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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 25, 2016

or

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

For the transition period from to

Commission File Number: 001-33938

TESSCO Technologies Incorporated

(Exact name of registrant as specified in its charter)

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

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

(410) 229-1000

(Registrant’s telephone number, including area code)

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

Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

Yes No

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

TESSCO Technologies Incorporated

Consolidated Balance Sheets

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

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

See accompanying notes.

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TESSCO Technologies Incorporated

Unaudited Consolidated Statements of Income

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

See accompanying notes.

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TESSCO Technologies Incorporated

Unaudited Consolidated Statements of Cash Flows

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

See accompanying notes.

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TESSCO Technologies Incorporated

Notes to Unaudited Consolidated Financial Statements

Note 1. Description of Business and Basis of Presentation

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

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

Note 2. Recently Issued Accounting Pronouncements

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

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

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

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

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

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

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

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Note 3. Stock-Based Compensation

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

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

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

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

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

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

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

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

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

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

If all PSUs granted in fiscal 2017 that now remain outstanding are assumed to be earned on account of the applicable performance metrics being fully met, total unrecognized compensation costs on these PSUs, together will all

previously earned but unvested PSUs, net of estimated forfeitures, would be approximately $2.0 million, as of December 25, 2016, and would be expensed through fiscal 2020. To the extent the actual forfeiture rate is different from what is anticipated or the maximum number of PSUs granted in fiscal 2017 is not earned, stock-based compensation related to these awards will differ from this amount.

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

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

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

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

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

Note 4. Borrowings Under Revolving Credit Facility

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

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

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

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

Note 5. Extinguishment of Debt

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

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

Note 6. Fair Value Disclosure

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

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

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

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

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

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

Note 7. Income Taxes

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

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

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

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

Note 8. Earnings Per Share

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

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

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

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Note 9. Business Segments

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

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

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

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

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

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

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

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

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

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

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

	Three months ended December 25, 2016	Three months ended December 27, 2015
Revenues		
Base station infrastructure	$ 52,193	$ 51,571
Network systems	25,242	22,922
Installation, test and maintenance	9,633	9,851
Mobile device accessories	60,130	55,167
Total revenues	$ 147,198	$ 139,511
Gross Profit		
Base station infrastructure	$ 13,857	$ 13,381
Network systems	3,186	3,717
Installation, test and maintenance	1,594	1,687
Mobile device accessories	11,332	10,668
Total gross profit	$ 29,969	$ 29,453

	Nine months ended December 25, 2016	Nine months ended December 27, 2015
Revenues		
Base station infrastructure	$ 157,090	$ 161,669
Network systems	65,133	66,541
Installation, test and maintenance	25,269	27,481
Mobile device accessories	163,200	160,837
Total revenues	$ 410,692	$ 416,528
Gross Profit		
Base station infrastructure	$ 40,738	$ 41,139
Network systems	9,505	10,200
Installation, test and maintenance	4,538	5,184
Mobile device accessories	31,049	32,424
Total gross profit	$ 85,830	$ 88,947

Note 10. Stock Buyback

On April 23, 2014, the Board of Directors expanded the Company's then existing stock buyback program and authorized the purchase on a non-accelerated basis of up to $10.0 million of the Company's stock over a 24-month period, which ended in April 2016. No shares were purchased during the first nine months of fiscal year 2017 and the stock buyback program has now expired.

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The Company also withholds shares from its employees and directors at their request, equal to the minimum federal and state tax withholdings related to vested performance stock units, stock option exercises and restricted stock awards. For the nine months ended December 25, 2016 and December 27, 2015, the allocated value of the shares withheld totaled $187,600 and $827,000, respectively.

Note 11. Concentration of Risk

The Company’s future results could be negatively impacted by the loss of certain customer and/or vendor relationships.

For the fiscal quarter and nine months ended December 25, 2016 and December 27, 2015, no customer accounted for more than 10.0% of total consolidated revenues.

For the fiscal quarter ended December 25, 2016, sales of products from the Company’s largest mobile device accessories supplier and largest wireless infrastructure supplier accounted for 9.6% and 10.0% of consolidated revenue, respectively. For the nine months ended December 25, 2016, sales of products from the Company’s largest mobile device accessories supplier and largest wireless infrastructure supplier accounted for 11.3% and 10.0% of consolidated revenue, respectively. For the fiscal quarter ended December 27, 2015, sales of products from the Company’s largest mobile device accessories supplier and largest wireless infrastructure supplier accounted for 14.6% and 9.1% of consolidated revenue, respectively. For the nine months ended December 27, 2015, sales of products from the Company’s largest mobile device accessories suppler and largest wireless infrastructure supplier accounted for 14.6% and 10.6% of consolidated revenue, respectively.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. This commentary should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations from the Company's Annual Report on Form 10-K for the fiscal year ended March 27, 2016.

Business Overview and Environment

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

We evaluate our business as one segment. However, to provide investors with increased visibility into the markets we serve, we also report revenue and gross profit by the following market units: (1) public carriers, contractors and program managers (public carrier); (2) government system operators (government); (3) private system operators (private systems); (4) commercial dealers and resellers; and (5) retailers, independent dealer agents and carriers (retail).

We offer a wide range of products that are classified into four product categories: base station infrastructure; network systems; installation, test and maintenance; and mobile device accessories. Base station infrastructure products are used to build, repair and upgrade wireless telecommunication systems. 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, distributed antennas systems (DAS), 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 device accessories products include cellular phone and data device accessories.

Our third quarter fiscal 2017 revenue increased by 5.5% compared to the third quarter of fiscal 2016. We experienced third quarter fiscal 2017 revenue growth within our public carrier market, private systems market, and retail market of 15.5%, 25.4% and 5.6%, respectively, as compared to the same quarter last year. This growth was partially offset by declines in our government market and our commercial reseller market of 16.2% and 8.1%, respectively, as compared to the third quarter of fiscal 2016. We continue to see sequential growth in the public carrier market, with revenues increasing 39.5% in the third quarter of fiscal 2017 as compared to the second quarter of fiscal 2017. This year over year increase and sequential growth in the public carrier market is largely the result of increased spending by our tower owner and program manager customers. On the product side, revenue increased in our base station infrastructure, network systems, and mobile device accessories categories by 1.2%, 10.1% and 9.0%, respectively, for

the third quarter of fiscal 2017, compared to the same quarter last year.

Our third quarter fiscal year 2017 gross profit increased by 1.7%, compared to the third quarter of fiscal year 2016. The increase in gross profit was primarily the result of the increases in revenue discussed above, partially offset by compressed gross profit margins caused by changes in customer and product mix, including the growth in the lower margin public carrier market. Total selling, general and administrative expenses increased by 12.6% compared to the prior-year quarter. As a result, net income decreased by 57.5% and diluted earnings per share decreased by 57.1% compared to the prior-year quarter.

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On October 11, 2016, Samsung Electronics Co. Ltd. announced the discontinuation and recall of its Galaxy Note 7 phone. We have not distributed this phone, but until recently distributed mobile device accessories related to it. Following Samsung's announcement, our inventory of these accessory products became largely obsolete. Through discussion and negotiation with Samsung and our other primary vendors and customers for these accessory products we were able to dispose of this inventory with an immaterial financial impact. Should similar or other events occur in the future, rendering portions of our inventory obsolete on account of technical failure of related or companion products, or for other reasons, we cannot be assured that we will be successful in resolving those situations without material financial impact.

Our ongoing ability to earn revenues and gross profits from customers and vendors looking to us for product and supply chain solutions depends 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 relatively short notice. Because of the nature of our business, we have been affected from time to time in the past by the loss and changes in the business habits of significant customer and vendor relationships, and we may continue to be so affected in the future. Our customer relationships could also be affected by wireless carrier consolidation or the overall global economic environment.

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 accessories 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. Our ability to maintain customer and vendor 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, industry experience and knowledge, and our large customer base and purchasing relationships with approximately 400 manufacturers, provide us with a significant competitive advantage over new entrants to the market.

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Results of Operations

Third quarter of Fiscal Year 2017 Compared with Third quarter of Fiscal Year 2016

Total Revenues. Revenues for the third quarter of fiscal 2017 increased 5.5% compared with the third quarter of fiscal 2016. Revenues in our public carrier market increased by 15.5%, due to increased spending among our tower owner and program manager customers. Revenue in our private system market increased 25.4%, as compared to the third quarter of fiscal 2016, due to increased spending from a large repair center customer coupled with increased spending from our utility customers. Our retail market increased 5.6% in the third quarter of fiscal 2017 as compared to the third quarter of fiscal 2016, due, in part, to increased spending by our large multi-door retail dealers. This growth was partially offset by a decrease in revenue in our government market and our commercial dealers and resellers markets of 16.2% and 8.1%, respectively, as compared to the prior year period.

Total Gross Profit. Gross profit for the third quarter of fiscal 2017 increased by 1.7% compared to the third quarter of fiscal 2016. Gross profit in our public carriers, contractors and program managers market as well as our private system operators market increased by 10.7% and 22.3%, respectively. Gross profit in our government; commercial resellers; and retail markets decreased by 17.0%, 4.0%, and 3.0%, respectively. Overall gross profit margin decreased from 21.1% in the third quarter of fiscal 2016 to 20.4% in the third quarter of fiscal 2017. This decline is caused by a change in product and customer mix, including the increase in lower margin sales in the public carrier market. Additionally, we experienced margin compression in our retail market due to increased spending by our large multi-door dealers.

As discussed above under the heading “Business Overview and Environment,” our ongoing ability to earn revenues and gross profits from customers and vendors depends upon a number of factors which often differ for each relationship. Agreements or arrangements on which these relationships are based typically do not include any obligation in respect of any specific product purchase or sale, are of limited duration, and are terminable by either party upon relatively short notice. We have been affected from time to time in the past by the loss and changes in the business habits of significant customer and vendor relationships, and we may continue to be so affected in the future.

Selling, General and Administrative Expenses. Total selling, general and administrative expenses increased by $3.1 million for the third quarter of fiscal 2017, compared to the third quarter of fiscal 2016. Selling, general and administrative expenses as a percentage of revenues increased from 17.7% for the third quarter of fiscal 2016, to 18.9% for the third quarter of fiscal 2017.

Compensation and benefit expenses increased by $0.8 million for the third quarter of fiscal 2017, compared to the third quarter of fiscal 2016. These increases are primarily due to continued investments related to our sales initiatives as well as the hiring of our new President and Chief Executive Officer. Additionally, operations costs have increased

associated with an increasing number of orders in our retail market.

Pay for performance bonus expense (including both cash and equity plans) increased by $1.0 million for the third quarter of fiscal 2017, compared to the third quarter of fiscal 2016. Our bonus programs are typically based on achieving annual performance targets. In the third quarter of fiscal 2016, we reversed the performance bonus expense of $0.4 million recorded in the first two quarters of fiscal 2016 due to adjustments in our projected annual earnings for 2016 at that time. Additionally, our bonus program for fiscal 2017 includes service based rewards that have increased bonus expense in the third quarter of 2017.

Marketing expense increased by $0.6 million for the third quarter of fiscal 2017, compared to the third quarter

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of fiscal 2016, primarily due to an increase in market development expense, which is directly related to retail sales volume and other sales promotion and marketing programs.

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. We incurred bad debt expense of $103,300 and $146,400 for the fiscal quarter ended December 25, 2016 and December 27, 2015, respectively.

Interest, Net. Net interest expense decreased from $55,500 for the third quarter of fiscal 2016 to $37,100 for the third quarter of fiscal 2017, due to the extinguishment of our term loan as discussed in Note 5 to our financial statements, above.

Income Taxes, Net Income and Diluted Earnings per Share. The effective tax rate increased from 38.0% for the third quarter of fiscal 2016 to 40.7% for the third quarter of fiscal 2017. The effective tax rate for the third quarter of fiscal 2017 was higher due to a higher ratio of permanent differences related to our projected pre-tax income. Our provision for income taxes decreased by 52.3% compared to the prior year quarter, primarily as a result of lower income before provision for income taxes. As a result of the factors discussed above, net income decreased 57.5% and diluted earnings per share decreased 57.1% for the third quarter of fiscal 2017, compared to the corresponding prior-year quarter.

First Nine months of Fiscal Year 2017 Compared with First Nine months of Fiscal Year 2016

Total Revenues. Revenues for the first nine months of fiscal 2017 decreased 1.4% compared with the first nine months of fiscal 2016. Revenues in our private systems market increased by 8.5%, compared to the same period last year, primarily due to increased spending from our utilities customers. Revenues also increased in our government and our retail markets by 2.2% and 3.2%, respectively. This growth was more than offset by a decrease in revenue in our public carrier market and our commercial resellers market by 16.9% and 4.5%, respectively, compared to the same period last year primarily due to a reduction in spending from Tier 1 carriers, and from customers working with and for these Tier 1 carriers.

Total Gross Profit. Gross profit for the first nine months of fiscal 2017 decreased by 3.5% compared to the first nine months of fiscal 2016. Gross profits in our private systems market increased by 2.0% due to increased sales from our utilities customers. Gross profit decreased in our public carrier market, our government market, and our retail market by 17.3%, 3.0% and 3.9%, respectively. Overall gross profit margin declined to 20.9% for the first nine months of fiscal 2017, compared to 21.4% for the same period last year.

As discussed above under the heading “Business Overview and Environment,” our ongoing ability to earn revenues and gross profits from customers and vendors depends upon a number of factors which often differ for each relationship. Agreements or arrangements on which these relationships are based typically do not include any obligation in respect of any specific product purchase or sale, are of limited duration, and are terminable by either party upon relatively short notice. We have been affected from time to time in the past by the loss and changes in the business habits of significant customer and vendor relationships, and we may continue to be so affected in the future.

We account for inventory at the lower of cost or market, and as a result, write-offs and 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 the last two fiscal years and for fiscal 2017 year to date.

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Selling, General and Administrative Expenses. Total selling, general and administrative expenses increased by $4.8 million for the first nine months of fiscal 2017, compared to the first nine months of fiscal 2016. Selling, general and administrative expenses as a percentage of revenues increased from 18.4% for the first nine months of fiscal 2016, to 19.9% for the first nine months of fiscal 2017.

Compensation and benefit expenses increased by $1.5 million for the first nine months of fiscal 2017, compared to the first nine months of fiscal 2016. These increases are primarily due to continued investments related to our sales and marketing initiatives, as well as the hiring of our new President and Chief Executive Officer. Additionally, operations costs have increased associated with an increase in the number of orders processed in our retail market.

Pay for performance bonus expense (including both cash and equity plans) increased by $0.6 million for the first nine months of fiscal 2017, compared to the first nine months of fiscal 2016. Our bonus programs are primarily based on achieving annual performance targets. Our bonus program for fiscal 2017 includes service based rewards that have increased bonus expense in the third quarter of 2017.

Marketing expense increased by $0.9 million for the first nine months of fiscal 2017, compared to the first nine months of fiscal 2016, primarily due to an increase in market development expense, which is directly related to retail sales volume as well as other sales promotion and marketing programs.

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. We incurred bad debt expense of $633,500 and $804,300 for the nine month ended December 25, 2016 and December 27, 2015, respectively.

Interest, Net. Net interest expense decreased from $148,900 for the first nine months of fiscal 2016 to $65,700 for the first nine months of fiscal 2017, due to the extinguishment of our term loan, as discussed in Note 5 to our financial statements, above.

Income Taxes, Net Income and Diluted Earnings per Share. The effective tax rate increased from 39.3% for the first nine months of fiscal 2016 to 45.7% for the first nine months of fiscal 2017. The effective tax rate for the first nine months of fiscal 2017 was higher due to a higher ratio of permanent differences related to our projected pre-tax income. Our provision for income taxes decreased by 59.1% compared to the first nine months of fiscal 2016, primarily as a result of lower income before provision for income taxes. As a result of the factors discussed above, net income decreased 68.6% and diluted earnings per share decreased 68.5% for the first nine months of fiscal 2017, compared to the corresponding prior-year period.

Liquidity and Capital Resources

The following table summarizes our cash flows provided by or used in operating, investing and financing activities for the nine months ended December 25, 2016 and December 27, 2015:

	Nine Months Ended	
	December 25, 2016	December 27, 2015
Cash flow provided by operating activities	$ 607,100	$ 7,693,800
Cash flow used in investing activities	(1,913,300)	(2,359,100)
Cash flow used in financing activities	(7,221,900)	(5,384,200)
Net decrease in cash and cash equivalents	$ (8,528,100)	$ (49,500)

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We generated $0.6 million of net cash from operating activities for the first nine months of fiscal 2017, compared with net cash provided by operating activities of $7.7 million for the first nine months of fiscal 2016. This fiscal 2017 inflow was driven by net income plus depreciation and amortization coupled with an increase in accounts payable, partially offset by increases in accounts receivable and product inventory. The increase in accounts payable was driven by the increase and timing of product inventory purchases. Our higher inventory levels are due to our higher activity levels in our public carrier and retail markets. The increase in accounts receivable is related to an increase in sales volume in the third quarter compared to sales volume in last year's fourth quarter.

Net cash used in investing activities of $1.9 million for the first nine months of fiscal 2017 was down from expenditures of $2.4 million for the first nine months of fiscal 2016. Cash used in both periods was due to capital expenditures largely comprised of investments in information technology.

Net cash used in financing activities was $7.2 million for the first nine months of fiscal 2017, compared to $5.4 million for the first nine months of fiscal 2016. During the first nine months of both fiscal 2017 and fiscal 2016, we had cash outflows due to cash dividends paid to shareholders. Additionally, during the first nine months of fiscal 2017, we had a cash outflow relating to the repayment of our term loan of $1.9 million. During the first nine months of fiscal 2016, we had cash outflows due to stock repurchased from employees and directors for minimum tax withholdings related to equity compensation, partially offset by the excess tax benefit from stock-based compensation.

During the first quarter of fiscal 2017 we entered into a senior asset based revolving credit facility of up to $35 million with SunTrust Bank, as Administrative Agent. The revolving credit facility is secured by our and our primary operating subsidiaries' inventory, accounts receivable, and deposit accounts, and replaces our previously existing unsecured revolving credit facility with SunTrust Bank and Wells Fargo Bank, National Association. Interest on borrowings is payable monthly, generally at the Eurodollar rate plus an applicable margin ranging from 1.5% to 1.75%. Under certain circumstances, the applicable interest rate is subject to change from the Eurodollar rate plus the applicable margin to the base rate plus an applicable margin. Borrowing availability is determined in part in accordance with a borrowing base, which is generally 85% of eligible receivables minus reserves. The credit agreement also contains financial covenants, including a fixed charge coverage ratio that must be maintained at any time during which the borrowing availability is otherwise less than $10 million. The credit agreement also may limit our ability to engage in specified transactions or activities, including (but not limited to) investments and acquisitions, sales of assets, payment of dividends, issuance of additional debt and other matters. The revolving credit facility has a five-year term and expires on June 24, 2021. As of December 25, 2016, we had a zero balance on the revolving credit facility; therefore, we had $35 million available, subject to the borrowing base limitation and compliance with the other applicable terms of the credit agreement, including the covenants referenced above.

In conjunction with entering into the new revolving credit facility noted above we repaid our term loan with an original principal amount of $4.5 million, from Wells Fargo Bank, National Association, and SunTrust Bank. At the time of repayment, the loan had a balance of $1.9 million.

On March 31, 2009, we entered into a term loan with the Baltimore County Economic Development Revolving Loan Fund for an aggregate principal amount of $250,000. The term loan is payable in equal monthly installments of principal and interest of $2,300, with the balance due at maturity on April 1, 2019. The term loan bears interest at 2.00% per annum and is secured by a subordinate position on our Hunt Valley, Maryland facility. At December 25, 2016, the principal balance of this term loan was $62,900.

We have made quarterly dividend payments to holders of our common stock since the third quarter of fiscal

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2010. Our most recent quarterly cash dividend of $0.20 per share was paid in November 2016. On January 30, 2017, we declared a quarterly cash dividend in the amount of $0.20 per share, payable on March 1, 2017 to shareholders of record as of February 15, 2017. 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.

We believe that our existing cash, payments from customers, and availability under our revolving credit facility will be sufficient to support our operations for at least the next twelve months. To minimize interest expense, our policy is to use excess available cash to pay down any balance on our revolving credit facility. We expect to meet short-term and long-term liquidity needs through operating cash flow, supplemented by our revolving credit facility. In doing so, the balance on our revolving credit facility could increase depending on our working capital and other cash needs. If we were to undertake an acquisition or other major capital purchases that require funds in excess of existing sources of liquidity, we would look to sources of funding from additional credit facilities, debt and/or equity issuances. As of December 25, 2016, we do not have any material capital expenditure commitments.

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

Recent Accounting Pronouncements

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

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

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

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

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

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

Critical Accounting Policies and Estimates

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

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conditions.

For a detailed discussion on our critical accounting policies, please refer to our Annual Report on Form 10-K for the fiscal year ended March 27, 2016.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

Forward-Looking Statements

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

We are not able to identify or control all circumstances that could occur in the future that may adversely affect our business and operating results. Without limiting the risks that we describe in our periodic reports and elsewhere, among the risks that could lead to a materially adverse impact on our business or operating results are the following: termination or non-renewal of limited duration agreements or arrangements with our vendors and affinity partners that are typically terminable by either party upon several months or otherwise relatively short notice; loss of significant customers or relationships, including affinity relationships; loss of customers either directly or indirectly as a result of consolidation among large wireless service carriers and others within the wireless communications industry; the strength of our customers', vendors' and affinity partners' business; increasingly negative or prolonged adverse economic conditions, including those adversely affecting consumer confidence or consumer or business spending, or otherwise adversely affecting our vendors or customers, including their access to capital or liquidity or our customers’ ability to fund or pay for our products and services; our dependence on a relatively small number of suppliers and vendors, which could hamper our ability to maintain appropriate inventory levels and meet customer demand; changes in customer and product mix that affects gross margin; effect of “conflict minerals” regulations on the supply and cost of certain of our products; failure of our information technology system or distribution system; system security or data protection breaches; technology changes in the wireless communications industry, or technological failures, which could lead to significant inventory obsolescence and/or our inability to offer key products that our customers demand; third-party freight carrier interruption; increased competition, including from manufacturers or national and regional

distributors of the products we sell and the absence of significant barriers to entry which could result in pricing and other pressures on profitability and market share; our relative bargaining power and inability to negotiate favorable terms with our vendors and customers; our inability to access capital and obtain financing as and when needed; claims against us for breach of the intellectual property rights of third parties; product liability claims; our inability to protect certain intellectual property, including systems and technologies on which we rely; our inability to hire or retain our key professionals, management and staff; and the possibility that, for unforeseen reasons, we may be delayed in entering into or performing, or may fail to enter into or perform, anticipated contracts or may otherwise be delayed in realizing or fail to realize anticipated revenues or anticipated savings.

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Available Information

Our internet website address is: www.tessco.com. We make available free of charge through our website, our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Exchange Act as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the Securities and Exchange Commission. Also available on our Website is our Code of Business Conduct and Ethics.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk:

We are exposed to an immaterial level of market risk from changes in interest rates. We have from time to time previously used interest rate swap agreements to modify variable rate obligations to fixed rate obligations, thereby reducing our exposure to interest rate fluctuations. We had no variable rate debt obligations as of December 25, 2016. Based on December 25, 2016 borrowing levels, a 1.0% increase or decrease in current market interest rates would have no effect on our statement of income.

Foreign Currency Exchange Rate Risk:

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

Item 4. Controls and Procedures.

The Company's management, with the participation of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) as of the end of the period covered by this quarterly report. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Based on the evaluation of these controls and procedures required by Rules 13a-15(b) or 15d-15(b) of the Exchange Act, the Company's management, including the CEO and CFO, have concluded that, as of the end of the period covered by this quarterly report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is

recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. During the period covered by this quarterly report, there have been no changes to the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. 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.

Item 1A. Risk Factors.

The following risk factors represent updates and additions to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended March 27, 2016. The risk factors listed below and the others described in the Annual Report on Form 10-K should be considered in connection with evaluating the forward-looking statements contained in this Quarterly Report on Form 10-Q. 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. 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.

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 existing secured revolving credit facility contains various financial and other covenants that may limit our ability to borrow or limit our flexibility in responding to business conditions. The inability to maintain or when necessary obtain adequate sources of financing could have an adverse effect on our business. Our secured revolving credit facility involves 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.

Our ability to maintain and borrow under our revolving credit agreement could be constrained by the level of eligible receivables and by any failure to meet certain financial and other covenants in our revolving credit agreement.

Our borrowing availability under our secured revolving credit facility is determined in part by a borrowing base and is limited to certain amounts of eligible accounts receivable. If the value of these accounts receivable were to decrease significantly, the amount available for borrowing under the facility would decrease and our ability to borrow under the facility could be significantly impacted. Borrowing under the facility is also

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conditioned upon compliance with financial and other covenants included in the revolving credit agreement and a related guaranty and security agreement. Among these is a covenant to maintain a fixed charge coverage ratio at any time during which the borrowing availability is otherwise less than $10 million. There are no assurances that we will be able to comply with all applicable covenants in these agreements, and in the event that we do not, our ability to borrow under our secured revolving credit facility could be limited or suspended, or could terminate.

If we fail to meet our payment or other obligations under our secured revolving credit facility, our lenders could foreclose on, and acquire control of, a significant portion of our assets.

Indebtedness under our secured revolving credit facility is secured by continuing first priority security interests in our inventory, accounts receivable, and deposit accounts, and on all documents, instruments, general intangibles, letter of credit rights, and chattel paper relating to inventory and accounts, and to all proceeds of the foregoing. If we fail to meet our payment or other obligations under our secured revolving credit facility, our lenders could foreclose on these assets, which would have a material adverse effect on our business, results of operations and financial condition.

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 third 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 secured revolving credit facility restricts our ability to pay cash dividends upon a default, and when our borrowing availability is below $12 million, subject to certain exceptions, 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

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Item 6. Exhibits.

(a) Exhibits:

31.1.1*	Certification of Chief Executive Officer required by Rule 13a–14(a) or 15d–14(a) of the Securities Exchange Act of 1934, as amended pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2.1*	Certification of Chief Financial Officer required by Rule 13a–14(a) or 15d–14(a) of the Securities Exchange Act of 1934, as amended pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1.1*	Certification of periodic report by Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2.1*	Certification of periodic report by Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1*	The following financial information from TESSCO Technologies, Incorporated's Quarterly Report on Form 10-Q for the quarter ended December 25, 2016 formatted in XBRL: (i) Consolidated Statement of Income for the three and nine months ended December 25, 2016 and December 27, 2015; (ii) Consolidated Balance Sheet at December 25, 2016 and March 27, 2016; (iii) Consolidated Statement of Cash Flows for the nine months ended December 25, 2016 and December 27, 2015; and (iv) Notes to Consolidated Financial Statements.

*Filed herewith

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Signature

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

TESSCO Technologies Incorporated

Date: February 3, 2017

By: /s/ Aric M. Spitulnik
Aric Spitulnik
Chief Financial Officer (principal financial and accounting officer)