

TESSCO TECHNOLOGIES INC  
Form 10-K  
June 06, 2016  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10 K

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

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

Commission file number 001-33938

TESSCO Technologies Incorporated

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	52-0729657 (I.R.S. Employer Identification No.)
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11126 McCormick Road, Hunt Valley, Maryland (Address of principal executive offices)	21031 (Zip Code)
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Registrant's telephone number, including area code (410) 229-1000

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

Title of each class	Name of each exchange on which registered
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Common Stock, \$0.01 par value

NASDAQ Global Select Market

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

None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

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

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

\$125,779,828.

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

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

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Part I

Item 1. Business.

General

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

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

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

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

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

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

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

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

#### Customers

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

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

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

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

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

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

## Products and Services

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

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

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



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

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

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

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

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

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

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

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

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

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Method of Operation

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

2015 and fiscal year 2016.

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

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

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

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

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

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

Competition

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

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

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

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

## Intellectual Property

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

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

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

#### Environmental Regulation

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

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## Employees

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

## Executive Officers

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

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



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Item 1A. Risk Factors.

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

RISKS RELATING TO OUR BUSINESS

We face significant competition in the wireless communications distribution industry.

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

cash flows.

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

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

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

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

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

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

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

We are subject to potential declines in inventory value.

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

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

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

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

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

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

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

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

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

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

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

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

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

We may explore additional growth through acquisitions.

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

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

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

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

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

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

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

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

Changes in income tax and other regulatory legislation.

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



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

We may be subject to litigation.

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

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

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

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

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

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

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

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

We may be adversely affected by future laws or regulations.

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

RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

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

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

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

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

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

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

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

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

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

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

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

Our quarterly operating results are subject to significant fluctuation.

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

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

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

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

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

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

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

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

Item 3. Legal Proceedings.

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

examination.

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

Item 4. Mine Safety Disclosures

Not applicable.



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## Part II

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

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

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

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

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

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

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

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

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

## Stock Performance Graph

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

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

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

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

## Item 6. Selected Financial Data.

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

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

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

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

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

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

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

## Business Overview and Environment

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

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

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

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

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

## Results of Operations

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

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



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

Fiscal Year 2016 Compared to Fiscal Year 2015

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

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

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

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

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

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

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

than in fiscal year 2015.

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

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

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

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

Fiscal Year 2015 Compared to Fiscal Year 2014

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

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

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

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

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

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

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

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

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

Liquidity and Capital Resources

In summary, our cash flows were as follows:

	2016	2015	2014
Cash flow provided by operating activities	\$ 20,141,100	\$ 11,079,800	\$ 18,665,400
Cash flow used in investing activities	(3,513,800)		