

BLACK BOX CORP  
Form 10-Q  
February 06, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 30, 2017

OR

☐ 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: 0-18706

Black Box Corporation

(Exact name of registrant as specified in its charter)

Delaware

95-3086563

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

1000 Park Drive, Lawrence, Pennsylvania

15055

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: 724-746-5500

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

|                                                  |                                                       |                                                                                                 |                                                    |                                                  |
|--------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------------------------------------------------|----------------------------------------------------|--------------------------------------------------|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> | Non-accelerated filer <input type="checkbox"/><br>(Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> | Emerging growth company <input type="checkbox"/> |
|--------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------------------------------------------------|----------------------------------------------------|--------------------------------------------------|

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

As of January 12, 2018, there were 15,139,490 shares of common stock, par value \$.001 (the "common stock"), outstanding.

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FOR THE QUARTER ENDED DECEMBER 30, 2017  
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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

BLACK BOX CORPORATION  
CONSOLIDATED BALANCE SHEETS

| In thousands, except par value                                                                                    | (Unaudited)       |                |
|-------------------------------------------------------------------------------------------------------------------|-------------------|----------------|
|                                                                                                                   | December 30, 2017 | March 31, 2017 |
| Assets                                                                                                            |                   |                |
| Cash and cash equivalents                                                                                         | \$ 18,380         | \$ 14,247      |
| Accounts receivable, net of allowance for doubtful accounts of \$4,087 and \$4,084                                | 124,024           | 128,544        |
| Inventories, net                                                                                                  | 30,896            | 25,382         |
| Costs/estimated earnings in excess of billings on uncompleted contracts                                           | 86,945            | 71,930         |
| Assets held for sale                                                                                              | 297               | —              |
| Other assets                                                                                                      | 32,386            | 28,544         |
| Total current assets                                                                                              | 292,928           | 268,647        |
| Property, plant and equipment, net                                                                                | 25,628            | 29,103         |
| Intangibles, net                                                                                                  | 61,483            | 68,820         |
| Deferred tax asset                                                                                                | 34,771            | 53,539         |
| Other assets                                                                                                      | 8,259             | 7,008          |
| Total assets                                                                                                      | \$ 423,069        | \$ 427,117     |
| Liabilities                                                                                                       |                   |                |
| Accounts payable                                                                                                  | \$ 74,312         | \$ 69,858      |
| Accrued compensation and benefits                                                                                 | 14,026            | 21,576         |
| Deferred revenue                                                                                                  | 27,297            | 31,624         |
| Billings in excess of costs/estimated earnings on uncompleted contracts                                           | 15,520            | 16,536         |
| Short-term debt                                                                                                   | 6,754             | 964            |
| Other liabilities                                                                                                 | 32,750            | 36,955         |
| Total current liabilities                                                                                         | 170,659           | 177,513        |
| Long-term debt                                                                                                    | 136,031           | 88,782         |
| Other liabilities                                                                                                 | 16,489            | 19,173         |
| Total liabilities                                                                                                 | \$ 323,179        | \$ 285,468     |
| Stockholders' equity                                                                                              |                   |                |
| Preferred stock authorized 5,000, par value \$1.00, none issued                                                   | \$ —              | \$ —           |
| Common stock authorized 100,000, par value \$.001, 15,139 and 14,960 shares outstanding, 26,878 and 26,654 issued | 26                | 26             |
| Additional paid-in capital                                                                                        | 509,830           | 506,449        |
| Retained earnings                                                                                                 | 15,346            | 66,246         |
| Accumulated other comprehensive income (loss)                                                                     | (9,326)           | (15,481 )      |
| Treasury stock, at cost 11,739 and 11,694 shares                                                                  | (415,986)         | (415,591 )     |
| Total stockholders' equity                                                                                        | \$ 99,890         | \$ 141,649     |
| Total liabilities and stockholders' equity                                                                        | \$ 423,069        | \$ 427,117     |

See Notes to the Consolidated Financial Statements

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BLACK BOX CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

|                                                 | Three-months ended          |          | Nine-months ended           |           |
|-------------------------------------------------|-----------------------------|----------|-----------------------------|-----------|
|                                                 | December 30 and December 31 |          | December 30 and December 31 |           |
| In thousands, except per share amounts          | 2017                        | 2016     | 2017                        | 2016      |
| Revenues                                        |                             |          |                             |           |
| Products                                        | \$34,393                    | \$36,109 | \$104,529                   | \$118,253 |
| Services                                        | 160,480                     | 174,261  | 476,152                     | 529,346   |
| Total                                           | 194,873                     | 210,370  | 580,681                     | 647,599   |
| Cost of sales *                                 |                             |          |                             |           |
| Products                                        | 21,091                      | 20,133   | 61,284                      | 70,279    |
| Services                                        | 121,103                     | 127,794  | 357,622                     | 392,780   |
| Total                                           | 142,194                     | 147,927  | 418,906                     | 463,059   |
| Gross profit                                    | 52,679                      | 62,443   | 161,775                     | 184,540   |
| Selling, general & administrative expenses      | 58,963                      | 57,383   | 182,563                     | 178,007   |
| Asset impairment loss                           | —                           | —        | 1,426                       | 536       |
| Intangibles amortization                        | 1,604                       | 2,298    | 5,943                       | 7,053     |
| Operating income (loss)                         | (7,888)                     | 2,762    | (28,157)                    | (1,056)   |
| Interest expense, net                           | 1,737                       | 1,055    | 4,756                       | 3,312     |
| Other expenses (income), net                    | 169                         | 63       | 92                          | (239)     |
| Income (loss) before provision for income taxes | (9,794)                     | 1,644    | (33,005)                    | (4,129)   |
| Provision (benefit) for income taxes            | 18,144                      | 324      | 16,080                      | 1,132     |
| Net income (loss)                               | \$(27,938)                  | \$1,320  | \$(49,085)                  | \$(5,261) |
| Earnings (loss) per common share                |                             |          |                             |           |
| Basic                                           | \$(1.85)                    | \$0.09   | \$(3.26)                    | \$(0.35)  |
| Diluted                                         | \$(1.85)                    | \$0.09   | \$(3.26)                    | \$(0.35)  |
| Weighted-average common shares outstanding      |                             |          |                             |           |
| Basic                                           | 15,138                      | 15,149   | 15,069                      | 15,095    |
| Diluted                                         | 15,138                      | 15,277   | 15,069                      | 15,095    |
| Dividends declared per share                    | \$—                         | \$0.12   | \$0.12                      | \$0.36    |

\* Exclusive of depreciation and intangibles amortization.

See Notes to the Consolidated Financial Statements

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BLACK BOX CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(Unaudited)

|                                                                                                      | Three-months<br>ended<br>December 30 and<br>December 31 |           | Nine-months ended<br>December 30 and<br>December 31 |            |
|------------------------------------------------------------------------------------------------------|---------------------------------------------------------|-----------|-----------------------------------------------------|------------|
| In thousands                                                                                         | 2017                                                    | 2016      | 2017                                                | 2016       |
| Net income (loss)                                                                                    | \$(27,938)                                              | \$1,320   | \$(49,085)                                          | \$(5,261 ) |
| Other comprehensive income (loss)                                                                    |                                                         |           |                                                     |            |
| Foreign Currency Translation Adjustment                                                              | 562                                                     | (4,444 )  | 5,734                                               | (6,247 )   |
| Defined Benefit Pension                                                                              |                                                         |           |                                                     |            |
| Actuarial gain (loss), net of taxes of \$41, \$66, \$136, and \$205                                  | 64                                                      | 104       | 213                                                 | 320        |
| Amounts reclassified into results of operations, net of taxes of \$12, (\$3), \$35, and (\$210)      | 19                                                      | (5 )      | 56                                                  | (329 )     |
| Derivative Instruments                                                                               |                                                         |           |                                                     |            |
| Net change in fair value of cash flow hedges, net of taxes of (\$263), (\$173), (\$830), and (\$456) | (411 )                                                  | (270 )    | (1,298 )                                            | (713 )     |
| Amounts reclassified into results of operations, net of taxes of \$210, \$75, \$927, and \$405       | 329                                                     | 118       | 1,450                                               | 634        |
| Other comprehensive income (loss)                                                                    | \$563                                                   | \$(4,497) | \$6,155                                             | \$(6,335 ) |
| Comprehensive income (loss)                                                                          | \$(27,375)                                              | \$(3,177) | \$(42,930)                                          | \$(11,596) |

See Notes to the Consolidated Financial Statements

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BLACK BOX CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

|                                                                                                    | Nine-months ended<br>December 30 and<br>December 31 |            |
|----------------------------------------------------------------------------------------------------|-----------------------------------------------------|------------|
| In thousands                                                                                       | 2017                                                | 2016       |
| Operating Activities                                                                               |                                                     |            |
| Net income (loss)                                                                                  | \$(49,085)                                          | \$(5,261 ) |
| Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities |                                                     |            |
| Intangibles amortization                                                                           | 5,943                                               | 7,053      |
| Depreciation                                                                                       | 7,242                                               | 7,072      |
| Loss (gain) on sale of property                                                                    | 7                                                   | (893 )     |
| Deferred taxes                                                                                     | 15,841                                              | 3,984      |
| Stock compensation expense                                                                         | 3,380                                               | 3,877      |
| Asset impairment loss                                                                              | 1,426                                               | 536        |
| Provision for obsolete inventory                                                                   | 745                                                 | 10,158     |
| Provision for (recovery of) doubtful accounts                                                      | 601                                                 | 921        |
| Changes in operating assets and liabilities (net of acquisitions)                                  |                                                     |            |
| Accounts receivable                                                                                | 5,821                                               | 3,125      |
| Inventories                                                                                        | (4,392 )                                            | 6,172      |
| Costs/estimated earnings in excess of billings on uncompleted contracts                            | (14,701 )                                           | (8,953 )   |
| All other assets                                                                                   | 830                                                 | (2,105 )   |
| Accounts payable                                                                                   | 4,021                                               | 2,378      |
| Billings in excess of costs/estimated earnings on uncompleted contracts                            | (1,052 )                                            | (2,157 )   |
| All other liabilities                                                                              | (19,759 )                                           | (1,173 )   |
| Net cash provided by (used for) operating activities                                               | \$(43,132)                                          | \$24,734   |
| Investing Activities                                                                               |                                                     |            |
| Capital expenditures                                                                               | (3,618 )                                            | (6,141 )   |
| Capital disposals                                                                                  | 73                                                  | 3,627      |
| Net cash provided by (used for) investing activities                                               | \$(3,545 )                                          | \$(2,514 ) |
| Financing Activities                                                                               |                                                     |            |
| Proceeds (repayments) from long-term debt                                                          | \$46,882                                            | \$(25,642) |
| Proceeds (repayments) from short-term debt                                                         | 7,121                                               | 363        |
| Deferred financing costs                                                                           | (632 )                                              | (1,049 )   |
| Purchase of treasury stock                                                                         | (395 )                                              | (477 )     |
| Payment of dividends                                                                               | (3,611 )                                            | (5,290 )   |
| Increase (decrease) in cash overdrafts                                                             | (691 )                                              | 351        |
| Net cash provided by (used for) financing activities                                               | 48,674                                              | (31,744 )  |
| Foreign currency exchange impact on cash                                                           | \$2,136                                             | \$(165 )   |
| Increase/(decrease) in cash and cash equivalents                                                   | \$4,133                                             | \$(9,689 ) |
| Cash and cash equivalents at beginning of period                                                   | \$14,247                                            | \$23,497   |
| Cash and cash equivalents at end of period                                                         | \$18,380                                            | \$13,808   |
| Supplemental cash flow                                                                             |                                                     |            |
| Cash paid for interest                                                                             | \$3,985                                             | \$2,915    |
| Cash paid for income taxes                                                                         | 1,389                                               | (209 )     |
| Non-cash financing activities                                                                      |                                                     |            |
| Dividends payable                                                                                  | —                                                   | 1,818      |
| Capital leases                                                                                     | 310                                                 | 238        |

See Notes to the Consolidated Financial Statements

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BLACK BOX CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Note 1: Business and Basis of Presentation

Business

Black Box Corporation ("Black Box," or "the Company") is a leading digital solutions provider dedicated to helping customers design, build, manage, and secure their IT infrastructure. The Company offers Services and Products that it distributes through two platforms it has built over its 41-year history. The Services platform is comprised of engineering and design, network operations centers, technical certifications, national and international sales teams, remote monitoring, on-site service teams and technology partner centers of excellence which includes dedicated sales and engineering resources. The primary services offered through this platform include: (i) communications lifecycle services, (ii) unified communications, (iii) structured cabling, (iv) video/AV services (v) in-building wireless and (vi) data center services. The Products platform provides networking solutions through the sale of products including: (i) IT infrastructure, (ii) specialty networking, (iii) multimedia and (iv) keyboard/video/mouse ("KVM") switching. Founded in 1976, Black Box, a Delaware corporation, is headquartered near Pittsburgh in Lawrence, Pennsylvania.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements of Black Box have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The Company believes that these consolidated financial statements reflect all normal, recurring adjustments needed to present fairly the Company's results for the interim periods presented. The results as of and for interim periods presented may not be indicative of the results of operations for any other interim period or for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's most recent Annual Report on Form 10-K as filed with the Securities and Exchange Commission ("SEC") for the fiscal year ended March 31, 2017 (the "Form 10-K"). The Company's fiscal year ends on March 31. The fiscal quarters consist of 13 weeks and end on the Saturday generally nearest each calendar quarter end, adjusted to provide relatively equivalent business days for each fiscal quarter. The actual ending dates for the periods presented in these Notes to the Consolidated Financial Statements as of December 31, 2017 and 2016 were December 30, 2017 and December 31, 2016, respectively. References herein to "Fiscal Year" or "Fiscal" mean the Company's fiscal year ended March 31 for the year referenced. All references to dollar amounts herein are presented in thousands, except per share amounts, unless otherwise noted.

The consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain items in the consolidated financial statements of prior years have been reclassified to conform to the current year's presentation. These reclassifications had no effect on reported net income (loss), comprehensive income (loss), cash flows, total assets or total stockholders' equity.

The preparation of financial statements in conformity with GAAP requires Company management ("Management") to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates in these financial statements include project progress towards completion to estimated budget, allowances for doubtful accounts receivable, sales returns, net realizable value of inventories, loss contingencies, warranty reserves, property, plant and equipment, intangible assets and goodwill. Actual results could differ from those estimates. Management believes the estimates made are reasonable.

In the second quarter of Fiscal 2018, Management completed a plan to sell the Company's current headquarters' building and adjacent vacant land and move to another local facility that better aligns to the needs of the business. At that time, Management believed it was probable that the sale of the building and land would occur in the next twelve months. As of the third quarter of Fiscal 2018, Management believes that only the sale of certain parcels of the adjacent vacant land is probable to occur in the next twelve months. These assets, all of which are Property, plant and

equipment, are presented as "Assets held for sale" on the Consolidated Balance Sheet. These assets are reported under the North America Products operating segment.

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## Note 2: Significant Accounting Policies

## Significant Accounting Policies

The significant accounting policies used in the preparation of the Company's consolidated financial statements are disclosed in Note 2 of the Notes to the Consolidated Financial Statements within the Form 10-K. No additional significant accounting policies have been adopted during Fiscal 2018.

## Recent Accounting Pronouncements

There have been no accounting pronouncements adopted during Fiscal 2018 that have had a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers", with subsequent amendments, that outline a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance (collectively hereafter referred to as the "standard"). The core principle of the standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expected to be entitled in exchange for those goods or services. The standard is effective for annual reporting periods (including interim periods therein) beginning after December 15, 2017 for public companies with early adoption permitted for annual reporting periods (including interim periods therein) beginning after December 15, 2016. Entities can use either of two methods: (i) retrospective to each prior period presented with the option to elect certain practical expedients as defined within the standard; or (ii) retrospective with the cumulative effect of initially applying the standard recognized at the date of initial application and providing certain additional disclosures as defined in the standard.

Given the scope of work required to implement the recognition and disclosure requirements under the new standard, the Company has continued to make progress through the third quarter of Fiscal 2018. Black Box will adopt the standard under the modified retrospective transition approach, which will result in a cumulative adjustment to retained earnings at the date of initial application in the first quarter Fiscal 2019. The Company has established an implementation team that has and will continue to review 1) contract terms and existing accounting policies to determine the financial impact of the standard, 2) data availability and system reports to meet the additional disclosure requirements of the standard, and 3) the control environment and internal processes to ensure the appropriate controls are in place. As we continue to assess all potential impacts of the standard, any preliminary conclusions are subject to change.

## Note 3: Inventories

The Company's Inventories consist of the following:

|                                        | December 31,<br>2017 | March 31,<br>2017 |
|----------------------------------------|----------------------|-------------------|
| Raw materials                          | \$ 1,900             | \$ 1,708          |
| Finished goods                         | 39,368               | 35,036            |
| Inventory, gross                       | \$ 41,268            | \$ 36,744         |
| Excess and obsolete inventory reserves | (10,372)             | (11,362)          |
| Inventories, net                       | \$ 30,896            | \$ 25,382         |

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## Note 4: Intangible Assets

The following table summarizes the gross carrying amount, accumulated amortization and net carrying amount by intangible asset class:

|                        | December 31, 2017     |               |                     | March 31, 2017        |               |                     |
|------------------------|-----------------------|---------------|---------------------|-----------------------|---------------|---------------------|
|                        | Gross Carrying Amount | Accum. Amort. | Net Carrying Amount | Gross Carrying Amount | Accum. Amort. | Net Carrying Amount |
| Definite-lived         |                       |               |                     |                       |               |                     |
| Non-compete agreements | \$853                 | \$853         | \$—                 | \$833                 | \$833         | \$—                 |
| Customer relationships | 122,412               | 86,700        | 35,712              | 122,301               | 80,678        | 41,623              |
| Total                  | \$123,265             | \$87,553      | \$35,712            | \$123,134             | \$81,511      | \$41,623            |
| Indefinite-lived       |                       |               |                     |                       |               |                     |
| Trademarks             | 34,024                | 8,253         | 25,771              | 35,450                | 8,253         | 27,197              |
| Total                  | \$157,289             | \$95,806      | \$61,483            | \$158,584             | \$89,764      | \$68,820            |

The Company's indefinite-lived intangible assets consist solely of the Company's trademark portfolio. The Company's definite-lived intangible assets now consist solely of customer relationships. Historically, the Company's annual assessment of the recoverability of trademarks and long-lived assets is conducted as of the end of the second quarter of its fiscal year. However, based on the fact that we conducted an interim assessment of both our definite-lived and indefinite lived intangible assets in the second quarter of Fiscal 2018, and in order to take into account a contemporary outlook for the Company's business units that are being developed in connection with Fiscal 2019 planning, it is expected that our annual assessment for these assets will be completed during the fourth quarter of Fiscal 2018.

The following table summarizes the changes to the net carrying amounts by intangible asset class:

|                                         | Trademarks | Customer relationships | Total    |
|-----------------------------------------|------------|------------------------|----------|
| March 31, 2017                          | \$ 27,197  | \$ 41,623              | \$68,820 |
| Intangibles amortization                | —          | (5,943)                | (5,943)  |
| Foreign currency translation adjustment | —          | 32                     | 32       |
| Intangible asset impairment loss        | (1,426)    | —                      | (1,426)  |
| December 31, 2017                       | \$ 25,771  | \$ 35,712              | \$61,483 |

The following table details the estimated intangibles amortization expense for the remainder of Fiscal 2018, each of the succeeding four fiscal years and the periods thereafter.

|            |          |
|------------|----------|
| Fiscal     |          |
| 2018       | \$1,498  |
| 2019       | 5,616    |
| 2020       | 5,119    |
| 2021       | 4,659    |
| 2022       | 3,058    |
| Thereafter | 15,762   |
| Total      | \$35,712 |

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## Note 5: Indebtedness

The Company's Long-term debt consists of the following:

|                                           | December 31,<br>2017 | March 31,<br>2017 |
|-------------------------------------------|----------------------|-------------------|
| Revolving credit agreement <sup>(1)</sup> | \$ 93,000            | \$ 88,400         |
| Term loan <sup>(1)</sup>                  | 48,750               | —                 |
| Other                                     | 1,035                | 1,346             |
| Total debt                                | \$ 142,785           | \$ 89,746         |
| Less: current portion <sup>(2)</sup>      | (6,754)              | (964)             |
| Long-term debt                            | \$ 136,031           | \$ 88,782         |

(1) Refer below for additional details regarding the Company's amended credit agreement which includes a revolving credit agreement and a term loan.

(2) The Company's current portion of total debt primarily consists of minimum repayments of the term loan that are due in the next 12 months, which was \$6,250 as of December 31, 2017.

In addition, the Company finances certain vendor-specific inventory under an unsecured revolving arrangement through third parties which provide extended payment terms beyond those offered by the vendor at no incremental cost to the Company. The outstanding balance for these unsecured revolving arrangements was \$4,758 as of December 31, 2017, \$4,540 of which is classified as a current liability, and \$3,387 as of March 31, 2017, \$3,169 of which was classified as a current liability. These balances are recorded as Other liabilities within the Company's Consolidated Balance Sheets.

On May 9, 2016, the Company refinanced its then existing \$200,000 credit facility in the form of a line of credit pursuant to a new credit agreement (the "Credit Agreement") with PNC Bank, National Association, as administrative agent, Bank of America, N.A., as syndication agent, and certain other lender parties (the "Banks"). The Credit Agreement expires on May 9, 2021. Borrowings under the Credit Agreement were permitted up to a maximum amount of \$200,000, and included up to \$15,000 of swing-line loans and \$25,000 of letters of credit. Interest on outstanding indebtedness under the Credit Agreement accrued, at the Company's option, at a rate based on either: (a) a Base Rate Option equal to the highest of (i) the federal funds open rate, plus fifty (50) basis points (0.5%), (ii) the bank's prime rate, and (iii) the daily LIBOR rate, plus 100 basis points (1.0%), in each case plus 0% to 1.00% (determined by a leverage ratio based on the Company's consolidated EBITDA) or (b) a rate per annum equal to the LIBOR rate plus 1.00% to 2.00% (determined by a leverage ratio based on the Company's consolidated EBITDA). The Credit Agreement required the Company to maintain compliance with certain non-financial and financial covenants such as leverage and interest coverage ratios.

The Company's obligations under the Credit Agreement were secured by substantially all of the assets of the Company's material direct and indirect subsidiaries that are incorporated (or organized) under the laws of the District of Columbia or under the laws of any state or commonwealth of the United States and are guaranteed by such domestic subsidiaries.

On August 9, 2017, the Company and certain of the Banks entered into an Amendment and Joinder Agreement to amend and restate the Credit Agreement (as amended and restated, the "Amended Credit Agreement") in order to avoid a default of its leverage covenant. Under the Amended Credit Agreement, the credit facility has been reduced to \$170,000 comprised of a \$50,000 term loan and \$120,000 line of credit. As of August 9, 2017, \$50,000 was borrowed under the term loan and \$52,528 remained outstanding under the line of credit. The amortization of the term loan is \$1,250 per quarter for four (4) quarters beginning in the quarter ending December 31, 2017 and \$2,500 per quarter beginning in the quarter ending December 31, 2018 through the end of the Amended Credit Agreement on May 9, 2021, the same expiration date of the Credit Agreement. Mandatory prepayments of the term loan are required with the net proceeds from certain asset sales, insurance recoveries and debt or equity issuances, as well as from 75% to 50% of any excess cash flow generated in Fiscal 2019 and Fiscal 2020. Interest on the term loan is, at the Company's option: (i) a Base Rate Option equal to the highest of (x) the federal funds open rate, plus fifty (50) basis points (0.5%), (y) the bank's prime rate, and (z) the daily LIBOR rate, plus 100 basis points (1.0%), in each case plus 2.5% or (ii) LIBOR plus 3.5%. Interest on outstanding indebtedness under the line of credit accrues, at the Company's option,

at a rate based on either: (a) the Base Rate Option plus 0.25% to 2.00% (determined by a leverage ratio based on the Company's consolidated EBITDA) or (b) a rate per annum equal to the LIBOR rate plus 1.25% to 3.00% (determined by a leverage ratio based on the Company's consolidated EBITDA).

Under the Amended Credit Agreement, the leverage ratio covenant is suspended until the second quarter of Fiscal 2019. The Amended Credit Agreement contains a minimum Adjusted EBITDA covenant and a provision requiring the Company to repay revolving credit loans with any excess cash. During that same period, a covenant will limit capital expenditures to an agreed upon

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amount. The ability of the Company to make dividends or other distributions (including stock repurchases other than up to a limited dollar amount for tax payments from vested equity awards) has been eliminated.

The leverage ratio covenant that starts in the second quarter of Fiscal 2019 will be 4.00 to 1.00 and will reduce to 3.00 to 1.00 over the remaining life of the credit facility. A fixed charge coverage ratio of 1.00 to 1.00 begins in the second quarter of Fiscal 2019 increasing to 1.10 to 1.00 in the fourth quarter of Fiscal 2019 and thereafter.

The Company's obligations under the Amended Credit Agreement are secured by substantially all of the assets of the Company and the Company's direct and indirect subsidiaries that are incorporated (or organized) under the laws of the District of Columbia or under the laws of any state or commonwealth of the United States (a "U.S. Entity") and are guaranteed by such domestic subsidiaries. Under the Amended Credit Agreement, the Company and each U.S. Entity pledged 65% of the voting ownership interests and 100% of the non-voting ownership interests of its foreign subsidiaries.

Our Amended Credit Agreement contains covenants requiring us to achieve a certain minimum adjusted EBITDA during each quarter through the first quarter of Fiscal 2019. A leverage ratio and a fixed charge coverage ratio commence in the second quarter of Fiscal 2019 through maturity in May 2021. The covenants in our Amended Credit Agreement were determined based upon our then expectations of revenues and profitability. If we fail to achieve our expected revenues and profitability, we could fail to maintain compliance with the covenants in our Amended Credit Agreement. There can be no assurance that we will be able to remain in compliance with these or other covenants in our Amended Credit Agreement. Refer to the Liquidity and Capital Resources section of the Management's Discussion and Analysis of Financial Condition and Results of Operations for further information.

The maximum amount of debt outstanding under the Amended Credit Agreement, the weighted-average balance outstanding under the Amended Credit Agreement and the weighted-average interest rate on all outstanding debt for the three-months ended December 31, 2017 was \$149,750, \$140,462 and 4.5%, respectively, compared to \$141,300, \$124,304 and 2.7%, respectively, for the three-months ended December 31, 2016. The maximum amount of debt outstanding under the Amended Credit Agreement, the weighted-average balance outstanding under the Amended Credit Agreement and the weighted-average interest rate on all outstanding debt for the nine-months ended December 31, 2017 was \$171,237, \$138,186 and 3.7%, respectively, compared to \$150,075, \$129,884 and 2.6%, respectively, for the nine-months ended December 31, 2016.

As of December 31, 2017, the Company had \$4,850 outstanding in letters of credit and \$22,150 in unused commitments, which are limited by a financial covenant, under the Amended Credit Agreement.

### Note 6: Derivative Instruments and Hedging Activities

The Company is exposed to certain market risks, including the effect of changes in foreign currency exchange rates and interest rates. The Company uses derivative instruments to manage financial exposures that occur in the normal course of business. It does not hold or issue derivatives for speculative trading purposes. The Company is exposed to non-performance risk from the counterparties in its derivative instruments. This risk would be limited to any unrealized gains on current positions. To help mitigate this risk, the Company transacts only with counterparties that are rated as investment grade or higher and all counterparties are monitored on a continuous basis. The fair value of the Company's derivatives reflects this credit risk.

The Company enters into foreign currency contracts to hedge exposure to variability in expected fluctuations in foreign currencies. All of the foreign currency contracts have been designated and qualify as cash flow hedges. The effective portion of any changes in the fair value of the derivative instruments is recorded in Accumulated Other Comprehensive Income ("AOCI") until the hedged forecasted transaction occurs or the recognized currency transaction affects earnings. Once the forecasted transaction occurs or the recognized currency transaction affects earnings, the effective portion of any related gains or losses on the cash flow hedge is reclassified from AOCI to the Company's Consolidated Statements of Operations.

As of December 31, 2017, the Company had open contracts in Australian and Canadian dollars, Danish krone, Euros, Mexican pesos, Norwegian kroner, British pounds sterling, Swedish krona, Swiss francs and Japanese yen, all of which have been designated as cash flow hedges. These contracts had a notional amount of \$33,354 and will expire within 3 months. There was no hedge ineffectiveness during Fiscal 2018 or Fiscal 2017.

The following tables summarize the carrying amounts of derivative assets/liabilities and the impact on the Company's Consolidated Statements of Operations:

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## Note 7: Fair Value Disclosures

## Recurring fair value measurements

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2017, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

|                                                    | Level 1   | Level 2   | Level 3 | Total     |
|----------------------------------------------------|-----------|-----------|---------|-----------|
| Assets at Fair Value                               |           |           |         |           |
| Defined benefit pension plan assets <sup>(1)</sup> | \$ 22,261 | \$ 11,667 | \$ —    | \$ 33,928 |
| Foreign currency contracts                         | \$ —      | \$ 395    | \$ —    | \$ 395    |
| Total Assets at Fair Value                         | \$ 22,261 | \$ 12,062 | \$ —    | \$ 34,323 |
| Liabilities at Fair Value                          |           |           |         |           |
| Foreign currency contracts                         | \$ —      | \$ 119    | \$ —    | \$ 119    |

(1) The fair value of pension plan assets is measured annually, thus this value is as of March 31, 2017.

## Non-recurring fair value measurements

The Company's assets and liabilities that are measured at fair value on a non-recurring basis include non-financial assets and liabilities initially measured at fair value in a business combination.

## Note 8: Stockholder's Equity

## Accumulated Other Comprehensive Income

The components of AOCI consisted of the following for the periods presented:

|                                         | December 31, March 31, |              |
|-----------------------------------------|------------------------|--------------|
|                                         | 2017                   | 2017         |
| Foreign Currency Translation Adjustment | \$ 1,891               | \$ (3,843 )  |
| Derivative Instruments                  | (196 )                 | (348 )       |
| Defined Benefit Pension                 | (11,021 )              | (11,290 )    |
| Accumulated other comprehensive income  | \$ (9,326 )            | \$ (15,481 ) |

## Common Stock Repurchases

The following table presents information about the Company's common stock repurchases:

|                                  | Three-months ended |      | Nine-months ended |          |
|----------------------------------|--------------------|------|-------------------|----------|
|                                  | December 31        |      | December 31       |          |
|                                  | 2017               | 2016 | 2017              | 2016     |
| Shares of common stock purchased | 551                | —    | 45,058            | 89,735   |
| Aggregate purchase price         | \$ 2               | \$ — | \$ 395            | \$ 477   |
| Average purchase price           | \$ 3.60            | \$ — | \$ 8.77           | \$ 12.01 |

During the nine-months ended December 31, 2017, the Company made tax payments of \$395 and withheld 45,058 shares of common stock, which were designated as treasury shares, at an average price per share of \$8.77, in order to satisfy employee income taxes due as a result of the vesting of certain restricted stock units. During the nine-months ended December 31, 2016, the Company made tax payments of \$477 and withheld 39,735 shares of common stock, which were designated as treasury shares, at an average price per share of \$12.01, in order to satisfy employee income taxes due as a result of the vesting of certain restricted stock units.

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Since the inception of its repurchase programs beginning in April 1999 and through December 31, 2017, the Company has repurchased 11,392,851 shares of common stock for an aggregate purchase price of \$408,621, or an average purchase price per share of \$35.87. These shares do not include the treasury shares withheld for tax payments due upon the vesting of certain restricted stock units and performance shares. As of December 31, 2017, 1,107,149 shares were available under the most recent repurchase programs.

Under the Amended Credit Agreement, the Company is no longer permitted to repurchase common stock through its repurchase program but is allowed to repurchase a limited amount of shares for tax payments related to the vesting of certain restricted stock units and performance shares, as applicable. This restriction is in effect until May 9, 2021, the termination date of the Amended Credit Agreement. The Company expects to use the funds that were previously available for stock repurchases to supplement spending for our previously announced U.S.-based ERP project and to develop and implement growth initiatives for the Company, both of which we believe will create long-term shareholder value. See Note 5 for additional information regarding our Amended Credit Agreement.

### Note 9: Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act was enacted, which among numerous provisions reduced the federal statutory corporate tax rate from 35% to 21%. Based on the provisions of the Tax Reform, the Company re-measured its deferred tax assets and liabilities and adjusted its estimated annual effective income tax rate to incorporate the lower federal corporate tax rate into the tax provision for the current quarter ended December 31, 2017.

During the quarter ended December 31, 2017, the Company applied the newly enacted corporate federal income tax rate, resulting in a reduction of \$891 of the income tax benefit, which is reflected in the Company's consolidated statements of income. The revaluation of deferred tax assets and liabilities at the lower enacted corporate tax rate resulted in a tax expense of \$13,504. The change represents a discrete item for purposes of income tax accounting. Pursuant to SEC Staff Accounting Bulletin 118 (regarding the application of ASC 740 associated with the enactment of the Tax Reform), the Company continues to evaluate the impact of various domestic and international provisions of the Tax Reform as well as the impact of additional guidance that may be provided. The final impact of the Tax Reform may differ due to changes in interpretations, assumptions made by the Company, and the issuance of additional guidance.

The Company's provision for income taxes for the three-months ended December 31, 2017 was \$18,144, an effective tax rate of (185.3)% on a loss before provision for income taxes of \$9,794, compared to a provision for income taxes of \$324, an effective tax rate of 19.7% on income before provision for income taxes of \$1,644 for the three-months ended December 31, 2016. The increase in the provision was primarily due to the impact of the Tax Cuts and Jobs Act ("Tax Reform") and valuation allowances booked against U.S. foreign tax credit carry-forwards. The Company's provision for income taxes for the nine-months ended December 31, 2017 was \$16,080, an effective tax rate of (48.7)% on a loss before provision for income taxes of \$33,005, compared to a provision for income taxes of \$1,132, an effective tax rate of (27.4)% on a loss before provision for income taxes of \$4,129 for the nine-months ended December 31, 2016. The increase in the provision was primarily due to the impact of the Tax Reform, valuation allowances booked against foreign tax credit carry-forwards, and certain state and foreign net operating loss carry-forwards. The effective tax rate for the nine-months ended December 31, 2017 of (48.7)% differs from the federal statutory rate primarily due to impact of the Tax Reform, reduction of deferred tax assets associated with equity awards, the mix of income across various taxing jurisdictions, and valuation allowances booked.

The Company provides for income taxes at the end of each interim period based on the estimated effective tax rate adjusted for certain discrete items for the full fiscal year. Cumulative adjustments to the Company's estimate are recorded in the interim period in which a change in the estimated annual effective rate is determined.

Fiscal 2013 through Fiscal 2017 remain open to examination by the Internal Revenue Service and Fiscal 2011 through Fiscal 2017 remain open to examination by certain state and foreign taxing jurisdictions.

A valuation allowance is provided on deferred tax assets if determined that it is more likely than not that the asset will not be realized. The Company considers all available evidence, both positive and negative, in assessing the need for a valuation allowance in each taxing jurisdiction. The evidence considered in evaluating deferred tax assets includes but is not limited to cumulative financial income over the three-year period ended December 31, 2017, excluding significant one-time charges for impairment (goodwill and other), the composition and reversal patterns of existing taxable and deductible temporary differences between financial reporting and tax, and subjective projected future income.

Based on the available evidence, a valuation allowance of \$6,236 has been recorded against deferred tax assets relating to U.S. Federal foreign tax credits for \$6,061, and state and foreign net operating losses for \$17 and \$158, respectively, for the three-

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months ended December 31, 2017. Future positive and negative events, such as the significant underperformance relative to projected or future operating results, will be monitored accordingly and a determination will be made on the ability to realize deferred tax assets at that time.

**Note 10: Stock-based Compensation**

In August 2008, the Company's stockholders approved the 2008 Long-Term Incentive Plan, as amended (the "Incentive Plan"), which replaced the 1992 Stock Option Plan, as amended, and the 1992 Director Stock Option Plan, as amended. As of December 31, 2017, the Incentive Plan is authorized to issue stock options, restricted stock units and performance shares, among other types of awards, for up to 6,498,331 shares of common stock, par value \$0.001 per share (the "common stock").

The Company recognized stock-based compensation expense of \$142 and \$705 for the three-months ended December 31, 2017 and 2016, respectively, and \$3,380 and \$3,877 for the nine-months ended December 31, 2017 and 2016, respectively. The Company recognized total income tax benefit for stock-based compensation arrangements of \$53 and \$262 for the three-months ended December 31, 2017 and 2016, respectively, and \$1,257 and \$1,442 for the nine-months ended December 31, 2017 and 2016, respectively. Stock-based compensation expense is recorded in Selling, general & administrative expenses within the Company's Consolidated Statements of Operations.

**Stock options**

Stock option awards are granted with an exercise price equal to the closing market price of the common stock on the date of grant; such stock options generally become exercisable in equal amounts over a three-year period and have a contractual life of ten years from the grant date. The fair value of stock options is estimated on the grant date using the Black-Scholes option pricing model, which includes the following weighted-average assumptions.

|                          | Nine-months<br>ended<br>December 31 |        |
|--------------------------|-------------------------------------|--------|
|                          | 2017                                | 2016   |
| Expected life (in years) | 6.1                                 | 6.8    |
| Risk-free interest rate  | 2.1 %                               | 1.6 %  |
| Annual forfeiture rate   | 2.8 %                               | 1.8 %  |
| Expected volatility      | 45.6 %                              | 41.7 % |
| Dividend yield           | 3.7 %                               | 3.1 %  |

The following table summarizes the Company's stock option activity:

|                           | Shares (in<br>000's) | Weighted-Average<br>Exercise Price | Weighted-Average Remaining Contractual Life<br>(Years) | Intrinsic<br>Value<br>(000's) |
|---------------------------|----------------------|------------------------------------|--------------------------------------------------------|-------------------------------|
| March 31, 2017            | 1,080                | \$ 21.84                           |                                                        |                               |
| Granted                   | 634                  | 7.91                               |                                                        |                               |
| Exercised                 | —                    | —                                  |                                                        |                               |
| Forfeited or<br>cancelled | (519)                | 12.16                              |                                                        |                               |
| December 31, 2017         | 1,195                | \$ 18.65                           | 5.1                                                    | \$ 8                          |
| Exercisable               | 720                  | \$ 25.06                           | 2.4                                                    | \$ —                          |

The weighted-average grant-date fair value of options granted during the nine-months ended December 31, 2017 and 2016 was \$2.48 and \$3.74, respectively. The intrinsic value of options exercised during the nine-months ended December 31, 2017 and 2016 was \$8 and \$0, respectively. The aggregate intrinsic value in the preceding table is based on the closing stock price of the common stock on December 29, 2017, which was \$3.55.

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The following table summarizes certain information regarding the Company's non-vested stock options:

|                   | Shares (in 000's) | Weighted-Average<br>Grant-Date Fair<br>Value |
|-------------------|-------------------|----------------------------------------------|
| March 31, 2017    | 419               | \$ 4.45                                      |
| Granted           | 634               | 2.48                                         |
| Vested            | (159)             | )4.99                                        |
| Forfeited         | (418)             | )3.05                                        |
| December 31, 2017 | 476               | \$ 2.87                                      |

As of December 31, 2017, there was \$950 of total unrecognized pre-tax stock-based compensation expense related to non-vested stock options, which is expected to be recognized over a weighted-average period of 2.1 years.

#### Restricted stock units

Restricted stock unit awards are subject to a service condition and typically vest in equal amounts over a three-year period from the grant date. The fair value of restricted stock units is determined based on the number of restricted stock units granted and the closing market price of the common stock on the date of grant.

The following table summarizes the Company's restricted stock unit activity:

|                   | Shares (in 000's) | Weighted-Average<br>Grant-Date Fair<br>Value |
|-------------------|-------------------|----------------------------------------------|
| March 31, 2017    | 340               | \$ 14.24                                     |
| Granted           | 430               | 7.92                                         |
| Vested            | (225)             | )12.40                                       |
| Forfeited         | (132)             | )10.97                                       |
| December 31, 2017 | 413               | \$ 9.71                                      |

The total fair value of shares that vested during the nine-months ended December 31, 2017 and 2016 was \$1,902 and \$2,039, respectively.

As of December 31, 2017, there was \$2,480 of total unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock units, which is expected to be recognized over a weighted-average period of 2.0 years.

#### Performance share awards

Performance share awards are subject to one of the performance goals - the Company's Relative Total Shareholder Return ("TSR") Ranking or cumulative Adjusted EBITDA - each over a three-year period. The Company's Relative TSR Ranking metric is based on the three-year cumulative return to stockholders from the change in stock price and dividends paid between the starting and ending dates. The fair value of performance share awards (subject to cumulative Adjusted EBITDA) is determined based on the number of performance shares granted and the closing market price of the common stock on the date of grant. The fair value of performance share awards (subject to the Company's Relative TSR Ranking) is estimated on the grant date using the Monte-Carlo simulation valuation method which includes the following weighted-average assumptions.

|                         | Nine-months<br>ended<br>December 31<br>2017 2016 |       |   |
|-------------------------|--------------------------------------------------|-------|---|
| Risk-free interest rate | 1.4                                              | %0.9  | % |
| Expected volatility     | 46.7                                             | %45.1 | % |
| Dividend yield          | 3.9                                              | %3.4  | % |

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The following table summarizes the Company's performance share award activity:

|                   | Shares (in 000's) | Weighted-Average<br>Grant-Date Fair<br>Value |
|-------------------|-------------------|----------------------------------------------|
| March 31, 2017    | 319               | \$ 15.93                                     |
| Granted           | 309               | 8.26                                         |
| Vested            | (68)              | )23.05                                       |
| Forfeited         | (191)             | )10.55                                       |
| December 31, 2017 | 369               | \$ 10.98                                     |

The total fair value of shares that vested during the nine-months ended December 31, 2017 and 2016 was \$0 and \$0, respectively, as there were no payouts because certain performance obligations were not met.

As of December 31, 2017, there was \$1,355 of total unrecognized pre-tax stock-based compensation expense related to non-vested performance share awards, which is expected to be recognized over a weighted-average period of 2.1 years.

**Note 11: Earnings (loss) Per Share**

The following table details the computation of basic and diluted earnings (loss) per common share from continuing operations for the periods presented (share numbers in table in thousands):

|                                                      | Three-months<br>ended |         | Nine-months ended |           |
|------------------------------------------------------|-----------------------|---------|-------------------|-----------|
|                                                      | December 31           |         | December 31       |           |
|                                                      | 2017                  | 2016    | 2017              | 2016      |
| Net income (loss)                                    | \$(27,938)            | \$1,320 | \$(49,085)        | \$(5,261) |
| Weighted-average common shares outstanding (basic)   | 15,138                | 15,149  | 15,069            | 15,095    |
| Effect of dilutive securities from equity awards     | —                     | 128     | —                 | —         |
| Weighted-average common shares outstanding (diluted) | 15,138                | 15,277  | 15,069            | 15,095    |
| Basic earnings (loss) per common share               | \$(1.85)              | )\$0.09 | \$(3.26)          | )\$0.35   |
| Dilutive earnings (loss) per common share            | \$(1.85)              | )\$0.09 | \$(3.26)          | )\$0.35   |

The Weighted-average common shares outstanding (diluted) computation is not impacted during any period where the exercise price of a stock option is greater than the average market price. There were 1,872,446 and 1,165,620 non-dilutive equity awards outstanding for the three-months ended December 31, 2017 and 2016, respectively, and 1,808,928 and 1,202,159 non-dilutive equity awards outstanding for the nine-months ended December 31, 2017 and 2016, respectively, that are not included in the corresponding period Weighted-average common shares outstanding (diluted) computation.

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## Note 12: Segment Information

The Company conducts business globally and is managed on a geographic-service type basis consisting of four operating segments which are (i) North America Products, (ii) North America Services, (iii) International Products and (iv) International Services. These operating segments are also the Company's reporting units for purposes of testing goodwill for impairment and its reporting segments for financial reporting purposes. Revenues within our North America segments are primarily attributed to the United States while revenues within our International segments are attributed to countries in Europe, the Pacific Rim and Latin America.

The accounting policies of the operating segments are the same as those of the Company. The Company allocates resources to its operating segments and evaluates the performance of the operating segments based upon operating income.

The financial results for the Company's reporting segments are as follows:

|                            | North<br>America<br>Products | North<br>America<br>Services | International<br>Products | International<br>Services | Total     |
|----------------------------|------------------------------|------------------------------|---------------------------|---------------------------|-----------|
| <b>3Q18</b>                |                              |                              |                           |                           |           |
| Revenues                   | \$15,510                     | \$150,361                    | \$ 18,883                 | \$ 10,119                 | \$194,873 |
| Gross profit               | 6,521                        | 37,102                       | 6,781                     | 2,275                     | 52,679    |
| Operating income (loss)    | (864)                        | (5,819)                      | (1,792)                   | 587                       | (7,888)   |
| Depreciation               | 449                          | 1,759                        | 163                       | 112                       | 2,483     |
| Intangibles amortization   | —                            | 1,482                        | 122                       | —                         | 1,604     |
| Restructuring expense      | 163                          | 1,005                        | 13                        | (198)                     | 983       |
| Asset impairment loss      | —                            | —                            | —                         | —                         | —         |
| Capital expenditures       | 131                          | 514                          | 204                       | 81                        | 930       |
| Assets (as of December 31) | 45,645                       | 310,476                      | 49,853                    | 17,095                    | 423,069   |
| <b>3Q17</b>                |                              |                              |                           |                           |           |
| Revenues                   | \$16,745                     | \$166,612                    | \$ 19,364                 | \$ 7,649                  | \$210,370 |
| Gross profit               | 7,848                        | 44,892                       | 8,128                     | 1,575                     | 62,443    |
| Operating income (loss)    | 328                          | 1,765                        | 168                       | 501                       | 2,762     |
| Depreciation               | 425                          | 1,754                        | 224                       | 69                        | 2,472     |
| Intangibles amortization   | —                            | 2,185                        | 113                       | —                         | 2,298     |
| Restructuring expense      | 293                          | 593                          | 224                       | —                         | 1,110     |
| Asset impairment loss      | —                            | —                            | —                         | —                         | —         |
| Capital expenditures       | 326                          | 1,250                        | 561                       | 129                       | 2,266     |
| Assets (as of December 31) | 45,726                       | 342,164                      | 32,824                    | 15,734                    | 436,448   |
| <b>3QYTD18</b>             |                              |                              |                           |                           |           |
| Revenues                   | \$52,631                     | \$451,524                    | \$ 51,898                 | \$ 24,628                 | \$580,681 |
| Gross profit               | 23,445                       | 113,168                      | 19,800                    | 5,362                     | 161,775   |
| Operating income (loss)    | (490)                        | (20,352)                     | (5,894)                   | (1,421)                   | (28,157)  |
| Depreciation               | 1,349                        | 5,095                        | 502                       | 296                       | 7,242     |
| Intangibles amortization   | —                            | 5,583                        | 360                       | —                         | 5,943     |
| Restructuring expense      | 810                          | 2,980                        | 653                       | 1,009                     | 5,452     |
| Asset impairment loss      | —                            | 1,426                        | —                         | —                         | 1,426     |
| Capital expenditures       | 464                          | 2,222                        | 577                       | 355                       | 3,618     |
| Assets (as of December 31) | 45,645                       | 310,476                      | 49,853                    | 17,095                    | 423,069   |
| <b>3QYTD17</b>             |                              |                              |                           |                           |           |
| Revenues                   | \$56,784                     | \$508,129                    | \$ 61,469                 | \$ 21,217                 | \$647,599 |

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|                            |        |         |        |        |         |
|----------------------------|--------|---------|--------|--------|---------|
| Gross profit               | 23,315 | 131,990 | 24,659 | 4,576  | 184,540 |
| Operating income (loss)    | 522    | (3,193) | 564    | 1,051  | (1,056) |
| Depreciation               | 1,247  | 5,060   | 593    | 172    | 7,072   |
| Intangibles amortization   | —      | 6,708   | 345    | —      | 7,053   |
| Restructuring expense      | 418    | 2,718   | 895    | 20     | 4,051   |
| Asset impairment loss      | —      | 536     | —      | —      | 536     |
| Capital expenditures       | 1,152  | 3,666   | 762    | 561    | 6,141   |
| Assets (as of December 31) | 45,726 | 342,164 | 32,824 | 15,734 | 436,448 |

Note 13: Commitments and Contingencies

In connection with the Amended Credit Agreement disclosed in Note 5, the Company is required to make payments of \$6,250 on its term loan over the next 12 months. Correspondingly, the Company expects its long-term payments (greater than 1 year) under the credit facility to decrease by \$6,250.

The Company is involved in, or has pending, various legal proceedings, claims, suits and complaints arising out of the normal course of business. Based on the facts currently available to the Company, Management believes these matters are adequately provided for, covered by insurance, without merit or not probable that an unfavorable material outcome will result.

There has been no other significant or unusual activity during Fiscal 2018.

## Note 14: Restructuring

The Company has incurred and continues to incur costs related to facility consolidations, such as idle facility rent obligations and the write-off of leasehold improvements, and employee severance (collectively referred to as “restructuring expense”) in a continued effort to consolidate back office functions and to make its organization more efficient. These restructuring activities are compartmentalized and are not part of an overall plan and therefore the Company cannot estimate the total amount to be incurred in connection with the activity. Employee severance is generally payable within the next twelve months with certain facility costs extending through Fiscal 2019.

The following table summarizes the changes to the restructuring liability for the periods presented.

|                              | Employee<br>Severance | Facility<br>Closures | Total   |
|------------------------------|-----------------------|----------------------|---------|
| Balance at March 31, 2017    | \$ 4,850              | \$ 286               | \$5,136 |
| Restructuring expense        | 5,103                 | 349                  | 5,452   |
| Cash expenditures            | (6,308)               | (403)                | (6,711) |
| Balance at December 31, 2017 | \$ 3,645              | \$ 232               | \$3,877 |

Of the \$3,877 above, \$3,829 is classified as a current liability under Other liabilities on the Company’s Consolidated Balance Sheets for the period ended December 31, 2017.

The following table summarizes restructuring expense, which is recorded in Selling, general & administrative expenses in the Company’s Consolidated Statements of Operations, for the nine-months ended December 31, 2017, for the Company’s reporting segments:

|                    | North<br>America<br>Products | North<br>America<br>Services | International<br>Products | International<br>Services | Total   |
|--------------------|------------------------------|------------------------------|---------------------------|---------------------------|---------|
| Employee Severance | \$ 810                       | \$ 2,643                     | \$ 653                    | \$ 997                    | \$5,103 |
| Facility Closures  | —                            | 337                          | —                         | 12                        | 349     |
| Total              | \$ 810                       | \$ 2,980                     | \$ 653                    | \$ 1,009                  | \$5,452 |

Company management is continuing to assess ways to align costs with revenue to improve profitability.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"). The discussion and analysis for the three-months and nine-months ended December 31, 2017 and 2016 as set forth below in this Part I, Item 2 should be read in conjunction with the response to Part I, Item 1 of this report and the consolidated financial statements of Black Box Corporation ("Black Box," the "Company," "we" or "our"), including the related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's most recent Annual Report on Form 10-K, as filed with the Securities and Exchange Commission ("SEC") for the fiscal year ended March 31, 2017 (the "Form 10-K"). References to "3Q18" mean the three-month period ended December 31, 2017 while references to "3Q17" mean the three-month period ended December 31, 2016. References to "3QYTD18" mean the nine-month period ended December 31, 2017 while references to "3QYTD17" mean the nine-month period ended December 31, 2016. The Company's fiscal year ends on March 31. The fiscal quarters consist of 13 weeks and generally end on the Saturday nearest each calendar quarter end, adjusted to provide relatively equivalent business days for each fiscal quarter. The actual ending dates for the periods presented as of December 31, 2017 and 2016 were December 30, 2017 and December 31, 2016, respectively. References to "Fiscal Year" or "Fiscal" mean the Company's fiscal year ended March 31 for the year referenced. All dollar amounts are presented in thousands except for per share amounts or unless otherwise noted.

### The Company

Black Box is a leading digital solutions provider dedicated to helping customers design, build, manage and secure their IT infrastructure. The Company offers Services and Products that it distributes through two platforms that it has built over its 41-year history.

Our Services platform is comprised of engineering and design, project management, field service management, network operations centers, our national technology team, national and international sales teams and technology solutions centers which include dedicated sales and engineering resources. The primary services offered through this platform include managed services, infrastructure services (including wired and wireless network solutions, structured cabling and video/AV services), communications lifecycle services, unified communications and data center services.

The Company generates revenues in its Services business from the design, sale and/or installation of new communications and network infrastructure systems, the support of existing systems and moves, adds and changes ("MAC work"). We periodically generate revenues from contracts performed over time that may result in an asset on our balance sheet for multiple periods constituting part of our working capital. We have not experienced significant collectability issues related to such contracts. For the sale and implementation of new communications systems or other major projects, most significant orders are subject to competitive bidding processes and, generally, competition can be significant for such new orders. The Company is continually bidding on new projects for service revenues. Projects account for the majority of Services revenues and are primarily driven by the overall economic environment and information technology capital spending. The Company also serves government clients whose revenues are not as dependent on the overall economic environment as commercial clients but are subject to governmental budgetary constraints.

New communications systems orders often generate post-implementation maintenance via a fixed fee model where revenues are earned ratably over the term of the agreement (generally 1-3 years for commercial clients and 3-5 years for government clients) or a variable fee model that is based on time and materials per occurrence, similar to MAC work. Maintenance revenues generally are not dependent on the economy as clients contract for maintenance to extend the life of their existing equipment and delay capital spending on new communications systems. Maintenance and MAC work revenues are also dependent upon the Company's relationship with its clients and its long track record of providing high-quality service.

The Company's Services business generates backlog which is defined by the Company as orders and contracts considered to be firm. At December 31, 2017, the Company's total backlog, which relates primarily to Services, was \$344,463, of which \$232,968 is expected to be completed within the next twelve months.

Under our Products platform, we provide networking solutions through the sale of products for KVM switching, IT infrastructure, specialty networking and multimedia.

Our Products' revenues are generated from sales to key channel partners and system integrators and through a global distribution network. Products sells through a direct sales team as well as through its internet site and catalogs. In order to meet client demand, we keep a moderate level of inventory which consumes part of our working capital. The market for these products is a highly fragmented and competitive. The Company has participated in this market for 40+ years and has earned a reputation for providing

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high quality products, rapid order fulfillment and free 24/7/365 technical support. The Company's Products revenue is driven both by general information technology spending and capital budgets.

Our platforms introduce scale, flexibility and leverage to the business, and provide the following competitive advantages:

**A diversified client base:** We have built a diversified client base that ranges from small organizations to many of the world's largest corporations and institutions. Black Box clients participate in many industries, including government, technology, business services, healthcare, manufacturing, banking and retail, among others. Revenues from our clients are segmented with approximately 60% from large companies (i.e., revenues greater than \$1 billion, including federal governments), approximately 20% from medium-sized companies (i.e., revenues between \$50 million and \$1 billion, including state governments) and approximately 20% from small companies (i.e., revenues less than \$50 million, including local governments). We strive to develop extensive and long-term relationships with high-quality clients as we believe that satisfied clients will demand quality services and product offerings even in economic downturns. Also, we believe that our distinctive portfolio of products and services will allow us to leverage the relationships and introduce additional offerings to satisfied clients.

**Key relationships with leading technology partners:** We have built long-term relationships with all major communications equipment manufacturers and we are a top partner with the market leaders.

**Broad geographic footprint:** We have built a global footprint with offices throughout the world.

**Deep organic resources:** We have 3,339 team members world-wide, with the collective experience and certifications to serve our clients with on-site and remote capabilities.

**Dedicated sales force:** We have a team of direct sales people world-wide.

The Company services a variety of clients within most major industries, with the highest concentration in the government, business services, manufacturing, banking, retail, healthcare and technology industry verticals. Factors that impact those verticals, therefore, could have an impact on the Company. While the Company generates most of its revenues in North America, the Company also generates revenues from around the world, primarily Europe, such that factors that impact European markets could impact the Company. Management strives to develop extensive and long-term relationships with high-quality clients as Management believes that satisfied clients will demand quality services and product offerings from us even in economic downturns.

### 3QYTD18 vs 3QYTD17 Summary

|                                                      | 3QYTD18      | 3QYTD17    | %<br>Change |
|------------------------------------------------------|--------------|------------|-------------|
| Revenues                                             | \$ 580,681   | \$ 647,599 | (10.3 )%    |
| Gross profit margin                                  | 27.9         | % 28.5     | % (2.1 )%   |
| Operating income (loss) margin                       | (4.8 )       | % (0.2 )   | % n/m       |
| Diluted earnings (loss) per share                    | \$ (3.26 )   | \$ (0.35 ) | n/m         |
| Net cash provided by (used for) operating activities | \$ (43,132 ) | \$ 24,734  | n/m         |

n/m = not meaningful

Diluted loss per share was \$3.26, compared to \$0.35 in the same period last year as a result of:

• \$66,918 decrease in Revenues as a result of a \$53,194 decrease in Service Revenues, primarily due to decreases in both unified communications and infrastructure business in North America, partially offset by an increase in government revenues due to market repositioning that was actioned over the past two years and an increase in commercial revenues outside of North America resulting from a realignment of several international entities between

Products and Services as a result of changes in our management structure in the second quarter of Fiscal 2018, and a \$13,724 decrease in Product Revenues primarily due to a decrease in North America Products' sales as a result of lower demand in the legacy run rate business, a decline in International Products which was negatively impacted by a large one time deal (Norway) in the prior year and an initiative to centralize back office and supply chain operations, and the aforementioned realignment of several international entities between Products and Services, a \$22,765 decrease in Gross profit as a result of a \$18,036 decrease in Service Gross profit driven by lower revenues on higher margin unified communication business and aggressive pricing on certain incremental infrastructure projects for our commercial clients and higher volume of successful contract awards that carry a lower gross margin for our government

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clients, and a \$4,729 decrease in Products Gross profit driven by the decline in Revenues noted above, all partially offset by a \$9,137 Inventory impairment taken in the prior year,

a \$4,556 increase in Selling, general and administrative expenses which was primarily the result of \$10,967 of costs related to the ongoing ERP implementation, \$1,401 of additional restructuring expense, and \$908 of net gain on the sale of multiple facilities in the prior year, all partially offset by a decrease in compensation and benefits expense, an \$890 increase in Asset impairment loss due to a \$1,426 Trademark impairment in the second quarter of Fiscal 2018,

a \$1,444 increase in Interest expense (income) resulting from higher interest rates, a \$204 write-off of deferred amortization costs of our Credit Agreement due to the reduction in size of the facility in the Amended Credit Agreement, and higher average debt,

a \$14,948 increase in Provision for income taxes due to the impact of the Tax Cuts and Jobs Act (“Tax Reform”) and valuation allowances booked against U.S. foreign tax credit carry-forwards.

Net cash used for operating activities was \$43,132, which included Net loss of \$49,085 and negative cash from working capital of \$29,232, compared to net cash provided for operating activities of \$24,734, which included Net loss of \$5,261 and negative cash from working capital of \$2,713, in the same period last year.

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## Results of Operations

## Segments

We conduct our business globally and manage our business by geographic-service type under the following four operating segments: North America Products, North America Services, International Products and International Services. The Revenues, Gross profit and Operating income (loss) amounts in the table below are presented on a basis consistent with GAAP.

|                               | 3Q18        | 3Q17       | % Change | 3QYTD18       | 3QYTD17     | % Change |    |
|-------------------------------|-------------|------------|----------|---------------|-------------|----------|----|
| Revenues                      |             |            |          |               |             |          |    |
| North America Products        | \$ 15,510   | \$ 16,745  | (7       | )% \$ 52,631  | \$ 56,784   | (7       | )% |
| International Products        | \$ 18,883   | \$ 19,364  | (2       | )% \$ 51,898  | \$ 61,469   | (16      | )% |
| Products                      | \$ 34,393   | \$ 36,109  | (5       | )% \$ 104,529 | \$ 118,253  | (12      | )% |
| North America Services        | \$ 150,361  | \$ 166,612 | (10      | )% \$ 451,524 | \$ 508,129  | (11      | )% |
| International Services        | \$ 10,119   | \$ 7,649   | 32       | % \$ 24,628   | \$ 21,217   | 16       | %  |
| Services                      | \$ 160,480  | \$ 174,261 | (8       | )% \$ 476,152 | \$ 529,346  | (10      | )% |
| Total Revenues                | \$ 194,873  | \$ 210,370 | (7       | )% \$ 580,681 | \$ 647,599  | (10      | )% |
| Gross Profit                  |             |            |          |               |             |          |    |
| North America Products        | \$ 6,521    | \$ 7,848   | (17      | )% \$ 23,445  | \$ 23,315   | 1        | %  |
| % of Revenues                 | 42.0        | % 46.9     | % (10    | )% 44.5       | % 41.1      | % 8      | %  |
| International Products        | \$ 6,781    | \$ 8,128   | (17      | )% \$ 19,800  | \$ 24,659   | (20      | )% |
| % of Revenues                 | 35.9        | % 42.0     | % (15    | )% 38.2       | % 40.1      | % (5     | )% |
| Products                      | \$ 13,302   | \$ 15,976  | (17      | )% \$ 43,245  | \$ 47,974   | (10      | )% |
| % of Revenues                 | 38.7        | % 44.2     | % (12    | )% 41.4       | % 40.6      | % 2      | %  |
| North America Services        | \$ 37,102   | \$ 44,892  | (17      | )% \$ 113,168 | \$ 131,990  | (14      | )% |
| % of Revenues                 | 24.7        | % 26.9     | % (8     | )% 25.1       | % 26.0      | % (3     | )% |
| International Services        | \$ 2,275    | \$ 1,575   | 44       | % \$ 5,362    | \$ 4,576    | 17       | %  |
| % of Revenues                 | 22.5        | % 20.6     | % 9      | % 21.8        | % 21.6      | % 1      | %  |
| Services                      | \$ 39,377   | \$ 46,467  | (15      | )% \$ 118,530 | \$ 136,566  | (13      | )% |
| % of Revenues                 | 24.5        | % 26.7     | % (8     | )% 24.9       | % 25.8      | % (3     | )% |
| Total Gross Profit            | \$ 52,679   | \$ 62,443  | (16      | )% \$ 161,775 | \$ 184,540  | (12      | )% |
| % of Revenues                 | 27.0        | % 29.7     | % (9     | )% 27.9       | % 28.5      | % (2     | )% |
| Operating Income (Loss)       |             |            |          |               |             |          |    |
| North America Products        | \$ (864 )   | \$ 328     | n/m      | \$ (490 )     | \$ 522      | n/m      |    |
| % of Revenues                 | (5.6        | )% 2.0     | % n/m    | (0.9          | )% 0.9      | % n/m    |    |
| International Products        | \$ (1,792 ) | \$ 168     | n/m      | \$ (5,894 )   | \$ 564      | n/m      |    |
| % of Revenues                 | (9.5        | )% 0.9     | % n/m    | (11.4         | )% 0.9      | % n/m    |    |
| Products                      | \$ (2,656 ) | \$ 496     | n/m      | \$ (6,384 )   | \$ 1,086    | n/m      |    |
| % of Revenues                 | (7.7        | )% 1.4     | % n/m    | (6.1          | )% 0.9      | % n/m    |    |
| North America Services        | \$ (5,819 ) | \$ 1,765   | n/m      | \$ (20,352 )  | \$ (3,193 ) | n/m      |    |
| % of Revenues                 | (3.9        | )% 1.1     | % n/m    | (4.5          | )% (0.6     | )% n/m   |    |
| International Services        | \$ 587      | \$ 501     | 17       | % \$ (1,421 ) | \$ 1,051    | n/m      |    |
| % of Revenues                 | 5.8         | % 6.5      | % (11    | )% (5.8       | )% 5.0      | % n/m    |    |
| Services                      | \$ (5,232 ) | \$ 2,266   | n/m      | \$ (21,773 )  | \$ (2,142 ) | n/m      |    |
| % of Revenues                 | (3.3        | )% 1.3     | % n/m    | (4.6          | )% (0.4     | )% n/m   |    |
| Total Operating Income (Loss) | \$ (7,888 ) | \$ 2,762   | n/m      | \$ (28,157 )  | \$ (1,056 ) | n/m      |    |
| % of Revenues                 | (4.0        | )% 1.3     | % n/m    | (4.8          | )% (0.2     | )% n/m   |    |

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### 3Q18 vs 3Q17

Total Revenues were \$194,873, a decrease of 7% from \$210,370 in the same period last year. Service Revenues were \$160,480, a decrease of 8% from \$174,261 in the same period last year due to a decrease in commercial revenues partially offset by an increase in government revenues. The decrease in commercial revenues within North America was due to a decline in the legacy unified communication business, which we expect will continue for the foreseeable future, and a decrease in the infrastructure business, which was the result of a change in sales leadership and other transformational activities. Commercial revenues outside of North America increased primarily due to a realignment of several international entities between Products and Services as a result of changes in our management structure in the second quarter of Fiscal 2018. Government revenues increased due to market repositioning that was actioned over the past two years. Product Revenues were \$34,393, a decrease of 5% from \$36,109 in the same period last year primarily due to a decrease in North America Products' sales as a result of lower demand in the legacy run rate business and due to the aforementioned realignment of the international business between Products and Services.

Total Gross profit margin was 27.0%, a decrease of 9% from 29.7% in the same period last year. Service Gross profit margin was 24.5%, a decrease of 8% from 26.7% in the same period last year due to declines of higher margin legacy unified communication business and aggressive pricing on certain incremental deals for our commercial clients and a higher percentage of lower margin project revenue. Product Gross profit margin was 38.7%, a decrease of 13% from 44.2% in the same period last year due to higher freight costs, lower margin deals, and product returns.

Total Operating loss margin was 4.0%, compared to a Total Operating profit margin of 1.3% in the same period last year. Service Operating loss margin was 3.3%, compared to Service Operating profit margin of 1.3% in the same period last year, primarily due to costs related to the ongoing U.S.-based ERP project and lower Gross profit margin referenced above, partially offset by lower variable compensation costs and unusual costs incurred in the prior year (\$336 in AR impairment and \$267 in loss on sales of facilities). The Company will continue to incur costs associated with the U.S.-based ERP project that will have a negative impact on our profits and cash flows. Product Operating loss margin was 7.7%, compared to Product Operating profit margin of 1.4% in the same period last year, primarily due to the decrease in Gross profit margin as referenced above.

### 3QYTD18 vs 3QYTD17

Total Revenues were \$580,681, a decrease of 10% from \$647,599 in the same period last year. Service Revenues were \$476,152, a decrease of 10% from \$529,346 in the same period last year primarily due to decreases in both unified communications and infrastructure business in North America, partially offset by an increase in government revenues due to market repositioning that was actioned over the past two years and an increase in commercial revenues outside of North America resulting from a realignment of several international entities between Products and Services as a result of changes in our management structure in the second quarter of Fiscal 2018. Product Revenues were \$104,529, a decrease of 12% from \$118,253 in the same period last year, primarily due to a decrease in North America Products' sales as a result of lower demand in the legacy run rate business and a decline in International Products which was negatively impacted by a large one time deal (Norway) in the prior year and an initiative to centralize back office and supply chain operations, as well as due to the aforementioned realignment of the international business between Products and Services.

Total Gross profit margin was 27.9%, a decrease of 2% from 28.5% in the same period last year. The same period last year included Inventory impairment losses of \$6,327 for Services and \$2,810 for Products, which together impacted Total Gross profit margin by 1.4%. Service Gross profit margin was 24.9%, a decrease of 4% from 25.8% in the same period last year. The Inventory impairment loss for Services had a 1.2% impact to Service Gross profit margin. This decrease was primarily due to lower revenues on higher margin unified communication business and aggressive pricing on certain incremental infrastructure projects for our commercial clients and higher volume of successful contract awards that carry a lower gross margin for our government clients. Product Gross profit margin was 41.4%, an increase of 2% from 40.6% in the same period last year. The Inventory impairment loss for Products had a 2.4% impact to Product Gross profit margin.

Total Operating loss margin was 4.8%, a decrease compared to 0.2% in the same period last year. Service Operating loss margin was 4.6%, a decrease compared to 0.4% in the same period last year, primarily due to costs related to the ongoing U.S.-based ERP project and \$1,426 in Asset Impairment relating to Trademarks, partially offset by lower variable compensation costs. The Company will continue to incur costs associated with the U.S.-based ERP project that will have a negative impact on our profits and cash flows. Product Operating loss margin was 6.1%, a decrease compared to Product Operating profit margin of 0.9% in the same period last year, primarily due to the decrease in Gross profit margin as referenced above.

Company management continues to review initiatives to align costs with revenue to improve profitability.

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## Interest expense, net and Income Taxes

|                           | 3Q18     | 3Q17    | % Change | 3QYTD18    | 3QYTD17   | % Change |   |
|---------------------------|----------|---------|----------|------------|-----------|----------|---|
| Interest expense          | \$1,737  | \$1,055 | 65       | % \$ 4,756 | \$ 3,312  | 44       | % |
| % of Revenues             | 0.9      | % 0.5   | % 80     | % 0.8      | % 0.5     | % 60     | % |
| Income taxes              | \$18,144 | \$324   | n/m      | \$ 16,080  | \$ 1,132  | n/m      |   |
| Effective income tax rate | (185.3 ) | % 19.7  | % n/m    | (48.7 )    | % (27.4 ) | % n/m    |   |

## 3Q18 vs 3Q17

Interest expense was \$1,737, an increase of 65% from \$1,055 in the same period last year primarily as a result of higher interest rates and a higher average debt. The weighted-average outstanding debt and weighted-average interest rate was \$140,462 and 4.5%, respectively, compared to \$124,304 and 2.7% in the same period last year.

Provision for income taxes was \$18,144, compared to \$324 in the same period last year. This increase was primarily due to the impact of the Tax Reform and valuation allowances booked against U.S. foreign tax credit carry-forwards. Excluding the impact of the Tax Reform, Provision for income taxes would have been \$4,640.

## 3QYTD18 vs 3QYTD17

Interest expense was \$4,756, an increase of 44% from \$3,312 in the same period last year primarily as a result of higher interest rates, a \$204 write-off of deferred amortization costs of our Credit Agreement due to the reduction in size of the facility in the Amended Credit Agreement, and higher average debt. The weighted-average outstanding debt and weighted-average interest rate was \$138,186 and 3.7%, respectively, compared to \$129,884 and 2.6% in the same period last year.

Provision for income taxes was \$16,080, compared to \$1,132 in the same period last year. This increase was primarily due to the impact of the Tax Reform and valuation allowances booked against U.S. foreign tax credit carry-forwards. Excluding the impact of the Tax Reform, Provision for income taxes would have been \$2,576.

## Liquidity and Capital Resources

## Overview

A majority of our revenue is generated through individual sales of services and products. Approximately 20% of our revenue is generated from long-term support contracts. We depend on repeat client business, as well as our ability to develop new client business, to sustain and grow our revenue. Most significant orders are subject to a competitive bidding process and, generally, competition can be significant for such new orders. Our business model provides us with flexibility in terms of capital expenditures and other required operating expenses.

We seek to allocate company resources in a manner that will enhance our operating results. Our discretionary investments include: investments in growth programs and infrastructure and repaying our debt.

## Liquidity Position

The following is a summary of our capitalization and liquidity position.

|                                                     | 3Q18      | 4Q17      | 3Q17      |
|-----------------------------------------------------|-----------|-----------|-----------|
| Cash and cash equivalents                           | \$18,380  | \$14,247  | \$13,808  |
| Working Capital                                     | \$122,269 | \$91,134  | \$100,237 |
| Debt                                                | \$142,785 | \$89,746  | \$95,349  |
| Stockholders' equity                                | \$99,890  | \$141,649 | \$142,575 |
| Unused commitments of the Credit Agreement          | \$22,150  | \$106,750 | \$101,350 |
| Cash and Unused commitments of the Credit Agreement | \$40,530  | \$120,997 | \$115,158 |

On August 9, 2017, the Company and certain of the Banks entered into the Amended Credit Agreement which reduced the capacity of the credit facility from \$200,000 to \$170,000. The Company's liquidity (cash and cash equivalents and unused credit

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commitments) was \$40,530 at the end of the third quarter of Fiscal 2018, compared to \$120,997 at the end of Fiscal 2017. This decrease in liquidity was driven by higher outstanding debt coupled with a lower borrowing capacity. Net debt (debt less cash and cash equivalents) was \$124,405 at the end of the third quarter of Fiscal 2018, an increase of \$48,906 from the end of Fiscal 2017 as a result of spending on our previously announced U.S.-based ERP project as well as increased working capital. The ERP project spending peaked in the third quarter as we expect declines in successive quarters. Additionally, the Company is emphasizing working capital initiatives in order to bring working capital levels in line with revenue and activity levels.

We entered into the Amended Credit Agreement in order to avoid a default of our then existing leverage covenant. Our Amended Credit Agreement contains covenants requiring us to achieve a certain minimum adjusted EBITDA during each quarter through the first quarter of Fiscal 2019. A leverage ratio and a fixed charge coverage ratio commence in the second quarter of Fiscal 2019 through maturity in May 2021.

Based upon our current projections, we may not be able to generate sufficient adjusted EBITDA during the fourth quarter of Fiscal 2018 (ending March 31, 2018) in order to meet the minimum adjusted EBITDA covenant for that quarter. If we fail to meet such minimum adjusted EBITDA covenant, the lenders would have the ability to exercise all of their legal and contractual remedies for default including, among others, the right to cease extending credit under the credit facility, to declare all outstanding obligations under the credit facility (including all outstanding indebtedness) to be immediately due and payable, to take action to protect its security interests in the collateral (which is substantially all of the assets of the Company) including taking possession thereof, and to increase the interest rate under the credit facility.

We are working with our lenders and taking other actions in order to avoid a default under our amended credit facility, or to limit the lenders' remedies in the event of a default. These actions could include, but are not limited to, asset sales to generate cash and adjusted EBITDA to meet the minimum adjusted EBITDA covenant and to reduce our indebtedness. Other actions could include a refinancing of the indebtedness under our credit facility with new indebtedness and/or sales of securities. In the event that these actions are pending, we may amend the Amended Credit Agreement to limit the remedies available to the lenders for a certain period of time and under certain terms and conditions to be negotiated.

There can be no assurance that the Company will generate sufficient adjusted EBITDA during the fourth quarter of Fiscal 2018 or in fiscal quarters thereafter in order to avoid a breach of the Amended Credit Agreement. In addition, there can be no assurance that the Company will be successful in its efforts to limit the remedies of the lenders in the event of such default. Consequently, the failure to maintain adequate liquidity or a default under our Amended Credit Agreement could have a material adverse effect on the Company.

In addition, based on our current projections, the Company will continue to have challenges meeting the adjusted EBITDA and, when applicable, leverage covenants under the Amended Credit Agreement without asset sales, and/or a restructuring or refinancing. Accordingly, the Company has engaged Raymond James & Associates to assist it in exploring its options.

## Sources and Uses of Cash

The following is a summary of our sources and uses of cash.

|                                                      | 3QYTD18      | 3QYTD17      |
|------------------------------------------------------|--------------|--------------|
| Net cash provided by (used for) operating activities | \$ (43,132 ) | \$ 24,734    |
| Net cash provided by (used for) investing activities | \$ (3,545 )  | \$ (2,514 )  |
| Net cash provided by (used for) financing activities | \$ 48,674    | \$ (31,744 ) |
| Net cash provided by (used for) operating activities |              |              |

Net cash used for operating activities was \$43,132, due primarily to Net loss of \$49,085, inclusive of non-cash charges, cash outflows of \$19,759 and \$14,701 for All other liabilities and Costs in excess of billings, respectively, partially offset by cash inflows of \$5,821 and \$4,021 for Accounts receivable and Accounts payable, respectively, compared to net cash provided by operating activities of \$24,734 in the same period last year, due primarily to Net loss of \$5,261, inclusive of non-cash charges, cash outflows of \$8,953 for Costs in excess of billings, partially offset by cash inflows of \$6,172 for Inventories. Changes in the above accounts are based on average Fiscal 2018 and Fiscal 2017 exchange rates, as applicable.

Changes in working capital, and particularly changes in Accounts receivable, Costs in excess of billings and Billings in excess of cost, can have a significant impact on net cash provided by operating activities, largely due to the timing of payments and receipts.

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Net cash provided by (used for) investing activities

Capital expenditures

The Company made investments of \$3,618 compared to \$6,141 in the same period last year which primarily related to information technology infrastructure, computer hardware and software and service vehicles.

Net cash provided by (used for) financing activities

Long-term debt

Proceeds from long-term debt was \$46,882 compared to repayments of long-term debt of \$25,642 in the same period last year.

Common stock repurchases

The Company did not make any discretionary investments in the form of common stock repurchases in the current period nor in the same period last year. The Company withheld shares in the amount of \$395, compared to \$477 in the prior year, to satisfy employee income taxes due as a result of the vesting of certain restricted stock units.

Since the inception of the repurchase program beginning in April 1999 through December 31, 2017, the Company has repurchased 11,392,851 shares of common stock for an aggregate purchase price of \$408,621, or an average purchase price per share of \$35.87. These shares do not include the treasury shares withheld for tax payments due upon the vesting of certain restricted stock units and performance shares. Under the Amended Credit Agreement, the Company is no longer permitted to repurchase common stock through its repurchase program but is allowed to repurchase a limited amount of shares for tax payments related to the vesting certain restricted stock units and performance shares, as applicable. This restriction is in effect until May 9, 2021. The Company expects to use the funds that were previously available for stock repurchases to supplement spending for our previously announced U.S.-based ERP project and to develop and implement growth initiatives for the Company, both of which we believe will create long-term shareholder value. See Note 5 of the Notes to the Consolidated Financial Statements contained in Part I of this Quarterly Report for additional information.

Dividends

The Company is no longer permitted to pay dividends under the Amended Credit Agreement. The Company expects to use the funds that were previously available for dividends to supplement spending for our previously announced U.S.-based ERP project and to develop and implement growth initiatives for the Company, both of which we believe will create long-term shareholder value. This restriction is in effect until May 9, 2021, the termination date of the Amended Credit Agreement. The Company paid dividends of \$7.1 million in Fiscal 2017.

Credit Agreement

On August 9, 2017, the Company and certain Banks entered into an Amendment and Joinder Agreement. See Note 5 of the Notes to the Consolidated Financial Statements contained in Part I of this Quarterly Report and Item 1A. Risk Factors contained in Part II of this Form 10-Q for additional information.

Legal Proceedings

See Note 13 of the Notes to the Consolidated Financial Statements of this Form 10-Q, which information is incorporated herein by reference.

Inflation

The overall effects of inflation on the Company have been nominal. Although long-term inflation rates are difficult to predict, the Company continues to strive to minimize the effect of inflation through improved productivity and cost reduction programs as well as price adjustments within the constraints of market competition.

Critical Accounting Policies/Impact of Recently Issued Accounting Pronouncements

Critical Accounting Policies



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The Company's critical accounting policies require the most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and are the most important to the portrayal of the Company's consolidated financial statements. The Company's critical accounting policies are disclosed in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Form 10-K. The significant accounting policies used in the preparation of the Company's consolidated financial statements are disclosed in Note 2 of the Notes to the Consolidated Financial Statements within the Form 10-K. No additional significant accounting policies have been adopted during Fiscal 2018.

### Impact of Recently Issued Accounting Pronouncements

There have been no accounting pronouncements adopted during Fiscal 2018 that have had a material impact on the Company's consolidated financial statements.

### Cautionary Forward Looking Statements

Any forward-looking statements contained in this Quarterly Report on Form 10-Q or in documents incorporated herein by reference are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and speak only as of the date of this Form 10-Q. You can identify these forward-looking statements by the fact that they use words such as "should," "anticipate," "estimate," "approximate," "expect," "target," "may," "will," "project," "intend," "plan," "believe" and other words of similar meaning and expression in connection with any discussion of future operating or financial performance. One can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. Forward-looking statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Although it is not possible to predict or identify all risk factors, they may include levels of business activity and operating expenses, liquidity, expenses relating to corporate compliance requirements, cash flows, global economic and business conditions, the timing, costs, and benefits of restructuring programs and other initiatives, successful marketing of the Company's product and services offerings, successful implementation of the Company's integration initiatives, such as our enterprise resource planning system initiatives, successful implementation of the Company's government contracting programs, competition, changes in foreign, political and economic conditions, fluctuating foreign currencies compared to the U.S. dollar, rapid changes in technologies, client preferences, the Company's arrangements with suppliers of voice equipment and technology, government budgetary constraints and various other matters, many of which are beyond the Company's control. Additional risk factors are included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2017 and our quarterly reports on Form 10-Q for Fiscal 2018. We can give no assurance that any goal, plan or target set forth in forward-looking statements will be achieved and readers are cautioned not to place undue reliance on such statements, which speak only as of the date made. We undertake no obligation to release publicly any revisions to forward-looking statements as a result of future events or developments and caution you not to unduly rely on any such forward-looking statements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company is exposed to market risks in the ordinary course of business that include interest-rate volatility and foreign currency exchange rates volatility. Market risk is measured as the potential negative impact on earnings, cash flows or fair values resulting from a hypothetical change in interest rates or foreign currency exchange rates over the next year. The Company does not hold or issue any other financial derivative instruments (other than those specifically noted below) nor does it engage in speculative trading of financial derivatives.

#### Interest-rate Risk

The Company's primary interest-rate risk relates to its long-term debt obligations under the Amended Credit Agreement which was \$141,750 as of December 31, 2017. As of December 31, 2017, an instantaneous 100 basis point increase in the interest rate of the variable rate debt would reduce the Company's earnings in the subsequent fiscal quarter by \$359 (\$221 net of tax) assuming the Company employed no intervention strategies. The Company expects that its interest rates under the Amended Credit Agreement will be higher than the interest rates under the Credit Agreement thus increasing its exposure to interest on variable rate debt.

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### Foreign Exchange Rate Risk

The Company has operations, clients and suppliers worldwide, thereby exposing the Company's financial results to foreign currency fluctuations. In an effort to reduce this risk of foreign currency fluctuations, the Company generally sells and purchases inventory based on prices denominated in U.S. dollars. Intercompany sales to subsidiaries are generally denominated in the subsidiaries' local currency. The Company has entered and will continue in the future, on a selective basis, to enter into foreign currency contracts to reduce the foreign currency exposure related to certain intercompany transactions, primarily trade receivables and loans. All of the foreign currency contracts have been designated and qualify as cash flow hedges. The effective portion of any changes in the fair value of the derivative instruments is recorded in Accumulated Other Comprehensive Income ("AOCI") until the hedged forecasted transaction occurs or the recognized currency transaction affects earnings. Once the forecasted transaction occurs or the recognized currency transaction affects earnings, the effective portion of any related gains or losses on the cash flow hedge is reclassified from AOCI to the Company's Consolidated Statements of Operations. In the event it becomes probable that the hedged forecasted transaction will not occur, the ineffective portion of any gain or loss on the related cash flow hedge would be reclassified from AOCI to the Company's Consolidated Statements of Operations.

As of December 31, 2017, the Company had open foreign currency contracts in Australian and Canadian dollars, Danish krone, Euros, Mexican pesos, Norwegian kroner, British pounds sterling, Swedish krona, Swiss francs and Japanese yen. The open contracts have contract rates ranging from 1.30 to 1.30 Australian dollar, 1.26 to 1.26 Canadian dollar, 6.31 to 6.31 Danish krone, 0.85 to 0.85 Euro, 19.17 to 19.17 Mexican peso, 8.01 to 8.01 Norwegian kroner, 0.75 to 0.76 British pound sterling, 8.16 to 8.16 Swedish krona, 0.97 to 0.97 Swiss franc and 112.15 to 112.15 Japanese yen, all per U.S. dollar. The total open contracts had a notional amount of \$33,354 and will expire within three months.

### Item 4. Controls and Procedures.

#### Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

Management, including the Company's Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), for the Company. Management assessed the effectiveness of the Company's disclosure controls and procedures as of December 30, 2017. Based upon this assessment, Management has concluded that the Company's disclosure controls and procedures were effective as of December 30, 2017 to provide reasonable assurance that information required to be disclosed by the Company in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to provide reasonable assurance that information required to be disclosed by the Company in such reports is accumulated and communicated to Management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

#### Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the most recent fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

#### Limitations on the Effectiveness of Controls

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of its inherent limitations, the Company's internal control over financial reporting may not prevent or detect misstatements. In addition, 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 and procedures may deteriorate.

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PART II. OTHER INFORMATION

Item 1A. Risk Factors.

The following is provided to update the following risk factors previously disclosed in Part I, Item 1A, Risk Factors of the Form 10-K and Part II, Item 1A, Risk Factors of the Form 10-Q for the first quarter in Fiscal 2018.

We can provide no assurance that we will continue to have adequate liquidity as we are dependent upon our senior credit facility to fund our cash needs. Our working capital demands can fluctuate greatly due to cash needs to fund new client contracts in advance of contractual payment dates. Due to our decreased revenues and profitability, and increased investments in our business under our transformation efforts, such as ERP migrations previously disclosed, net cash provided by operating activities may be insufficient to fund our operations and growth initiatives. We are dependent upon our senior credit facility to fund our cash needs.

In August 2017, we amended our senior credit agreement to avoid a default of our then existing leverage covenant. Our amended credit agreement contains covenants requiring us to achieve a certain minimum adjusted EBITDA during each quarter through the first quarter of Fiscal 2019. A leverage ratio and a fixed charge coverage ratio commence in the second quarter of Fiscal 2019 through maturity in May 2021.

Based upon our current projections, we may not be able to generate sufficient adjusted EBITDA during the fourth quarter of Fiscal 2018 (ending March 31, 2018) in order to meet the minimum adjusted EBITDA covenant for that quarter. If we fail to meet such minimum adjusted EBITDA covenant, the lenders would have the ability to exercise all of their legal and contractual remedies for default including, among others, the right to cease extending credit under the credit facility, to declare all outstanding obligations under the credit facility (including all outstanding indebtedness) to be immediately due and payable, to take action to protect its security interests in the collateral (which is substantially all of the assets of the Company) including taking possession thereof, and to increase the interest rate under the credit facility.

We are working with our lenders and taking other actions in order to avoid a default under our amended credit facility, or to limit the lenders' remedies in the event of a default. These actions could include, but are not limited to, actions we would not otherwise take, such as asset sales to generate cash and adjusted EBITDA to meet the minimum adjusted EBITDA covenant and cash to reduce our indebtedness. Other actions could include a refinancing of the indebtedness under our amended credit facility with new indebtedness and/or sales of securities. In the event that these actions are pending, we may amend the amended credit agreement to limit the remedies available to the lenders for a certain period of time and under certain terms and conditions to be negotiated.

There can be no assurance that the Company will generate sufficient adjusted EBITDA during the fourth quarter of Fiscal 2018 or in fiscal quarters thereafter in order to avoid a breach of the Amended Credit Agreement. In addition, there can be no assurance that the Company will be successful in its efforts to limit the remedies of the lenders in the event of such default. As a result, the failure to maintain adequate liquidity or a default under our Amended Credit Agreement could have a material adverse effect on the Company.

Item 6. Exhibits.

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| Exhibit<br>Number | Description                                                                                                                                                                                                                                                            |
|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>10.1</u>       | Offer Letter between the Company and Joel T. Trammell dated November 22, 2017 <sup>(1)</sup>                                                                                                                                                                           |
| <u>10.2</u>       | Agreement between the Company and Joel T. Trammell dated November 22, 2017 <sup>(1)</sup>                                                                                                                                                                              |
| <u>10.3</u>       | Agreement between the Company and E.C. Sykes dated November 21, 2017 <sup>(1)</sup>                                                                                                                                                                                    |
| <u>21.1</u>       | Subsidiaries of the Registrant <sup>(2)</sup>                                                                                                                                                                                                                          |
| <u>31.1</u>       | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, and Section 302 of the Sarbanes-Oxley Act of 2002 <sup>(2)</sup>                                                                           |
| <u>31.2</u>       | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, and Section 302 of the Sarbanes-Oxley Act of 2002 <sup>(2)</sup>                                                                           |
| <u>32.1</u>       | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 <sup>(2)</sup> |
| 101               | Interactive Data File                                                                                                                                                                                                                                                  |
| (1)               | Filed with the Form 8-K on November 22, 2017.                                                                                                                                                                                                                          |
| (2)               | Filed herewith.                                                                                                                                                                                                                                                        |

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BLACK BOX CORPORATION

Date: February 6, 2018

/s/ DAVID J. RUSSO

David J. Russo

Senior Vice President, Chief Financial Officer,

Treasurer and Principal Accounting Officer