TESSCO TECHNOLOGIES INC
Form 10-Q
February 08, 2019
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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 30, 2018

or

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

For the transition period from to

Commission File Number: 001-33938

TESSCO Technologies Incorporated

(Exact name of registrant as specified in its charter)

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

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

(410) 229-1000

(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth 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	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 February 1, 2019, was 8,462,961.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

TESSCO Technologies Incorporated

Consolidated Balance Sheets

	December 30, 2018 (unaudited)	April 1, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,600	$ 19,400
Trade accounts receivable, net of allowance for doubtful accounts of $2,307,700 and $1,094,900, respectively	90,374,600	87,862,300
Product inventory, net	74,644,800	72,323,000
Prepaid expenses and other current assets	5,965,800	4,489,100
Total current assets	170,986,800	164,693,800
Property and equipment, net	15,176,300	13,662,800
Goodwill, net	11,677,700	11,677,700
Deferred tax assets	627,000	710,500
Other long-term assets	7,725,400	8,678,900
Total assets	$ 206,193,200	$ 199,423,700
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 67,565,700	$ 67,041,100
Payroll, benefits and taxes	6,994,700	8,291,100
Income and sales tax liabilities	1,301,100	2,339,200
Accrued expenses and other current liabilities	2,949,200	1,370,300
Revolving line of credit	16,905,500	10,835,400
Current portion of long-term debt	9,200	27,300
Total current liabilities	95,725,400	89,904,400
Long-term debt, net of current portion	—	2,300
Other long-term liabilities	1,005,900	1,465,400
Total liabilities	96,731,300	91,372,100
Shareholders' equity:		
	—	—

Preferred stock, $0.01 par value per share, 500,000 shares authorized and no shares issued and outstanding		
Common stock, $0.01 par value per share, 15,000,000 shares authorized, 14,170,024 shares issued and 8,448,526 shares outstanding as of December 30, 2018, and 14,111,703 shares issued and 8,396,537 shares outstanding as of April 1, 2018	99,600	99,000
Additional paid-in capital	62,140,700	60,611,900
Treasury stock, at cost, 5,721,498 shares as of December 30, 2018 and 5,715,166 shares as of April 1, 2018	(57,614,100)	(57,503,000)
Retained earnings	104,835,700	104,843,700
Total shareholders’ equity	109,461,900	108,051,600
Total liabilities and shareholders’ equity	$ 206,193,200	$ 199,423,700

See accompanying notes.

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TESSCO Technologies Incorporated

Unaudited Consolidated Statements of Income

	Fiscal Quarters Ended		Nine Months Ended	
	December 30, 2018	December 24, 2017	December 30, 2018	December 24, 2017
Revenues	$ 152,294,500	$ 146,260,300	$ 461,850,000	$ 431,354,600
Cost of goods sold	121,295,800	116,660,500	368,758,500	342,664,900
Gross profit	30,998,700	29,599,800	93,091,500	88,689,700
Selling, general and administrative expenses	27,494,800	27,413,200	85,933,400	81,969,100
Income from operations	3,503,900	2,186,600	7,158,100	6,720,600
Interest expense, net	247,900	114,500	667,100	339,600
Income before provision for income taxes	3,256,000	2,072,100	6,491,000	6,381,000
Provision for income taxes	551,400	501,900	1,437,200	2,354,000
Net income	$ 2,704,600	$ 1,570,200	$ 5,053,800	$ 4,027,000
Basic earnings per share	$ 0.32	$ 0.19	$ 0.60	$ 0.48
Diluted earnings per share	$ 0.32	$ 0.19	$ 0.59	$ 0.48
Basic weighted-average common shares outstanding	8,446,671	8,377,279	8,429,086	8,363,877
Effect of dilutive options and other equity instruments	32,583	76,442	130,982	52,576
Diluted weighted-average common shares outstanding	8,479,254	8,453,721	8,560,068	8,416,453
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 30, 2018	December 24, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5,053,800	$ 4,027,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,706,800	3,030,700
Non-cash stock-based compensation expense	979,400	745,400
Deferred income taxes and other	643,500	(8,800)
Change in trade accounts receivable	(2,512,300)	(20,317,100)
Change in product inventory	(2,321,800)	(2,516,300)
Change in prepaid expenses and other current assets	(1,476,700)	(680,000)
Change in trade accounts payable	524,600	8,801,900
Change in payroll, benefits and taxes	(1,296,400)	(630,600)
Change in income and sales tax liabilities	(1,038,100)	1,024,900
Change in accrued expenses and other current liabilities	1,991,600	(810,500)
Net cash provided by (used in) operating activities	3,254,400	(7,333,400)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(2,643,900)	(575,300)
Purchases of internal use software licenses	(1,642,400)	(1,554,400)
Net cash used in investing activities	(4,286,300)	(2,129,700)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings from revolving line of credit	6,070,100	5,937,100
Proceeds from note receivable	—	59,700
Payments on long-term debt	(20,400)	(20,000)
Proceeds from issuance of common stock	137,300	76,400
Cash dividends paid	(5,061,800)	(5,022,400)
Purchases of treasury stock and repurchases of stock from employees	(111,100)	(65,400)
Net cash provided by financing activities	1,014,100	965,400
Net decrease in cash and cash equivalents	(17,800)	(8,497,700)
CASH AND CASH EQUIVALENTS, beginning of period	19,400	8,540,100
CASH AND CASH EQUIVALENTS, end of period	$ 1,600	$ 42,400

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

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 (the “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 April 1, 2018.

Note 2. Recently Issued Accounting Pronouncements

Recently issued accounting pronouncements not yet adopted:

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, Leases. This ASU requires lessees to recognize most leases on their balance sheets related to the rights and obligations created by those leases. The ASU also requires additional qualitative and quantitative disclosures related to the nature, timing and uncertainty of cash flows arising from leases. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company has identified the full population of leases. Although the Company does expect to record right-of-use assets and liabilities on its consolidated balance sheet, it does not expect the adoption of the standard to have a material impact on the Consolidated Financial Statements. The right-of-use assets and liabilities are estimated to be less than 3% of total assets. The standard will be adopted on the first day of the Company’s 2020 fiscal year.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments which amends the impairment model by requiring entities to use a forward-looking approach based on expected losses rather than incurred losses to estimate credit losses on certain types of financial instruments, including trade receivables. This may result in the earlier recognition of allowances for losses. This ASU is effective for periods beginning after December 15, 2019. The Company is currently evaluating the impact the adoption of this new standard will have on its Consolidated Financial Statements and will adopt the standard on the first day of the Company’s 2021 fiscal year.

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In August 2016, the FASB issued 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, on the first day of the Company's 2020 fiscal year, will have a material impact on its Consolidated Financial Statements.

Recently issued accounting pronouncements adopted:

Effective April 2, 2018, the Company adopted the FASB ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supersedes the revenue recognition requirements in ASC 605, Revenue Recognition, and is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue, cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. The adoption of ASU 2014-09, using the modified retrospective approach, had no significant impact on the timing of revenue recognition, our results of operations, cash flows, or financial position. Revenue continues to be recognized at a point in time for our product sales when products are shipped to or received by the customer depending on the shipping terms.

The Company has changed the presentation of its returns reserve. The amount of expected returns are now recognized as a refund liability within the Accrued Expenses line item of the balance sheet. This liability represents the obligation to return customer consideration. The value of the expected goods returned by customers is now recognized as a return asset within the Prepaid expense and other current assets line item of the balance sheet. The return asset value is initially measured at the former carrying amount in inventory, less any expected costs to recover the goods. The Company expects products returned by customers to be in new and salable condition, as required by our standard terms and conditions, and therefore impairment of the return asset is unlikely. Changes to the return liability are recorded as revenue adjustments and changes to the inventory asset are recorded as cost of goods sold. As of December 30, 2018, the return asset and refund liability amounts were $1.5 million and $2.0 million, respectively. Prior periods were not adjusted to reflect this change.

On December 22, 2017 President Trump signed into law the "Tax Cut and Jobs Act" (the "Tax Act"). In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), in response to the Tax Act. SAB 118 allows registrants to include a provisional amount to account for the implications of the Tax Act where a reasonable estimate can be made and requires the completion of the accounting no later than one year from the date of enactment of the Tax Act or December 22, 2018. In our financial statements for the year ended April 1, 2018, we included a provisional tax benefit estimate of approximately $0.2 million for the re-measurement of its U.S. deferred tax assets and liabilities to a 21% effective tax rate. We completed our accounting for the Tax Act in the current quarter and recorded an immaterial adjustment to the provisional tax benefit amount. Additional tax impacts from the Tax Act may be recorded, if and as appropriate, due to, among other things, changes in the Company’s interpretation of the Tax Act and legislative or administrative actions to clarify the intent of the statutory language in a manner that differs from the our current interpretation.

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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 30, 2018 includes $274,100 and $979,400, 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 24, 2017 included $243,500 and $745,400, 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, granted or outstanding under the Company’s Third Amended and Restated Stock and Incentive Plan (the “1994 Plan”).

Performance Stock Units: The following table summarizes the activity under the Company’s PSU program under the 1994 Plan, for the first nine months of fiscal 2019:

	Nine Months Ended December 30, 2018	Weighted Average Fair Value at Grant Date (per unit)
Unvested shares available for issue under outstanding PSUs, beginning of period	67,000	$ 12.65
PSU’s Granted	71,000	15.58
PSU’s Vested	(14,257)	12.66
PSU’s Forfeited/Cancelled	(25,437)	13.46
Unvested shares available for issue under outstanding PSUs, end of period	98,306	$ 14.55

During the first quarter of fiscal 2019, the Compensation Committee of the Company’s Board of Directors (the “Compensation Committee”) approved the grant of PSUs to select key employees, providing them with the opportunity to earn up to 71,000 shares of the Company’s common stock in the aggregate, depending initially upon whether and to the extent which 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 2019), and assuming the performance metrics are met to a sufficient extent, any shares earned at the end of fiscal 2019 will vest 25% and be issued ratably on or about each of May 1 of 2019, 2020, 2021 and 2022, provided that the respective employees remain employed by the Company on each such date (or meets certain other criteria as prescribed in the applicable award agreement, and unless accelerated in accordance with the terms of the applicable award agreement).

The PSUs cancelled during fiscal 2019 primarily related to the fiscal 2018 grant of PSUs, which had a one-year measurement period (fiscal 2018). These PSUs were cancelled because the applicable fiscal 2018 performance targets were not fully satisfied. 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 under the 1994 Plan.

If all PSUs granted thus far in fiscal 2019 are assumed to be earned on account of the applicable performance metrics being fully met, or otherwise in accordance with terms of the applicable award agreement, total unrecognized compensation costs on these PSUs plus all earned but unvested PSU's would be approximately $0.8 million, as of December 30, 2018, and would be expensed through fiscal 2022. To the extent the maximum number of PSUs granted in fiscal 2019 are not earned, stock-based compensation related to these awards will differ from this amount.

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Pursuant to the typical PSU award agreement performance metrics are deemed met upon the occurrence of a change in control, and shares earned are issued earlier upon the occurrence of a change in control, or death or disability of the participant, or upon termination of the participant's employment without cause or by the participant for good reason, as those terms are defined in the agreement.

Restricted Stock Units: The Company has made annual RSU awards under the 1994 Plan to its non-employee directors over recent years. On May 10, 2018, the Compensation Committee approved the grant of an aggregate of 18,000 RSUs, ratably to the then five non-employee directors of the Company, and to Robert B. Barnhill, Jr. In addition to this, effective June 6, 2018, Paul J. Gaffney was appointed to the Board of Directors and was granted 3,000 RSUs. These RSU awards to non-employee directors and to Mr. Barnhill provide for the issuance of shares of the Company's common stock in four equal installments, beginning on May 1 of the year following the award and continuing on May first of each of the following three years, provided that the director remains associated with the Company (or meets other criteria as prescribed in the applicable award agreement) on each date, and subject to acceleration upon the occurrence of certain events, as described in the applicable award agreement.

On August 8, 2017, the Compensation Committee approved the grant of an aggregate of up to 56,000 RSUs to several senior executives. The number of shares earned by a recipient will be determined by multiplying the number of RSUs covered by the award by a fraction, the numerator of which is the cumulative amount of dividends (regular, ordinary and special) declared and paid, per share, on the Common Stock, over an earnings period of up to four years, and the denominator of which is $3.20. Subject to earlier issuance upon the occurrence of certain events (as described in the applicable award agreement), any earned shares are issued and distributed to the recipient upon the fourth anniversary of the award date. On October 23, 2018, the Compensation Committee approved the grant of an additional 2,000 RSUs to a recently promoted senior executive. These RSUs have terms comparable to the 56,000 previously issued RSUs, but have an earnings period that coincides with the remainder of the earnings period applicable to the initially issued 56,000 RSUs, and reflect other corresponding adjustments. As of December 30, 2018, 8,000 of these 58,000 RSUs have been canceled due to employee departures, leaving 50,000 of these RSUs outstanding.

As of December 30, 2018, there was approximately $0.8 million of total unrecognized compensation cost related to all outstanding RSUs, assuming all shares are earned. Unrecognized compensation costs are expected to be recognized ratably over a weighted average period of approximately three 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.

The Company now accounts for forfeitures as they occur rather than estimate expected forfeitures. To the extent that forfeitures occur, stock-based compensation related to the restricted awards may be different from the Company's expectations.

Stock Options: As summarized below, in the first nine months of fiscal 2019, stock options for an aggregate of 66,500 shares of common stock were granted, all under the 1994 Plan. These stock options have exercise prices equal to the market price of the Company’s stock on the grant date, and the terms thereof provide for 25% vesting after one year and then 1/36 per month over the following three years, subject, however, to acceleration upon the occurrence of certain events, as described in the applicable award agreement. The grant date value of the Company’s stock options is determined using the Black-Scholes-Merton pricing model, based upon facts and assumptions existing at the date of grant.

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The value of each option at the date of grant is amortized as compensation expense over the service period. This occurs without regard to subsequent changes in stock price, volatility, or interest rates over time, provided the option remains outstanding.

The following tables summarize the pertinent information for outstanding options.

	Nine Months Ended December 30, 2018	Weighted Average Fair Value at Grant Date (per unit)
Unvested options, beginning of period	392,500	$ 2.21
Options Granted	66,500	3.38
Options Vested	(127,292)	2.20
Options Forfeited/Cancelled	(15,000)	4.57
Unvested options, end of period	316,708	$ 2.35

Grant Fiscal Year	Options Granted	Option Exercise Price	December 30, 2018 Options Outstanding	Options Exercisable
2019	66,500	$ 16.31	61,500	-
2018	230,000	$ 15.12	160,000	59,167
2017	410,000	$ 12.57	330,000	181,458
2016	100,000	$ 22.42	40,000	34,167
Total			591,500	274,792

Grant Fiscal Year	Expected Stock Price Volatility	Risk-Free Interest rate	Expected Dividend Yield	Average Expected Term	Resulting Black Scholes Value
2019	35.59 %	3.11 %	4.99 %	4.0	$ 3.38
2018	32.63 %	1.96 %	5.34 %	4.0	$ 2.57
2017	32.85 %	1.32 %	6.30 %	4.0	$ 1.85
2016	26.40 %	1.67 %	3.50 %	4.0	$ 3.43

As of December 30, 2018, there was approximately $0.8 million of total unrecognized compensation costs, related to these awards. These unrecognized compensation costs are expected to be recognized ratably over a period of approximately three years.

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 and Lender, and Wells Fargo Bank, National Association, as a Lender, for a senior asset based secured revolving credit facility of up to $35 million (the “Revolving Credit Facility”). This replaced our then 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 secured Revolving Credit Facility, as it was initially established, included terms providing for its maturity after five years, on June 24, 2021, and for a $5.0 million sublimit for the issuance of standby letters of credit and a $10.0 million sublimit for swing line loans. Borrowing Availability under the secured Revolving Credit Facility as it was initially established was determined in part in accordance with a Borrowing Base, defined in the Credit Agreement, generally, as 85% of Eligible Receivables minus Reserves, as those terms were defined in the Credit Agreement. The Credit Agreement

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included financial and other covenants, and pursuant to a related Guaranty and Security Agreement by and among the Company, the other Company affiliate borrowers under the Credit Agreement and other subsidiaries of the Company, referred to collectively as the Loan Parties, and SunTrust Bank, as Administrative Agent, the Loan Parties' obligations, which included the obligations under the Credit Agreement, were guaranteed by those 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 in all documents, instruments, general intangibles, letter of credit rights and chattel paper, in each case to the extent relating to inventory and accounts, and all proceeds of the foregoing. The security interests were 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.

On October 19, 2017, the Company and its primary operating subsidiaries, as co-borrowers, and SunTrust Bank, as Administrative Agent and Lender, and Wells Fargo Bank, National Association, as a Lender, entered into an Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement"). Pursuant to the Amended and Restated Credit Agreement, the Credit Agreement for the secured Revolving Credit Facility was amended and restated in order to, among other things, increase the Company's borrowing limit from up to $35 million to up to $75 million. Capitalized terms used but not otherwise defined in this and the following three paragraphs have the meanings ascribed to each in the Amended and Restated Credit Agreement.

In addition to expanding the Company's borrowing limit, the secured Revolving Credit Facility maturity date was extended to October 19, 2021. The Amended and Restated Credit Agreement otherwise includes representations, warranties, affirmative and negative covenants (including restrictions) and other terms generally consistent with those applicable to the facility as existing prior to the execution and delivery of the Amended and Restated Credit Agreement, but with certain modifications.

Borrowings under the Amended and Restated Credit Agreement initially accrue interest from the applicable borrowing date at an Applicable Rate equal to the Eurodollar Rate plus the Applicable Margin. The Eurodollar Rate is the rate per annum obtained by dividing (i) LIBOR by (ii) a percentage equal to 1.00 minus the Eurodollar Reserve Percentage. When the Applicable Rate is the Eurodollar Rate plus the Applicable Margin, the Applicable Margin is 1.50% if Average Availability is greater than or equal to $15 million, and 1.75% otherwise. On December 30, 2018, the interest rate applicable to borrowings under the secured Revolving Credit Facility was 3.85%. Under certain circumstances, the Applicable Rate is subject to change at the Lenders' option from the Eurodollar Rate plus the Applicable Margin to the Base Rate plus the Applicable Margin. Following an Event of Default, in addition to changing the Applicable Rate to the Base Rate plus the Applicable Margin, the Lenders' may at their option set the Applicable Margin at 0.50% if the Base Rate applies or 1.75% if the Eurodollar Rate applies, and increase the Applicable Rate by an additional 200 basis points. The Applicable Rate adjusts on the first Business Day of each calendar month. The Company is required to pay a monthly Commitment Fee on the average daily unused portion of the secured Revolving Credit Facility provided for pursuant to the Amended and Restated Credit Agreement, at a per annum rate equal to 0.25%.

In connection with the entering into of the Amended and Restated Credit Agreement, the Company and other Loan Parties, executed and delivered to SunTrust Bank, as Administrative Agent, a Reaffirmation Agreement, pursuant to which the obligations of the Loan Parties under the Guaranty and Security Agreement delivered by them in connection with the secured Revolving Credit Facility as previously existing (including the previously existing guaranty by the

Loan Parties not otherwise Borrowers and the previously existing grant by the Company and the other Loan Parties of a continuing first priority security interest in inventory, accounts receivable and deposit accounts, and on all documents, instruments, general intangibles, letter of credit rights,

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and all proceeds) were ratified and confirmed as respects the Obligations arising from time to time under the secured Revolving Credit Facility provided for under the Amended and Restated Credit Agreement.

Borrowings may be used for working capital and other general corporate purposes, and as further provided in, and subject to the applicable terms of, the Amended and Restated Credit Agreement. As of December 30, 2018, borrowings under the secured Revolving Credit Facility totaled $16.9 million and, therefore, the Company had $58.1 million available for borrowing as of December 30, 2018, subject to the Borrowing Base limitation and compliance with the other applicable terms of the Amended and Restated Credit Agreement, including the covenants referenced above. The line of credit has a lockbox arrangement associated with it and therefore the outstanding balance is classified as a current liability on our balance sheet. As of April 1, 2018, borrowings under the secured Revolving Credit Facility totaled $10.8 million and, therefore, the Company had $64.2 million available on its revolving line of credit facility as of April 1, 2018, again subject to the Borrowing Base limitation and compliance with the other applicable terms of the Amended and Restated Credit Agreement, including the covenants referenced above.

Note 5. Income Taxes

As of December 30, 2018, the Company had no unrecognized tax benefits. As of April 1, 2018, the Company had a gross amount of unrecognized tax benefits of $112,700 ($87,200 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 2019 was ($241,200) (net of federal benefit). The cumulative amount included in the consolidated balance sheet as of December 30, 2018 was $0. 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 2018 was an expense of $34,600 (net of federal benefit). The cumulative amount of interest and penalties included as a liability in the consolidated balance sheet as of April 1, 2018 was $250,500 (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 April 1, 2018 of unrecognized tax benefit	$ 112,700

Increases related to current period tax positions		3,500
Reductions as a result of a lapse in the applicable statute of limitations		(116,200)
Ending balance at December 30, 2018 of unrecognized tax benefits	$	—

Note 6. Earnings Per Share

The Company presents the computation of earnings per share ("EPS") on a basic and diluted basis. Basic EPS is computed by dividing net income by the weighted average number of shares outstanding during the reported period. Diluted earnings per share are computed similarly to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential additional common shares that were dilutive had been issued. Common shares are excluded

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from the calculation if they are determined to be anti-dilutive. At December 30, 2018, stock options with respect to 591,500 shares of common stock were outstanding, of which 541,500 were anti-dilutive. At December 24, 2017, stock options with respect to 520,000 shares of common stock were outstanding, of which 40,000 were anti-dilutive. There were no anti-dilutive PSUs or RSUs outstanding as of December 30, 2018 or December 24, 2017, respectively.

Note 7. Business Segments

The Company evaluates its business within two segments: commercial and retail. The commercial segment consists of the following customer markets: (1) public carriers, that are generally responsible for building and maintaining the infrastructure system and provide airtime service to individual subscribers; and (2) value-added resellers and integrators, which is a newly identified market within our internal structure resulting from the Company's recent implementation of an enhanced go-to-market strategy and the consolidation of our previously identified value-added resellers, government channels and private system operator markets. This new strategy and the corresponding consolidation of these customer markets is expected to increase sales opportunities across the consolidated group as well as provide better coverage to customers and better align territories with supplier partners. In conjunction with our identification of the value-added resellers and integrators as a newly identified market, as described above, market revenue and gross profit as reported for the prior periods reflected in this Quarterly Report on Form 10 Q have been reclassified accordingly.

The retail segment consists of the retail market which includes 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. Base station infrastructure service offerings include 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.

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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.

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

Segment activity for the third quarter and first nine months of fiscal years 2019 and 2018 are as follows (in thousands):

	Three Months Ended					
	December 30, 2018			December 24, 2017		
	Commercial Segment	Retail Segment	Total	Commercial Segment	Retail Segment	Total
Revenues						
Public Carrier	$ 33,593	$ —	$ 33,593	$ 22,721	$ —	$ 22,721
Value-added resellers and integrators	65,373	—	65,373	69,081	—	69,081
Retail	—	53,329	53,329	—	54,458	54,458
Total revenues	$ 98,966	$ 53,329	$ 152,295	$ 91,802	$ 54,458	$ 146,260
Gross Profit						
Public Carrier	$ 4,583	$ —	$ 4,583	$ 3,178	$ —	$ 3,178
Value-added resellers and integrators	16,013	—	16,013	16,073	—	16,073
Retail	—	10,403	10,403	—	10,349	10,349
Total gross profit	$ 20,596	$ 10,403	$ 30,999	$ 19,251	$ 10,349	$ 29,600
Directly allocable expenses	8,079	4,038	12,117	7,418	3,899	11,317
Segment net profit contribution	$ 12,517	$ 6,365	18,882	$ 11,833	$ 6,450	18,283
Corporate support expenses			15,626			16,211