 2014 includes \$729,000, \$1,161,300, and \$2,087,100, respectively, of stock compensation expense. Provision for income taxes for the fiscal years ended March 27, 2016, March 29, 2015, and March 30, 2014 includes \$290,100, \$441,300, and \$797,300, respectively, of income tax benefits related to our stock-based compensation arrangements. Stock compensation expense is primarily related to our Performance Stock Unit Program as described below.

The Company's stock incentive plan is the Second Amended and Restated 1994 Stock and Incentive Plan (the 1994 Plan). On July 21, 2011, the Company's shareholders approved an amendment to the 1994 Plan increasing the number of shares of common stock available for the grant of awards by 690,000 shares, from 2,638,125 to an aggregate of 3,553,125 shares of the Company's common stock. As of March 27, 2016, 306,296 shares were available for issue in respect of future awards under the 1994 Plan. Subsequent to the Company's 2016 fiscal year end, on May 11, 2016, based on fiscal year 2016 results, 103,000 shares related to Performance Stock Units (PSUs) were canceled, and as a result, these shares were made available for future grants. On April 30, 2016, 20,000 stock options were canceled due to an employee termination and these shares were also made available for future grants. Also on May 27, 2016 and May 11, 2016, respectively, additional PSUs and restricted stock awards were issued providing recipients with the opportunity to earn up

58

---



Table of Contents

to an aggregate of 194,000 and 10,000 additional shares, respectively of the Company's common stock. Accordingly, as of May 27, 2016, an aggregate of 225,296 shares were available for issue pursuant to future awards.

No additional awards can be made under the 1994 Plan after July 21, 2016, without or unless made subject to shareholder approval of an extension of the plan term. The Company intends to seek shareholder approval at our 2016 Annual Meeting for an amended and restated 1994 Plan which would provide for, among other things, extension of the date through which awards may be granted and an increase in the number of shares available for future awards. Stock Options, restricted stock and PSU awards have historically been granted as awards under the 1994 Plan. Shares which are subject to outstanding PSU or other awards under the 1994 Plan, and which are not earned, are returned to the 1994 Plan and become available for future issuance in accordance with and otherwise subject to the terms of the 1994 Plan.

**Performance Stock Units:** The Company's equity-based compensation philosophy is generally focused on granting performance-based and time-vested stock grants. Under a program established by the Board of Directors, Performance Stock Units (PSUs) have been granted under the 1994 Plan to selected employees. Each PSU entitles the participant to earn TESSCO common stock, but only after earnings per share and, for non-director employee participants, individual performance targets are met over a defined performance cycle. Performance cycles, which are fixed for each grant at the date of grant, are one year. Once earned, shares vest and are issued over a specified period of time determined at the time of the grant, provided that the participant remains employed by or associated with the Company at the time of share issuance. Earnings per share targets, which take into account the earnings impact of this program, are set by the Board of Directors in advance for the complete performance cycle at levels designed to grow shareholder value. If actual performance does not reach the minimum annual or threshold targets, no shares are issued. In accordance with ASC No. 718, the Company records compensation expense on its PSUs over the service period, based on the number of shares management estimates will ultimately be issued. Accordingly, the Company determines the periodic financial statement compensation expense based upon the stock price at the PSU grant date, net of the present value of dividends expected to be paid on TESSCO common stock before the PSU vests, management's projections of future EPS performance over the performance cycle, and the resulting amount of estimated share issuances, net of estimated forfeitures. The Company's estimated forfeiture rate is approximately 0% which is estimated primarily based on historical experience and expectations of future forfeitures.

The following table summarizes the activity under the Company's PSU program for fiscal years 2016, 2015 and 2014:

	2016		2015		2014	
	Shares	Weighted Average Fair Value at Grant	Shares	Weighted Average Fair Value at Grant	Shares	Weighted Average Fair Value at Grant
Unvested shares available for issue under outstanding PSUs, beginning of period	203,841	\$ 20.65	317,127	\$ 15.96	455,979	\$ 12.77
PSU's Granted	103,000	22.15	91,000	29.28	112,000	19.91

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-K

PSU's Vested	(87,648)	13.88	(125,347)	14.44	(199,066)	10.22
PSU's Forfeited/Cancelled	(80,268)	28.57	(78,939)	21.61	(51,786)	18.47
Unvested shares available for issue under outstanding PSUs, end of period	138,925	\$ 21.46	203,841	\$ 20.65	317,127	\$ 15.96

As of March 27, 2016, there was approximately \$41,700 of total unrecognized compensation cost, net of forfeitures, related to PSUs earned. These costs are expected to be recognized over a weighted average period of one year. Total fair value of shares vested during fiscal years 2016, 2015 and 2014 was \$2,543,000, \$4,364,500 and \$4,531,700, respectively.

Of the 80,268 PSUs canceled during fiscal year 2016, 74,500 related to the fiscal year 2015 grant of PSUs and were canceled in May 2015. The PSUs were canceled because the applicable fiscal year 2015 performance targets were not fully satisfied. The remaining 5,768 PSUs were forfeited due to employee departures during fiscal year 2016. Per the provisions of the 1994 Plan, the shares related to these forfeited and canceled PSUs were added back to the 1994 Plan and became available for future issuance.

Table of Contents

Of the PSUs outstanding at the end of fiscal year 2016 covering 138,925 non-vested shares, PSUs covering 103,000 shares were subsequently canceled in May 2016, based on fiscal year 2016 performance. These PSUs were canceled because fiscal year 2016 earnings per share did not fully reach the target performance set forth in the PSU grants. The remaining 35,925 shares covered by PSUs outstanding at the end of fiscal year 2016 were earned based on previous year performance, but were not yet vested as of March 27, 2016. Assuming the respective participants remain employed by, or affiliated with, the Company on the applicable vesting dates, these shares have vested and been issued, or will vest and be issued, on or about May 1 of 2016, and 2017, as follows:

	Number of Shares
2016	26,736
2017	9,189
	35,925

Subsequent to the Company's 2016 fiscal year end, on May 27, 2016, the Compensation Committee, with the concurrence of the full Board of Directors, granted additional PSUs to selected key employees, providing them with the opportunity to earn up to 194,000 additional shares of the Company's common stock in the aggregate, depending upon whether certain threshold or goal earnings per share targets are met and individual performance metrics are satisfied in fiscal year 2017. These PSUs have only one measurement year (fiscal year 2017), with any shares earned at the end of fiscal year 2017 to vest 25% on or about each of May 1 of 2017, 2018, 2019 and 2020. Pursuant to the typical PSU award agreement, however, performance metrics are deemed met upon the occurrence of a change in control, and shares earned are issued earlier upon the occurrence of a change in control, or death or disability of the participant, or upon termination of the participant's employment without cause or by the participant for good reason, as those terms are defined in the agreement.

Restricted Stock/Restricted Stock Units: During the second quarter of fiscal year 2007, the Company granted 225,000 shares of the Company's common stock to its Chairman and Chief Executive Officer as a restricted stock award under the 1994 Plan. These shares vested ratably over ten fiscal years based on service, beginning on the last day of fiscal year 2007 and ending on the last day of fiscal year 2016. The weighted average fair value for these shares at the grant date was \$10.56. On both March 27, 2016 and March 29, 2015, 22,500 shares of restricted stock were released and vested. As of March 27, 2016, there were no remaining unvested shares related to restricted stock.

On May 14, 2013, the Compensation Committee, with the concurrence of the full Board of Directors, granted an aggregate of 15,000 RSU awards to the non-employee directors of the Company with the exception of one individual who retired from the Board of Directors in July 2013. These awards provide for the issuance of shares of the Company's common stock in accordance with a vesting schedule. These awards have vested or will vest, and shares have been or will be issued, 25% on or about each of May 1 of 2014, 2015, 2016 and 2017, provided that the participant remains associated with the Company (or meets other criteria as prescribed in the agreement) on each such date. As of March 27, 2016, there was approximately \$0.1 million of total unrecognized compensation costs related to these awards. Unrecognized compensation costs related to these awards are expected to be recognized ratably over a period of approximately one year.

On May 8, 2014, the Compensation Committee, with the concurrence of the full Board of Directors, granted an aggregate of 10,000 RSU awards to non-employee directors of the Company. These awards provide for the issuance of shares of the Company's common stock in accordance with a vesting schedule. These awards have vested or will vest, and shares have been or will be issued, 25% on or about each of May 1 of 2015, 2016, 2017 and 2018, provided that the participant remains associated with the Company (or meets other criteria as prescribed in the agreement) on each such date. As of March 27, 2016, there was approximately \$0.1 million of total unrecognized compensation costs related to these awards. Unrecognized compensation costs related to these awards are expected to be recognized ratably over a period of approximately two years.

On May 11, 2015, the Compensation Committee, with the concurrence of the full Board of Directors, granted an aggregate of 10,000 RSU awards to non-employee directors of the Company. These awards provide for the issuance of shares of the Company's common stock in accordance with a vesting schedule. These awards have vested or will vest, and shares have been or will be issued 25% on or about each of May 1 of 2016, 2017, 2018 and 2019, provided that the participant remains associated with the Company (or meets other criteria as prescribed in the agreement) on each such date. As of March 27, 2016, there was approximately \$0.2 million of total unrecognized compensation costs related to

Table of Contents

these awards. Unrecognized compensation costs related to these awards are expected to be recognized ratably over a period of approximately three years.

Subsequent to the Company's 2016 fiscal year end, on May 11, 2016, the Compensation Committee, with the concurrence of the full Board of Directors, granted an aggregate of 10,000 RSU awards to non-employee directors of the Company. These awards provide for the issuance of shares of the Company's common stock in accordance with a vesting schedule. These awards will vest and shares will be issued 25% on or about each of May 1 of 2017, 2018, 2019 and 2020, provided that the participant remains associated with the Company (or meets other criteria as prescribed in the agreement) on each such date.

Compensation expense on restricted stock is measured using the grant date price, net of the present value of dividends expected to be paid on TESSCO common stock before the RSU award vests.

**Team Member Stock Purchase Plan:** The Company has a Team Member Stock Purchase Plan that permits eligible employees to purchase up to an aggregate of 450,000 shares of the Company's common stock at 85% of the lower of the market price on the first day of a six-month period or the market price on the last day of that same six-month period. Expenses incurred for the Team Member Stock Purchase Plan during the fiscal years ended March 27, 2016, March 29, 2015, and March 30, 2014 were \$48,900, \$67,300, and \$68,400, respectively. During the fiscal years ended March 27, 2016, March 29, 2015, and March 30, 2014, 9,113, 8,547, and 9,604 shares were sold to employees under this plan, having a weighted average market value of \$16.86, \$22.93, and \$22.21, respectively.

**Stock Options:** During fiscal year 2016, the Compensation Committee, with the concurrence of the full Board of Directors, granted an aggregate of 100,000 stock options to employees of the Company with an average exercise price of \$22.42 and a grant date fair value of \$3.43. The stock options vest 25% after one year and then 1/36 per month for the following three years. Subsequent to the Company's 2016 fiscal year end, 20,000 of the stock options were forfeited due to employee departure during fiscal year 2017. The unrecognized stock compensation related to stock options at March 27, 2016 was \$0.3 million and will be recognized ratably over approximately four years.

The fair value of the Company's stock options have been determined using the Black-Scholes-Merton option pricing model, with the following assumptions and resulting value:

	Expected Stock Price Volatility	Risk-Free Interest rate	Expected Dividend Yield	Average Expected Term	Resulting Black Scholes Value
2016 Grants	26.40%	1.67%	3.50%	4.0	\$ 3.43

Stock options granted have exercise prices equal to the market price of the Company's common stock on the grant date. The value of each option on the date of grant is amortized as a compensation expense over the option service period. This occurs without regard to the subsequent changes in stock price, volatility or interest rates over time, provided that the option remains outstanding. As of 2016 fiscal yearend, no options were available for exercise and no options had intrinsic value.

#### Note 17. Fair Value Disclosure

Assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, and quoted prices for identical or similar assets or liabilities in markets that are not active.

Table of Contents

- Level 3: Unobservable inputs for the asset or liability that reflect the reporting entity’s own assumptions about the inputs used in pricing the asset or liability.

As of March 27, 2016 and March 29, 2015, the Company has no assets or liabilities recorded at fair value.

The carrying amounts of cash and cash equivalents, trade accounts receivable, product inventory, trade accounts payable, accrued expenses, our term loan, life insurance policies and other current liabilities approximate their fair values as of March 27, 2016 and March 29, 2015 due to their short term nature.

Fair value of long term debt is calculated using current market interest rates, which we consider to be a Level 2 input as described in the fair value accounting guidance on fair value measurements, and future principle payments, as of March 27, 2016 and March 29, 2015 is estimated as follows:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Note payable to Baltimore County	\$ 82,600	\$ 78,700	\$ 108,200	\$ 102,300

Note 18. Supplemental Cash Flow Information

Cash paid for income taxes net of refunds, for fiscal years 2016, 2015, and 2014 totaled \$1,979,800, \$4,914,000, and \$8,355,900, respectively. Cash paid for interest during fiscal years 2016, 2015, and 2014 totaled \$180,300, \$174,600, and \$198,400, respectively. No interest was capitalized during fiscal years 2016 and 2014. Interest of \$3,400 was capitalized during fiscal year 2015.

Note 19. Concentration of Risk

Sales to customers and purchases from vendors are largely governed by individual sales or purchase orders, so there is no guarantee of future business. In some cases, the Company has more formal agreements with significant customers or vendors, but they are largely administrative in nature and are terminable by either party upon several months or otherwise short notice and they typically contain no obligation to make purchases from TESSCO. In the event a significant customer decides to make its purchases from another source, experiences a significant change in demand internally or from its own customer base, becomes financially unstable, or is acquired by another company, the Company's ability to generate revenues from these customers may be significantly affected, resulting in an adverse effect on its financial position and results of operations.

The Company is dependent on third-party equipment manufacturers, distributors and dealers for all of its supply of wireless communications equipment. For fiscal years 2016, 2015, and 2014, sales of products purchased from the Company's top ten vendors accounted for 42%, 41%, and 43% of total revenues, respectively. In fiscal year 2015 and 2014, sales of product purchased from the Company's largest vendor, CommScope Inc., accounted for approximately 14% and 16% of revenue, respectively. In fiscal year 2016, sales of product purchased from the Company's largest vendor, Otter Products LLC, accounted for approximately 15% of total revenues and sales of product purchased from CommScope Inc. accounted for approximately 11%. The Company is dependent on the ability of its vendors to provide products on a timely basis and on favorable pricing terms. The Company believes that alternative sources of supply are available for many of the product types it carries, but not for all products offered by the Company. The loss of certain principal suppliers, including Otter Products LLC and CommScope Inc., or of other suppliers whose products may be difficult to source on comparable terms elsewhere, or the loss of one or more of certain ongoing affinity relationships, would have a material adverse effect on the Company.

As noted, the Company's future results could also be negatively impacted by the loss of certain customers, and/or vendor relationships. For fiscal years 2016, 2015, and 2014, sales of products to the Company's top ten customer relationships accounted for 22%, 20%, and 19% of total revenues, respectively. No customer accounted for more than 7% of total revenues in fiscal year 2016, 2015, and 2014.



Table of Contents

## Note 20. Quarterly Results of Operations (Unaudited)

Summarized quarterly financial data for the fiscal years ended March 27, 2016 and March 29, 2015 is presented in the table below:

Fiscal Year 2016 Quarters Ended				Fiscal Year 2015 Quarters Ended			
March 27, 2016	December 27, 2015	September 27, 2015	June 28, 2015	March 29, 2015	December 28, 2014	September 28, 2014	June 28, 2014
\$ 114,154,100	\$ 139,510,700	\$ 142,353,300	\$ 134,664,000	\$ 112,962,200	\$ 135,188,700	\$ 148,521,800	\$ 134,664,000
91,135,200	110,057,300	111,841,600	105,682,100	88,650,400	106,367,800	116,160,800	105,682,100
23,018,900	29,453,400	30,511,700	28,981,900	24,311,800	28,820,900	32,361,000	28,981,900
26,202,100	24,742,400	25,865,400	26,122,400	23,983,100	26,136,800	26,494,400	26,122,400
—	—	—	—	573,400	—	—	—
26,202,100	24,742,400	25,865,400	26,122,400	24,556,500	26,136,800	26,494,400	26,122,400
(3,183,200)	4,711,000	4,646,300	2,859,500	(244,700)	2,684,100	5,866,600	2,859,500
12,400	55,500	47,100	46,300	28,200	61,300	49,400	46,300
(3,195,600)	4,655,500	4,599,200	2,813,200	(272,900)	2,622,800	5,817,200	2,813,200
(1,205,800)	1,768,800	1,850,900	1,117,900	(41,000)	941,600	2,303,600	1,117,900
\$ (1,989,800)	\$ 2,886,700	\$ 2,748,300	\$ 1,695,300	\$ (231,900)	\$ 1,681,200	\$ 3,513,600	\$ 1,695,300
\$ (0.24)	\$ 0.35	\$ 0.33	\$ 0.20	\$ (0.03)	\$ 0.20	\$ 0.42	\$ 0.20
\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20



Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

TESSCO Technologies Incorporated

We have audited the accompanying consolidated balance sheets of TESSCO Technologies Incorporated and subsidiaries as of March 27, 2016 and March 29, 2015, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three fiscal years in the period ended March 27, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15(b). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of TESSCO Technologies Incorporated and subsidiaries at March 27, 2016 and March 29, 2015, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended March 27, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), TESSCO Technologies Incorporated and subsidiaries' internal control over financial reporting as of March 27, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated June 6, 2016 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Baltimore, Maryland

June 6, 2016

64

---

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures that is designed to provide reasonable assurance that information, which is required to be disclosed by the Company in the reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and is accumulated and communicated to management in a timely manner. Our chief executive officer and chief financial officer have evaluated our disclosure controls and procedures as of the end of the period covered by this annual report, and have concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

Internal Control over Financial Reporting

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13(a)-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our system of internal control is designed to provide reasonable assurance to management and the Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Any system of internal control over financial reporting, no matter how well designed, has inherent limitations and may not prevent or detect misstatements. Therefore, internal control systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may be inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chairman and Chief Executive Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls, and the conclusion of this evaluation. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of March 27, 2016.

The effectiveness of our internal control over financial reporting as of March 27, 2016 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included within this Item 9A of Part II of this Annual Report on Form 10-K.

#### Changes in Internal Control over Financial Reporting

There has not been any change in our internal control over financial reporting during the fourth quarter of fiscal year 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

TESSCO Technologies Incorporated

We have audited TESSCO Technologies Incorporated and subsidiaries' internal control over financial reporting as of March 27, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). TESSCO Technologies Incorporated and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, TESSCO Technologies Incorporated and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 27, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of TESSCO Technologies Incorporated and subsidiaries as of March 27, 2016 and March 29, 2015, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three fiscal years in the period ended March 27, 2016 of TESSCO Technologies Incorporated and subsidiaries and our report dated June 6, 2016 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Baltimore, Maryland

June 6, 2016



Table of Contents

Item 9B. Other Information.

None.

Part III

Items 10, 11, 12, 13 and 14.

The information with respect to the identity and business experience of executive officers of the Company as required to be included in Item 10 to this Form 10-K is set forth in Part I of this Form 10-K. The information otherwise required by Items 10 through 14 will be contained in a definitive proxy statement for our Annual Meeting of Shareholders, which we anticipate will be filed no later than 120 days after the end of our fiscal year pursuant to Regulation 14A, and accordingly, these items have been omitted in accordance with General Instruction G (3) to Form 10-K.

Part IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this report:

1. The following consolidated financial statements are included in Item 8 of this report:

Consolidated Balance Sheets as of March 27, 2016 and March 29, 2015

Consolidated Statements of Income for the fiscal years ended March 27, 2016, March 29, 2015 and March 30, 2014

Consolidated Statements of Changes in Shareholders' Equity for the fiscal years ended March 27, 2016, March 29, 2015 and March 30, 2014

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-K

Consolidated Statements of Cash Flows for the fiscal years ended March 27, 2016, March 29, 2015 and March 30, 2014

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

2. The following financial statement schedules are required to be filed by Item 8 and paragraph (b) of this Item 15 included herewith:

Schedule II Valuation and Qualifying Accounts

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable.

67

---

Table of Contents

3. Exhibits

- 3.1.1 Amended and Restated Certificate of Incorporation of the Company filed with the Secretary of State of Delaware on September 29, 1993 (incorporated by reference to Exhibit 3.1.1 to the Company's Registration Statement on Form S-1 (No. 33-81834)).
- 3.1.2 Certificate of Retirement of the Company filed with the Secretary of State of Delaware on January 13, 1994 (incorporated by reference to Exhibit 3.1.2 to the Company's Registration Statement on Form S-1 (No. 33-81834)).
- 3.1.3 Certificate of Amendment to Certificate of Incorporation of the Company filed with the Secretary of State of Delaware on July 20, 1994 (incorporated by reference to Exhibit 3.1.3 to the Company's Registration Statement on Form S-1 (No. 33-81834)).
- 3.1.4 Certificate of Amendment to Certificate of Incorporation of the Company filed with the Secretary of State of Delaware on September 6, 1996 (incorporated by reference to Exhibit 3.1.4 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 28, 1997).
- 3.1.5 Certificate of Correction filed with the Secretary of State of Delaware on February 7, 2007 to Certificate of Amendment to Certificate of Incorporation of the Company filed with the Secretary of State of Delaware on September 6, 1996 (incorporated by reference to Exhibit 3.1.5 to the Company's Quarterly Report on Form 10-Q filed for the fiscal quarter ended December 24, 2006).
- 3.2.1 Sixth Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 28, 2011).
- 3.2.2 First Amendment to Sixth Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 22, 2011).
- 3.2.3 Second Amendment to Sixth Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 29, 2016).
- 10.1.1 Amended and Restated Employment Agreement, dated March 26, 2016, with Robert B. Barnhill, Jr. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 31, 2016).
- 10.2.1 Employee Incentive Stock Option Plan, as amended (incorporated by reference to Exhibit 10.21 to the Company's Registration Statement on Form S-1 (No. 33-81834)).
- 10.3.1 Team Member Stock Purchase Plan (incorporated by reference to Appendix No. 2 to the Company's Definitive Proxy Statement filed with the Securities and Exchange Commission on July 15, 1999).
- 10.3.2 Form of Restricted Stock Award (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed for the fiscal quarter ended June 26, 2011).
- 10.3.3 Form of Restricted Stock Unit Award (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 30, 2013).
- 10.3.4 Form of Stock Option (incorporated herein by reference to Exhibit 10.1.1 to the Company's Quarterly Report on Form 10-Q filed for the fiscal quarter ended September 27, 2015).
- 10.4.1 TESSCO Technologies Incorporated Second Amended and Restated 1994 Stock and Incentive Plan, dated as of July 24, 2008 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 29, 2008).
- 10.4.2

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-K

First Amendment to Second Amended and Restated 1994 Stock and Incentive Plan of TESSCO Technologies Incorporated (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 22, 2011).

- 10.4.3 Form of TESSCO Technologies Incorporated Performance Share Unit Agreement – Officers and Employees (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed for the fiscal quarter ended June 27, 2004).
- 10.4.4 Form of TESSCO Technologies Incorporated Performance Share Unit Agreement – Non Employee Directors (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed for the fiscal quarter ended June 27, 2004).

Table of Contents

- 10.5.1 Agreement of Lease by and between Atrium Building, LLC and TESSCO Technologies Incorporated (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed for the fiscal quarter ended September 28, 2003).
- 10.5.2 Third Amendment to Agreement of Lease by and between Atrium Building, LLC and TESSCO Technologies Incorporated (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 18, 2011).
- 10.6.1 Credit Agreement, dated June 30, 2004, by and among the Company and affiliates, and Wells Fargo Bank, National Association (as successor to Wachovia Bank, National Association), SunTrust Bank and the lenders party thereto from time to time (Term Loan) (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed for the fiscal quarter ended September 26, 2004).
- 10.6.2 Joinder, Assumption, Ratification and Modification Agreement, dated as of August 29, 2006, by and among the Company, various affiliates of the Company and Wells Fargo Bank, National Association (as successor to Wachovia Bank, National Association) and SunTrust Bank, as lenders (Term Loan) (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed for the fiscal quarter ended September 24, 2006).
- 10.6.3 Second Amendment, dated as of May 31, 2007, by and among the Company, various affiliates of the Company and Wells Fargo Bank, National Association (as successor to Wachovia Bank, National Association) and SunTrust Bank, as lenders (Term Loan) (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 6, 2007).
- 10.6.4 Joinder, Assumption and Third Amendment, dated as of May 20, 2011, by and among the Company, various affiliates of the Company and Wells Fargo Bank, National Association (as successor to Wachovia Bank, National Association) and SunTrust Bank, as lenders (Term Loan) (incorporated by reference to Exhibit 10.7.4 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 27, 2011).
- 10.6.5 Fourth Modification Agreement, dated as of October 7, 2015, by and among the Company and certain subsidiaries, as borrowers and guarantor, as applicable, Wells Fargo Bank, National Association, as lender and Administrative Agent, and SunTrust Bank, as lender and Arrangement Agent (Term Loan) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 13, 2015).
- 10.6.6 Term Note of Company and affiliates, dated June 30, 2004, payable to Wells Fargo Bank, National Association (as successor to Wachovia Bank, National Association) and SunTrust Bank (Term Loan) (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed for the fiscal quarter ended September 26, 2004).
- 10.6.7 Guaranty Agreement, dated June 30, 2004, of TESSCO Incorporated, to and for the benefit of Wells Fargo Bank, National Association (as successor to Wachovia Bank, National Association), as agent (Term Loan) (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed for the fiscal quarter ended September 26, 2004).
- 10.6.8 Credit Agreement, dated as of May 31, 2007, by and among the Company and its primary operating subsidiaries as borrowers, and SunTrust Bank and Wells Fargo Bank, National Association (as successor to Wachovia Bank, National Association), as lenders (Revolving Line of Credit Facility) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 6, 2007).
- 10.6.9 First Modification Agreement, made effective as of June 30, 2008, to Credit Agreement dated as of May 31, 2007, by and among the Company and its primary operating subsidiaries as borrowers, and SunTrust Bank and Wells Fargo Bank, National Association (as successor to Wachovia Bank, National Association), as lenders (Revolving Line of Credit Facility) (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 7, 2008).
- 10.6.10 Second Modification Agreement, made effective as of November 26, 2008, to Credit Agreement dated as of May 31, 2007, by and among the Company and its primary operating subsidiaries as borrowers, and SunTrust

Bank and Wells Fargo Bank, National Association (as successor to Wachovia Bank, National Association), as lenders (Revolving Line of Credit Facility) (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 3, 2008).

Table of Contents

- 10.6.11 Third Modification Agreement, made effective July 22, 2009, to Credit Agreement dated as of May 31, 2007, by and among the Company and its primary operating subsidiaries as borrowers, and SunTrust Bank and Wells Fargo Bank, National Association (as successor to Wachovia Bank, National Association), as lenders (Revolving Line of Credit Facility) (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed for the fiscal quarter ended June 28, 2009).
- 10.6.12 Fourth Modification Agreement, made effective April 28, 2010, to Credit Agreement dated as of May 31, 2007, by and among the Company and its primary operating subsidiaries as borrowers, and SunTrust Bank and Wells Fargo Bank, National Association (as successor to Wachovia Bank, National Association), as lenders (Revolving Line of Credit Facility) (incorporated by reference to Exhibit 10.7.7 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 28, 2010).
- 10.6.13 Joinder, Assumption, and Fifth Modification Agreement, made effective May 20, 2011, to Credit Agreement dated as of May 31, 2007, by and among the Company and its primary operating subsidiaries as borrowers, and SunTrust Bank and Wells Fargo Bank, National Association (as successor to Wachovia Bank, National Association), as lenders (Revolving Line of Credit Facility) (incorporated by reference to Exhibit 10.7.12 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 27, 2011).
- 10.6.14 Sixth Modification Agreement, made effective December 30, 2011, to Credit Agreement dated as of May 31, 2007, by an among the Company and its primary operating subsidiaries as borrowers, and SunTrust Bank and Wells Fargo Bank, National Association (as successor to Wachovia Bank, National Association), as lenders (Revolving Line of Credit Facility) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 5, 2012).
- 10.6.15 Seventh Modification Agreement, made effective November 30, 2012, to Credit Agreement dated as of May 31, 2007, by and among the Company and certain subsidiaries, as borrowers, and SunTrust and Wells Fargo Bank, National Association, as lenders (Revolving Line of Credit Facility) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 3, 2012).
- 10.6.16 Eighth Modification Agreement, made effective December 21, 2012, to Credit Agreement dated as of May 31, 2007, by and among the Company and certain subsidiaries, as borrowers, and SunTrust Bank and Wells Fargo Bank, national Association, as lenders (Revolving Line of Credit Facility) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 26, 2012).
- 10.6.17 Ninth Modification Agreement, made effective October 16, 2013, to Credit Agreement dated as of May 31, 2007, by and among the Company and certain subsidiaries, as borrowers, and SunTrust Bank and Wells Fargo Bank, National Association, as lenders (Revolving Line of Credit Facility) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 18, 2013).
- 10.6.18 Tenth Modification Agreement, made effective September 24, 2015, to Credit Agreement dated as of May 31, 2007, by and among the Company and certain subsidiaries, as borrowers, and SunTrust Bank and Wells Fargo Bank, National Association, as lenders (Revolving Line of Credit Facility) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on September 28, 2015).
- 10.6.19 Revolving Credit Note of Company and its primary operating subsidiaries, dated as of May 31, 2007, payable to SunTrust Bank and Wells Fargo Bank, National Association (as successor to Wachovia Bank, National Association), as lenders (Revolving Line of Credit Facility) (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 6, 2007).
- 10.7.1 Supplemental Executive Retirement Plan, between the Company and Robert B. Barnhill, Jr., (originally filed as Exhibit C to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (No. 33-81834)) (incorporated by reference to Exhibit 10.9.1 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 29, 2009).

10.7.2 Amendment No. 1 to Supplemental Executive Retirement Plan, dated as of December 31, 2008 (incorporated by reference to Exhibit 10.9.2 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 29, 2009).

70

---



Table of Contents

- 10.8.1 Form of Severance and Restrictive Covenant Agreement entered into between the Company and each of Douglas A. Rein and Said Tofighi (incorporated by reference to Exhibit 10.10.1 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 29, 2009).
- 10.8.2 Severance and Restrictive Covenant Agreement, dated May 27, 2014, and entered into between the Company and Aric Spitulnik (incorporated by reference to Exhibit 10.8.2 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 30, 2014).
- 10.8.3\* Form of Severance and Restrictive Covenant Agreement entered into between the Company and each of Craig A. Oldham and Steven K. Tom.
- 10.8.4 Letter Agreement, dated as of February 18, 2015, by and between the Company and Gerald T. Garland (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 20, 2015).
- 10.8.5 Letter Agreement, dated as of May 26, 2015, by and between the Company and Said Tofighi (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 26, 2015).
- 11.1.1\* Statement re: Computation of Per Share Earnings.
- 21.1.1\* Subsidiaries of the Company.
- 23.1.1\* Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
- 31.1.1\* Rule 15d-14(a) Certification of Robert B. Barnhill, Jr., Chief Executive Officer.
- 31.2.1\* Rule 15d-14(a) Certification of Aric Spitulnik, Chief Financial Officer.
- 32.1.1\* Section 1350 Certification of Robert B. Barnhill, Jr., Chief Executive Officer.
- 32.2.1\* Section 1350 Certification of Aric Spitulnik, Chief Financial Officer.
- 101.1\* The following financial information from TESSCO Technologies Incorporated's Annual Report on Form 10-K for the year ended March 27, 2016 formatted in XBRL: (i) Consolidated Statement of Income for the years ended March 27, 2016, March 29, 2015 and March 30, 2014; (ii) Consolidated Balance Sheet at March 27, 2016 and March 29, 2015; (iii) Consolidated Statement of Cash Flows for the years March 27, 2016 and March 29, 2015; and (iv) Notes to Consolidated Financial Statements.

\* Filed herewith

Table of Contents

## Schedule II: Valuation and Qualifying Accounts

For the fiscal years ended:

	2016	2015	2014
Allowance for doubtful accounts:			
Balance, beginning of period	\$ 661,900	\$ 1,080,300	\$ 1,274,700
Provision for bad debts	637,100	943,300	202,000
Write-offs and other adjustments	(457,600)	(1,361,700)	(396,400)
Balance, end of period	\$ 841,400	\$ 661,900	\$ 1,080,300

	2016	2015	2014
Inventory Reserve:			
Balance, beginning of period	\$ 5,780,600	\$ 4,086,100	\$ 3,336,700
Inventory reserve expense	3,412,000	4,303,000	2,917,200
Write-offs and other adjustments	(3,121,500)	(2,608,500)	(2,167,800)
Balance, end of period	\$ 6,071,100	\$ 5,780,600	\$ 4,086,100

Table of Contents

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.

TESSCO Technologies Incorporated  
 By: /s/ Robert B. Barnhill, Jr.  
 Robert B. Barnhill, Jr., President  
 June 6, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Robert B. Barnhill, Jr. Robert B. Barnhill, Jr.	Chairman of the Board, President and Chief Executive Officer (principal executive officer)	June 6, 2016
/s/ Aric Spitulnik Aric Spitulnik	Senior Vice President, Chief Financial Officer, and Corporate Secretary (principal financial and accounting officer)	June 6, 2016
/s/ Jay G. Baitler Jay G. Baitler	Director	June 6, 2016
/s/ John D. Beletic John D. Beletic	Director	June 6, 2016
/s/ Benn R. Konsynski Benn R. Konsynski	Director	June 6, 2016
/s/ Dennis J. Shaughnessy Dennis J. Shaughnessy	Director	June 6, 2016

/s/ Morton F. Zifferer     Director  
Morton F. Zifferer

June 6,  
2016

73

---