TESSCO TECHNOLOGIES INC
Form 10-Q
February 03, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 25, 2016

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: 001-33938

TESSCO Technologies Incorporated

(Exact name of registrant as specified in its charter)

Delaware	52-0729657
(State or other jurisdiction of	(I.R.S Employer

incorporation or organization)	Identification No.)
11126 McCormick Road, Hunt Valley, Maryland	21031
(Address of principal executive offices)	(Zip Code)

(410) 229-1000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of the registrant's Common Stock, $0.01 par value per share, outstanding as of January 27, 2017, was 8,329,686.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

TESSCO Technologies Incorporated

Consolidated Balance Sheets

	December 25, 2016 (unaudited)	March 27, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,354,700	$ 16,882,800
Trade accounts receivable, net of allowance for doubtful accounts of $809,600 and $841,400, respectively	70,981,800	58,315,700
Product inventory, net	63,129,700	53,903,900
Prepaid expenses and other current assets	4,992,000	5,917,100
Total current assets	147,458,200	135,019,500
Property and equipment, net	18,447,500	19,895,400
Goodwill, net	11,684,700	11,684,700
Other long-term assets	2,952,800	2,816,400
Total assets	$ 180,543,200	$ 169,416,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 58,616,300	$ 41,986,000
Payroll, benefits and taxes	4,687,200	4,927,900
Income and sales tax liabilities	1,869,300	1,456,800
Accrued expenses and other current liabilities	3,000,600	3,874,100
Revolving line of credit	—	—
Current portion of long-term debt	26,500	251,100
Total current liabilities	68,199,900	52,495,900
Deferred tax liabilities	397,500	379,400
Long-term debt, net of current portion	36,400	1,706,500
Other long-term liabilities	1,708,400	2,306,900
Total liabilities	70,342,200	56,888,700
Shareholders' equity:		
	—	—

Preferred stock, $0.01 par value, 500,000 shares authorized and no shares issued and outstanding		
Common stock $0.01 par value, 15,000,000 shares authorized, 14,035,185 shares issued and 8,324,802 shares outstanding as of December 25, 2016, and 13,970,394 shares issued and 8,272,124 shares outstanding as of March 27, 2016	98,300	97,600
Additional paid-in capital	58,661,700	58,113,800
Treasury stock, at cost, 5,710,383 shares as of December 25, 2016 and 5,698,270 shares as of March 27, 2016	(57,432,800)	(57,245,200)
Retained earnings	108,873,800	111,561,100
Total shareholders' equity	110,201,000	112,527,300
Total liabilities and shareholders' equity	$ 180,543,200	$ 169,416,000

See accompanying notes.

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TESSCO Technologies Incorporated

Unaudited Consolidated Statements of Income

	Fiscal Quarters Ended		Nine Months Ended	
	December 25, 2016	December 27, 2015	December 25, 2016	December 27, 2015
Revenues	$ 147,198,400	$ 139,510,700	$ 410,692,200	$ 416,528,000
Cost of goods sold	117,229,800	110,057,300	324,862,000	327,581,000
Gross profit	29,968,600	29,453,400	85,830,200	88,947,000
Selling, general and administrative expenses	27,860,700	24,742,400	81,525,900	76,730,200
Income from operations	2,107,900	4,711,000	4,304,300	12,216,800
Interest expense, net	37,100	55,500	65,700	148,900
Income before provision for income taxes	2,070,800	4,655,500	4,238,600	12,067,900
Provision for income taxes	843,100	1,768,800	1,936,200	4,737,600
Net income	$ 1,227,700	$ 2,886,700	$ 2,302,400	$ 7,330,300
Basic earnings per share	$ 0.15	$ 0.35	$ 0.28	$ 0.89
Diluted earnings per share	$ 0.15	$ 0.35	$ 0.28	$ 0.89
Basic weighted-average common shares outstanding	8,321,700	8,245,100	8,307,200	8,227,600
Effect of dilutive options	13,000	36,900	18,300	34,900
Diluted weighted-average common shares outstanding	8,334,700	8,282,000	8,325,500	8,262,500
Cash dividends declared per common share	$ 0.20	$ 0.20	$ 0.60	$ 0.60

See accompanying notes.

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TESSCO Technologies Incorporated

Unaudited Consolidated Statements of Cash Flows

	Nine Months Ended	
	December 25, 2016	December 27, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,302,400	$ 7,330,300
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,361,200	3,568,300
Non-cash stock-based compensation expense	291,100	510,600
Deferred income taxes and other	(498,600)	(555,300)
Change in trade accounts receivable	(12,666,100)	(7,638,900)
Change in product inventory	(9,225,800)	6,432,100
Change in prepaid expenses and other current assets	925,100	5,337,700
Change in trade accounts payable	16,630,300	(2,646,000)
Change in payroll, benefits and taxes	(240,700)	(816,800)
Change in income and sales tax liabilities	343,300	342,500
Change in accrued expenses and other current liabilities	(615,100)	(4,170,700)
Net cash provided by operating activities	607,100	7,693,800
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,913,300)	(2,359,100)
Net cash used in investing activities	(1,913,300)	(2,359,100)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of debt issuance costs	(218,200)	—
Payments on long-term debt	(1,894,700)	(187,900)
Proceeds from issuance of common stock	68,300	81,200
Cash dividends paid	(4,989,700)	(4,961,000)
Purchases of treasury stock and repurchases of common stock from employees and directors for minimum tax withholdings	(187,600)	(826,900)
Excess tax benefit from stock-based compensation	—	510,400
Net cash used in financing activities	(7,221,900)	(5,384,200)
Net decrease in cash and cash equivalents	(8,528,100)	(49,500)
CASH AND CASH EQUIVALENTS, beginning of period	16,882,800	7,524,000
CASH AND CASH EQUIVALENTS, end of period	$ 8,354,700	$ 7,474,500

See accompanying notes.

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TESSCO Technologies Incorporated

Notes to Unaudited Consolidated Financial Statements

Note 1. Description of Business and Basis of Presentation

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

In management's opinion, the accompanying interim consolidated financial statements of the Company include all adjustments, consisting only of normal, recurring adjustments, necessary for a fair presentation of the Company's financial position for the interim periods presented. These statements are presented in accordance with the rules and regulations of the United States Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the Company's annual financial statements have been omitted from these statements, as permitted under the applicable rules and regulations. The results of operations presented in the accompanying interim consolidated financial statements are not necessarily representative of operations for an entire year. The information included in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 27, 2016.

Note 2. Recently Issued Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. The new standard will change the classification of certain cash payments and receipts within the cash flow statement. Specifically, payments for debt prepayment or debt extinguishment costs, including third-party costs, premiums paid, and other fees paid to lenders that are directly related to the debt prepayment or debt extinguishment, excluding accrued interest, will now be classified as financing activities. Previously, these payments were classified as operating expenses. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted, and will be applied retrospectively. The Company does not expect that the adoption of this new standard will have a material impact on its Consolidated Financial Statements.

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

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation – Stock Compensation. The new standard will modify several aspects of the accounting and reporting for employee share-based payments and related tax accounting impacts, including the presentation in the statements of

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operations and cash flows of certain tax benefits or deficiencies and employee tax withholdings, as well as the accounting for award forfeitures over the vesting period. The new standard is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact the adoption of this new standard will have on its Consolidated Financial Statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, Income Taxes. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and is therefore effective for the current fiscal year. GAAP previously required an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. The new standard simplifies the presentation of deferred tax assets and liabilities and now requires that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. This ASU affected our disclosures relating to deferred tax assets and liabilities. The Company has applied this guidance retrospectively and it did not have a material impact on the consolidated balance sheets.

In August 2014, the FASB issued ASU No. 2014 15, Presentation of Financial Statements—Going Concern (Subtopic 205 40), which provides guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This amendment should reduce diversity in the timing and content of footnote disclosures. This ASU is effective for the annual and interim reporting periods of beginning after December 15, 2016, with early adoption permitted. The guidance is not expected to materially impact the Company's consolidated results of operations, financial position and cash flows.

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

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Note 3. Stock-Based Compensation

The Company’s selling, general and administrative expenses for the fiscal quarter and nine months ended December 25, 2016 includes $98,700 and $291,100, respectively, of non-cash stock-based compensation expense. The Company’s selling, general and administrative expenses for the fiscal quarter and nine months ended December 27, 2015 include $110,900 and $510,600, respectively, of non-cash stock-based compensation expense. Stock-based compensation expense is primarily related to our Performance Stock Units (PSUs), Restricted Stock Units (RSUs), and Stock Options. In addition, the Company recorded an excess tax benefit directly to shareholders’ equity of $510,400, primarily related to the PSUs that vested during the nine months ended December 27, 2015. No excess tax benefit related to PSU vesting was recorded during the nine months ended December 25, 2016.

On July 26, 2016, the Company’s shareholders approved the Third Amended and Restated 1994 Stock and Incentive Plan (the Amended and Restated 1994 Plan), which amended and restated the Company’s Second Amended and Restated 1994 Stock and Incentive Plan, as previously amended (the 1994 Plan), in its entirety. The material amendments to the 1994 Plan reflected by the Amended and Restated 1994 Plan are as follows:

- Extension of Plan Term. The date through which awards may be granted was extended to July 21, 2021. Prior to this extension, the 1994 Plan was scheduled to expire on July 21, 2016.
- Increase in Aggregate Share Limit. The Amended and Restated 1994 Plan increased the number of shares available for awards by 650,000 shares. The 1994 Plan had previously limited the aggregate number of shares of the Company's common stock that may have been delivered pursuant to all awards granted under the 1994 Plan to 3,553,125 shares. The Amended and Restated 1994 Plan increased the number of shares available for awards to 4,203,125 shares.
- Elimination of Liberal Share Recycling. The Amended and Restated 1994 Plan, at Section 5(a)(iii), now prohibits liberal share recycling in respect of shares tendered by participants in payment of the exercise price for awards, or for payroll tax withholding obligations, and provides that such tendered shares shall not be available for purposes of the Amended and Restated 1994 Plan. Although the 1994 Plan could have been construed to permit it, the Company has not historically included such tendered shares as shares available for awards under the 1994 Plan.

On September 1, 2016, the Company appointed Murray Wright to serve as the Company’s President and Chief Executive Officer. In connection with Mr. Wright’s appointment, he was granted a stock option to purchase 250,000 shares of the Company’s common stock and 10,000 PSUs with a fiscal 2017 measurement year. The disclosures below for PSUs and stock options include these grants.

During the quarter ended December 25, 2016, the Compensation Committee of the Board of Directors with concurrence of the full Board of Directors, granted stock options to select key employees to purchase an aggregate of 130,000 shares of the Company’s common stock. The disclosure below for stock options includes these grants.

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Performance Stock Units: The following table summarizes the activity under the Company's PSU program under the Amended and Restated 1994 Plan, for the first nine months of fiscal 2017:

	Nine Months Ended December 25, 2016	Weighted Average Fair Value at Grant Date (per unit)
Unvested shares available for issue under outstanding PSUs, beginning of period	138,925	$ 21.46
PSU's Granted	207,000	10.77
PSU's Vested	(26,736)	19.40
PSU's Forfeited/Cancelled	(123,654)	21.72
Unvested shares available for issue under outstanding PSUs, end of period	195,535	$ 11.16

Of the 195,535 unvested shares available for issue under outstanding PSUs as of December 25, 2016, 8,535 shares were previously earned in respect of the applicable measurement year, and will vest and be issued on or about May 1, 2017, assuming the respective participants remain employed by or associated with the Company on this date.

During fiscal 2017, the Compensation Committee of the Board of Directors with concurrence of the full Board of Directors, granted PSUs to select key employees, providing them with the opportunity to earn up to 207,000 shares of the Company's common stock in the aggregate, depending upon whether and to the extent that certain earnings per share targets and other Company and individual performance metrics are met. These not-yet-earned PSUs have a one-year measurement period (fiscal 2017), and assuming the performance metrics are met to a sufficient extent, any shares earned at the end of fiscal 2017 will vest and be issued ratably on or about May 1 of 2017, 2018, 2019 and 2020, provided that the respective employees remain employed by or associated with the Company on each such date. Due to employee departures, 20,000 of these shares were subsequently canceled, leaving 187,000 unvested shares available for issue under PSUs granted under the Amended and Restated 1994 Plan during the current fiscal year, as of December 25, 2016. For the nine months ending December 25, 2016, the Company has not recognized any expense related to these awards as the Company's current estimate of fiscal 2017 earnings is below the minimum threshold set for these awards.

The additional PSUs cancelled during fiscal 2017 related to the fiscal 2016 grant of PSUs, which had a one year measurement period (fiscal 2016). The PSUs were cancelled because the applicable fiscal 2016 performance targets were not attained to any extent. Per the provisions of the 1994 Plan, the shares related to these forfeited and cancelled PSUs were added back to the 1994 Plan and became available for future issuance, now under the Amended and Restated 1994 Plan.

If all PSUs granted in fiscal 2017 that now remain outstanding are assumed to be earned on account of the applicable performance metrics being fully met, total unrecognized compensation costs on these PSUs, together will all previously earned but unvested PSUs, net of estimated forfeitures, would be approximately $2.0 million, as of December 25, 2016, and would be expensed through fiscal 2020. To the extent the actual forfeiture rate is different from what is anticipated or the maximum number of PSUs granted in fiscal 2017 is not earned, stock-based compensation related to these awards will differ from this amount.

Restricted Stock Units: The Company has over recent years made annual restricted stock unit (RSU) awards to its non-employee directors. On May 11, 2016, the Compensation Committee, with the concurrence of the full Board of Directors, awarded an aggregate of 10,000 RSUs, ratably to the non-employee directors of the Company. These awards provide for the issuance of shares of the Company’s common stock in accordance with a four-year annual vesting schedule, following from the date of grant, provided that the director remains associated with the Company (or meets other criteria as prescribed in the applicable award agreement) on each such anniversary date. As of December 25, 2016, there was approximately $0.3 million of total unrecognized

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compensation cost, net of estimated forfeitures, related to all outstanding RSUs, including the May 11, 2016 grant. Unrecognized compensation costs are expected to be recognized ratably over a weighted average period of approximately two years.

PSUs and RSUs are expensed based on the grant date fair value, calculated as the closing price of TESSCO common stock as reported by NASDAQ on the date of grant minus the present value of dividends expected to be paid on the common stock before the award vests, because dividends or dividend-equivalent amounts do not accrue and are not paid on unvested PSUs and RSUs.

To the extent the actual forfeiture rates are different from what is estimated, stock-based compensation related to the restricted awards will be different from the Company's expectations.

Stock Options: As of December 25, 2016, there were 440,000 stock options outstanding, and there was approximately $0.8 million of total unrecognized compensation cost, net of estimated forfeitures, related to these outstanding stock options. As of December 25, 2016, 21,250 of the outstanding stock options were vested.

Note 4. Borrowings Under Revolving Credit Facility

On June 24, 2016, the Company and its primary operating subsidiaries entered into a Credit Agreement (the "Credit Agreement") with SunTrust Bank, as Administrative Agent. The Credit Agreement provides for a senior asset based revolving credit facility of up to $35 million (the "Revolving Credit Facility"), and replaces the Company's previously existing $35 million unsecured revolving credit facility with both SunTrust Bank and Wells Fargo Bank, National Association, which had no outstanding principal balance at the time of replacement. The new Revolving Credit Facility matures in five years, on June 24, 2021, and includes a $5.0 million sublimit for the issuance of standby letters of credit and a $10.0 million sublimit for swing line loans. The Credit Agreement also includes a provision permitting the Company, subject to certain conditions and approval of the Lenders, to increase the aggregate amount of the commitments under the Revolving Credit Facility to up to $50 million, through optional increased commitments from existing Lenders or new commitments from additional lenders, although no Lender is obligated to increase its commitment. Borrowing availability is determined in part in accordance with a borrowing base, which is generally 85% of eligible receivables minus reserves. The Credit Agreement also contains financial covenants, including a fixed charge coverage ratio that must be maintained at any time during which the borrowing availability is otherwise less than $10 million. The Credit Agreement also may limit our ability to engage in specified transactions or activities, including (but not limited to) investments and acquisitions, sales of assets, payment of dividends, issuance of additional debt and other matters.

Borrowings initially accrue interest from the applicable borrowing date, generally the Eurodollar rate plus an applicable margin ranging from 1.5% to 1.75%. Under certain circumstances, the applicable interest rate is subject to change from the Eurodollar rate plus the applicable margin to the base rate plus the applicable margin. Borrowings under the Revolving Credit Facility may be used for working capital and other general corporate purposes, and as further provided in, and subject to the applicable terms of, the Credit Agreement. As of December 25, 2016, we had a zero balance on the Revolving Credit Facility; therefore, we had $35 million available, subject to the borrowing base limitation and compliance with the other applicable terms of the Credit Agreement including the covenants referenced above.

Pursuant to a related Guaranty and Security Agreement, by and among the Company, the other borrowers under the Credit Agreement and other subsidiaries of the Company (collectively, the “Loan Parties”), and SunTrust Bank, as Administrative Agent, the Loan Parties’ obligations, which include the obligations under the Credit

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Agreement, are guaranteed by the Loan Parties not otherwise borrowers, and secured by continuing first priority security interests in the Company’s and the other Loan Parties’ (including both borrowers and guarantors) inventory, accounts receivable, and deposit accounts, and on all documents, instruments, general intangibles, letter of credit rights, and chattel paper, in each case to the extent relating to inventory and accounts, and to all proceeds of the foregoing. The security interests are granted in favor of the Administrative Agent, for the benefit of the Lenders party to the Credit Agreement from time to time. The obligations secured also include certain other obligations of the Loan Parties to the Lenders and their affiliates arising from time to time, relating to swaps, hedges and cash management and other bank products.

Note 5. Extinguishment of Debt

Simultaneously with entering into the senior asset based Revolving Credit Facility described in Note 4, the Company terminated its previously existing $35 million unsecured revolving credit facility with SunTrust Bank and Wells Fargo Bank, National Association, which had no outstanding principal balance at the time of termination.

At the same time, the Company also repaid in full its obligations under its Term Loan in the original principal amount of $4.5 million from Wells Fargo Bank, National Association and SunTrust Bank. The Term Loan was secured by a first position deed of trust encumbering Company-owned real property in Hunt Valley, Maryland and had an outstanding principal balance of $1.9 million at the time of repayment.

Note 6. Fair Value Disclosure

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs for the asset or liability that reflect the reporting entity’s own assumptions about the inputs used in pricing the asset or liability.

The Company had no assets or liabilities required to be measured at fair value as of December 25, 2016 or as of March 27, 2016.

The carrying amounts of cash and cash equivalents, trade accounts receivable, trade accounts payable, accrued expenses and other current liabilities approximate their fair values as of December 25, 2016 and March 27, 2016 due to their short term nature.

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Fair value of long-term debt is calculated using current market interest rates, which we consider to be a Level 2 input as described in the fair value accounting guidance on fair value measurements, and future principle payments, as of December 25, 2016 and March 27, 2016 is estimated as follows:

	December 25, 2016		March 27, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Note payable to Baltimore County	$ 62,900	$ 60,500	$ 82,600	$ 78,700

Note 7. Income Taxes

As of December 25, 2016, the Company had a gross amount of unrecognized tax benefits of $223,100 ($147,200 net of federal benefit). As of March 27, 2016, the Company had a gross amount of unrecognized tax benefits of $290,400 ($188,800 net of federal benefit).

The Company's accounting policy with respect to interest and penalties related to tax uncertainties is to classify these amounts as part of the provision for income taxes. The total amount of interest and penalties related to tax uncertainties recognized in the consolidated statement of income for the first nine months of fiscal 2017 was an expense of $9,000 (net of federal benefit). The cumulative amount included in the consolidated balance sheet as of December 25, 2016 was $346,200 (net of federal benefit). The total amount of interest and penalties related to tax uncertainties recognized in the consolidated statement of income for the first nine months of fiscal 2016 was an expense of $2,000 (net of federal benefit). The cumulative amount of interest and penalties included in the consolidated balance sheet as of March 27, 2016 was $339,800 (net of federal benefit).

A reconciliation of the changes in the gross balance of unrecognized tax benefits, excluding interest is as follows:

Beginning balance at March 27, 2016 of unrecognized tax benefit	$ 290,400
Increases related to current period tax positions	2,200
Reductions as a result of a lapse in the applicable statute of limitations	(69,500)
Ending balance at December 25, 2016 of unrecognized tax benefits	$ 223,100

Note 8. Earnings Per Share

The Company calculates earnings per share considering the Accounting Standard Codification No. 260 regarding accounting for participating securities, which requires the Company to use the two-class method to calculate earnings per share. Under the two-class method, earnings per common share is computed by dividing the sum of the distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the weighted average shares outstanding during the period. As of December 25, 2016, the Company had no participating securities outstanding and no distributed or undistributed earnings allocated to non-vested stock. As of December 27, 2015, the Company had 36,945 shares that qualified as participating securities. As such, the following table presents the calculation of basic and diluted earnings per common share for the fiscal quarter and nine months ended December 27, 2015:

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Amounts in thousands, except per share amounts	Fiscal Quarter Ended December 27, 2015		Nine Months Ended December 27, 2015	
Earnings per share – Basic:				
Net earnings	$	2,887	$	7,330
Less: Distributed and undistributed earnings allocated to nonvested stock		(8)		(20)
Earnings available to common shareholders – Basic	$	2,879	$	7,310
Weighted average common shares outstanding – Basic		8,245		8,228
Earnings per common share – Basic	$	0.35	$	0.89
Earnings per share – Diluted:				
Net earnings	$	2,887	$	7,330
Less: Distributed and undistributed earnings allocated to nonvested stock		(8)		(11)
Earnings available to common shareholders – Diluted	$	2,879	$	7,319
Weighted average common shares outstanding – Basic		8,245		8,228
Effect of dilutive options		37		35
Weighted average common shares outstanding – Diluted		8,282		8,263
Earnings per common share – Diluted	$	0.35	$	0.89
Anti-dilutive equity awards not included above		100		100

At December 25, 2016, stock options with respect to 440,000 shares of common stock were outstanding, of which 350,000 were anti-dilutive. At December 27, 2015, stock options with respect to 100,000 shares of common stock were outstanding, all of which were anti-dilutive. There were no anti-dilutive PSUs or RSUs outstanding as of December 25, 2016 or December 27, 2015 respectively.

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Note 9. Business Segments

The Company evaluates its business as one segment, as the chief operating decision maker assesses performance and allocates resources on a consolidated basis. However, to provide investors with increased visibility into the markets it serves, the Company also reports revenue and gross profit by the following customer market units: (1) public carriers, contractors and program managers, that are generally responsible for building and maintaining the infrastructure system and provide airtime service to individual subscribers; (2) government system operators including federal agencies and state and local governments that run wireless networks for their own use; (3) private system operators including commercial entities such as enterprise customers, major utilities and transportation companies; (4) commercial dealers and resellers that sell, install and/or service cellular telephone, wireless networking, broadband and two-way radio communications equipment primarily for the enterprise market; and (5) retailers, independent dealer agents and carriers.

To provide investors with better visibility, the Company also discloses revenue and gross profit by its four product categories:

· Base station infrastructure products are used to build, repair and upgrade wireless telecommunications systems. Products include base station antennas, cable and transmission lines, small towers, lightning protection devices, connectors, power systems, miscellaneous hardware, and mobile antennas. Our base station infrastructure service offering includes connector installation, custom jumper assembly, site kitting and logistics integration.

· Network systems products are used to build and upgrade computing and internet networks. Products include fixed and mobile broadband equipment, distributed antenna systems (DAS), wireless networking, filtering systems, two-way radios and security and surveillance products. This product category also includes training classes, technical support and engineering design services.

· Installation, test and maintenance products are used to install, tune, maintain and repair wireless communications equipment. Products include sophisticated analysis equipment and various
frequency-, voltage- and power-measuring devices, as well as an assortment of tools, hardware, GPS, safety and replacement and component parts and supplies required by service technicians.

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

The Company evaluates revenue, gross profit, and income before provision for income taxes at a consolidated level. Certain cost of sales and other applicable expenses have been allocated to each market unit or product type based on a percentage of revenues and/or gross profit, where appropriate.

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Market unit activity for the third quarter and first nine months of fiscal years 2017 and 2016 are as follows (in thousands):

	Three Months Ended	
	December 25, 2016	December 27, 2015
Revenues		
Public Carriers, Contractors & Program Managers	$ 25,851	$ 22,381
Government System Operators	8,250	9,849
Private System Operators	27,120	21,634
Commercial Dealers & Resellers	29,913	32,566
Retailer, Independent Dealer Agents & Carriers	56,064	53,081
Total revenues	$ 147,198	$ 139,511
Gross Profit		
Public Carriers, Contractors & Program Managers	$ 4,070	$ 3,678
Government System Operators	1,843	2,220
Private System Operators	6,230	5,093
Commercial Dealers & Resellers	8,362	8,706
Retailer, Independent Dealer Agents & Carriers	9,464	9,756
Total gross profit	$ 29,969	$ 29,453

	Nine Months Ended	
	December 25, 2016	December 27, 2015
Revenues		
Public Carriers, Contractors & Program Managers	$ 60,961	$ 73,335
Government System Operators	27,092	26,514
Private System Operators	72,370	66,712
Commercial Dealers & Resellers	95,599	100,109
Retailer, Independent Dealer Agents & Carriers	154,670	149,858
Total revenues	$ 410,692	$ 416,528
Gross Profit		
Public Carriers, Contractors & Program Managers	$ 10,323	$ 12,485
Government System Operators	6,075	6,260
Private System Operators	16,623	16,293
Commercial Dealers & Resellers	26,269	26,289
Retailer, Independent Dealer Agents & Carriers	26,540	27,620
Total gross profit	$ 85,830	$ 88,947

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Supplemental revenue and gross profit information by product category for the third quarter and first nine months of fiscal years 2017 and 2016 are as follows (in thousands):

	Three months ended December 25, 2016	Three months ended December 27, 2015
Revenues		
Base station infrastructure	$ 52,193	$ 51,571
Network systems	25,242	22,922
Installation, test and maintenance	9,633	9,851
Mobile device accessories	60,130	55,167
Total revenues	$ 147,198	$ 139,511