



# ANNUAL REPORT

*FY21*



Nadsaq: TESS





# TESSCO OUR CUSTOMERS OUR SUPPLIERS OUR INVESTORS

## **TOGETHER TOWARDS TOMORROW**

*We remove complexity for customers and suppliers by offering far more than product and credit lines.*

We do this by applying extensive product technology and industry knowledge, creative problem solving, unsurpassed program management and efficient operations to help our suppliers and customers win new business.

Wireless technology takes an entire community to make it accessible and usable for companies, consumers, and first responders. Everything we do is intended to enable our suppliers and customers to maximize their growth and optimize profitability.

As a result, we provide our shareholders a unique and efficient way to invest in this rapidly growing and dynamic industry.



“

*We remain relentless in our drive for sustained profitable growth and increased shareholder value.*

”

**SANDIP MUKERJEE**  
PRESIDENT & CHIEF EXECUTIVE OFFICER

## TO OUR SHAREHOLDERS,

In last year's annual report, I shared a vision of Tessco's future. At that time, we were all unsure about the impact the pandemic could have on our people, our customers, our suppliers, and the world around us. I am grateful to the entire Tessco team for their unwavering dedication and commitment, which enabled Tessco to navigate unprecedented operational challenges while serving as an essential business for the wireless infrastructure industry. As we look to a post-pandemic future, I am confident that renewed emphasis on modern wireless infrastructure deployments, will help propel Tessco to sustained profitable growth.

The vision I articulated a year ago was focused on a transformation for Tessco; from a distributor of wireless infrastructure and mobile device accessories, to an industry force able to capitalize on the technology convergence that is driving growth in the wireless infrastructure construction and maintenance ecosystem. Today, with that goal still squarely in view, we are pleased to report substantive progress in each area of our strategic plan.

The strategy we detailed last year included four key elements:

- Divestiture of our retail-focused mobile device accessory business to allow us to dedicate all our assets, and focus to our infrastructure business.
- Driving growth and efficiency in our core infrastructure products distribution business.
- Developing our Ventev business into a leading innovator of products capable of helping customers resolve infrastructure construction challenges.
- Launching a software business to support the products our customers utilize in their networks and to address their biggest pain points, including construction, deployment, and management.

We completed the sale of our mobile device accessory business assets in December. This divestiture process was prolonged due to the pandemic, which meant that the “New Tessco” did not truly begin operation until the fourth quarter of our 2021 fiscal year. Even so, we made significant strides with our core distribution business. At the same time, Ventev moved ahead in focusing more on the development, production, and sale of standardized, industry-leading products. Additionally, we continued to develop our initial Tessco software product offering with very little incremental investment.

In fiscal 2022, we see significant lessening of the impacts of the pandemic and acceleration of investments in technology refreshes. With the progress made over the last year, we are well positioned to drive both top line sales growth and deliver organizational efficiencies. We continue to be relentless in driving this strategy while remaining focused on cash, profitability, and increased shareholder value.

**Together Towards Tomorrow.**



**SANDIP MUKERJEE**

*PRESIDENT & CHIEF EXECUTIVE OFFICER*

June 10, 2021



# Leadership

## Directors

### Paul J. Gaffney, Chairman

Senior Vice President, Chief Technology and Supply Chain Officer, Kohls

### Robert B. Barnhill, Jr.

Former President and Chief Executive Officer, TESSCO Technologies Incorporated

### Jay G. Baitler

Former Executive Vice President, Staples, Inc., Contract Division

### Tim Bryan

CEO of National Rural Telecommunications Cooperative (NRTC)

### Stephanie Dismore

Senior Vice President and Managing Director, North America, HP

### Kathleen McLean

Former SVP, CIO, and Chief Customer Officer, ADT Inc.

### Sandip Mukerjee

President and Chief Executive Officer, TESSCO Technologies Incorporated

## Officers

### Sandip Mukerjee

President & Chief Executive Officer

### Douglas A. Rein

Senior Vice President of Performance Systems & Operations

### Aric M. Spitulnik

Senior Vice President & Chief Financial Officer

### James R. Gaarder

Vice President

### Tammy S. Ridgely

Vice President

### Jesse Hillman

Vice President

### Jeffrey L. Shockey

Vice President

### Cynthia L. King

Vice President

### Mary Beth Smith

Vice President

### Thad Lowe

Vice President

# Shareowner Information

## Annual Meeting

The Annual Meeting of Shareowners of TESSCO Technologies Incorporated is scheduled to be held at 4 p.m. ET, July 28, 2021 and will be a virtual meeting, accessible by visiting [www.proxydocs.com/tess](http://www.proxydocs.com/tess).

## Investor Relations

Analysts, investors and shareowners seeking additional information about TESSCO Technologies Incorporated are invited to contact:

### Sharon Merrill

77 Franklin Street  
Boston, MA 02110  
Telephone: 617.542.5300  
Facsimile: 617.423.7272  
Internet: [www.investors.com](http://www.investors.com)

### Aric M. Spitulnik

375 West Padonia Road  
Timonium, MD 21093  
Telephone: 410.229.1419  
Facsimile: 410.229.1669  
Email: [spitulnik@tessco.com](mailto:spitulnik@tessco.com)

A copy of the Company's Annual Report on Form 10-K as filed with the United States Securities and Exchange Commission is available without charge on the SEC website, [www.sec.gov](http://www.sec.gov), or upon request to the address above.

## TESSCO on Nasdaq

Tessco's common stock trades on the Nasdaq Global Market under the symbol TESS.

## Corporate Counsel

Ballard Spahr LLP  
Baltimore, MD

## Transfer Agent & Registrar

EQ Shareowner Services  
P.O. Box 64874  
Saint Paul, MN 55164

## Independent Registered Public Accounting Firm

Ernst & Young LLP  
Baltimore, MD

## Corporate Governance

The highest ethical standards have always been integral to Tessco's culture and business success. Each director, officer and team member is expected to observe the highest standards of ethical behavior in the performance of his or her duties for the Company. The Company's Code of Business Conduct and Ethics can be found in the Investors section of our website, [www.tessco.com](http://www.tessco.com). From a corporate governance perspective, our eight member Board of Directors includes six independent directors. The standing committees of the Board of Directors are comprised of independent directors. In addition, each of the committees is chaired by an independent director. Tessco is an Affirmative Action-Equal Opportunity Employer M/F/D/V.

## Forward-Looking Statements

This Annual Report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, all of which are based on current expectation. All statements other than statements of historical facts contained herein, are forward-looking statements. These forward-looking statements may generally be identified by the use of the words "may," "will," "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "seeks," "believes," "estimates," and similar expressions, but the absence of these words or phrases does not necessarily mean that a statement is not forward-looking. These forward-looking statements are only predictions and involve a number of risks, uncertainties and assumptions, many of which are outside of our control. Our actual results may differ materially and adversely 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 and other periodic reports filed with the Securities and Exchange Commission (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: the impact and results of any new or continued activism activities by activist investors; termination or non-renewal of limited duration agreements or arrangements with our suppliers and affinity partners which are typically terminable by either party upon several months or otherwise relatively short notice; loss of significant customers, suppliers or relationships, including affinity relationships; loss of customers or reduction in customer business either directly or indirectly as a result of consolidation among large wireless service carriers and others within the wireless communications industry; any deterioration in the strength of our customers', suppliers' or affinity partners' businesses; negative or adverse economic conditions, including those adversely affecting consumer confidence or consumer or business spending or otherwise adversely affecting our suppliers or customers, including their access to capital or liquidity, or our customers' demand for, or ability to fund or pay for, the purchase of our products and services; our dependence on a relatively small number of suppliers, which could hamper our ability to maintain appropriate inventory levels and meet customer demand; changes in customer and product mix that affect 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; or our inability to maintain or upgrade our technology or telecommunication systems without undue cost, incident or delay; system security and data protection breaches and exposure to cyber-attacks, and the cost associated with ongoing efforts to maintain cyber-security measures and to meet applicable compliance standards; damage or destruction of our distribution or other facilities; prolonged or otherwise unusual quality or performance control problems; technology changes in the wireless communications industry or technological failures, which could lead to significant inventory obsolescence or devaluation and/or our inability to offer key products that our customers demand; third-party freight carrier interruption; increased competition from competitors, including 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 suppliers and customers; our inability to access capital and obtain or retain financing as and when needed; transitional and other risks associated with acquisitions of companies that we may undertake in an effort to expand our business; 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 for any reason our key professionals, management and staff; health epidemics or pandemics or other outbreaks or events, or national or world events or disasters, beyond our control, changes in political and regulatory conditions, including tax and trade policies; and the possibility that, for unforeseen or other 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.



UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED March 28, 2021
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission file number 001-33938



**TESSCO Technologies Incorporated**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of incorporation or organization)

**52-0729657**

(I.R.S. Employer Identification No.)

**11126 McCormick Road, Hunt Valley, Maryland**  
(Address of principal executive offices)

**21031**  
(Zip Code)

Registrant's telephone number, including area code **(410) 229-1000**

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

<u>Title of each class:</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered:</u>
Common Stock, \$0.01 par value	TESS	Nasdaq

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

None

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

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

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

Yes  No

Indicate by check mark whether the registrant 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes  No

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

The aggregate market value of Common Stock, \$0.01 par value, held by non-affiliates of the registrant based on the closing sales price of the Common Stock as quoted on Nasdaq as of September 27, 2020, was \$37,234,870.

The number of shares of the registrant's Common Stock, \$0.01 par value, outstanding as of June 2, 2021, was 8,886,031.

**DOCUMENTS INCORPORATED BY REFERENCE:** Portions of the definitive Proxy Statement for the registrant's 2021 Annual Meeting of Shareholders, scheduled to be held July 29, 2021, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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## Part I

### **Item 1. Business.**

#### **General**

TESSCO Technologies Incorporated (which we sometimes refer to as “Tessco”, “we”, or the “Company”) is a value-added technology distributor, manufacturer, and solutions provider serving customers in the wireless infrastructure market. The Company was founded more than 35 years ago with a commitment to deliver industry-leading products, knowledge, solutions, and customer service. Tessco supplies over 48,000 products from more than 300 of the industry’s top manufacturers in mobile communications, Wi-Fi, Internet of Things, 5G, wireless backhaul, and more. Tessco is a single source for outstanding customer experience, expert knowledge, and complete end-to-end solutions for the wireless industry.

On December 2, 2020, we sold most of our retail inventory and certain other retail-related assets to Voice Comm, LLC (“Voice Comm”). In connection with this sale, we assigned or licensed our Ventev®- related intellectual property, including the Ventev® trademark to Voice Comm for their use in connection with the sale of mobile device and accessory products. Together, this resulted in the Company’s exit from its Retail business. Accordingly, the accompanying Consolidated Financial Statements for all periods presented reflect the results of the Retail segment as a discontinued operation and certain prior period amounts have been reclassified on the Consolidated Balance Sheets and Consolidated Statements of (Loss) Income to conform with current period presentation. See Note 19, “Discontinued Operations”, for further information. Additionally, the narrative discussion presented below in this Item 1 of this Annual Report, is specific to the continuing operations of the Company (formerly, our Commercial segment), unless otherwise noted.

Our customers include a diversified mix of carrier and public network operators, tower owners, program managers, contractors, integrators, private system operators (including railroads, utilities, mining operators and oil and gas operators), federal, state and local governments, manufacturers, national solutions providers (NSPs) and value-added resellers. We currently serve an average of approximately 3,800 different customers per month.

We provide our customers with products and solutions to help them support these primary applications:

- Broadband
- DAS (Distributed Antenna Systems) for In-Building Cellular and Public Safety Coverage
- First Responder Communications and FirstNet™
- IoT (Internet of Things)
- Microwave
- Power Systems
- Small Cell and Macro Cell Wireless Base Station Infrastructure, including 5G buildouts
- In-Vehicle and Mobile Communications
- Wi-Fi Networks
- Test and Maintenance
- Wireless Backhaul
- CBRS (Citizens Broadband Radio Service) and PLTE (Private Long-Term Evolution)

We source and develop our product offerings from leading manufacturers throughout the world, and also offer innovative, high quality products developed and manufactured under our proprietary brand, Ventev®, to our customers. In connection with the recent sale to Voice Comm of Retail business assets, we licensed or assigned to Voice Comm certain intellectual property rights, including our Ventev® brand as it relates to mobile device accessory products. We generally retain rights to the Ventev® brand as it relates to other than mobile device and accessory products.

Our operational platform removes complexity for customers and suppliers by streamlining the management of the supply chain and lowering total inventory and cost by providing the option of guaranteed availability and complete, on-time delivery to the point of use.



We began our “total source” operations in 1982, reincorporated as a Delaware corporation in 1987, and have been listed on Nasdaq (symbol: TESS), since 1994. We operate under ISO 9001:2015 and TL 9000:2016-V R6.2/5.7 registrations.

For information regarding our website address and regarding material available free of charge through the website, see the information appearing under the heading “Available Information” included in Item 7 to this Annual Report on Form 10-K for the fiscal year ended March 28, 2021.

## **Customers**

After exiting our Retail business, we operate as one business segment, formerly referred to as our Commercial segment, which consists of the following two 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 includes value-added resellers, the government channel and private system operator markets. Inventory typically has a life cycle that tends to be tied to changes in regulation or technology and includes products typically used by business entities or governments.

Sales to the public carrier market accounted for approximately 40% of our fiscal year 2021 revenues, and sales to the value-added resellers and integrator market accounted for 60% of fiscal year 2021 revenues.

Our top ten customer relationships were responsible for 34% of our revenue for fiscal year 2021, and revenue from our largest customer accounted for 11% of our revenues.

Approximately 97% of our sales have been made to customers in the United States during each of the past three fiscal years, although we currently sell to customers in over 50 countries. Due to our diverse product offering and our wide customer base, our business is not significantly affected by seasonality in the aggregate. However, our base station infrastructure sales could be affected by weather conditions or events in the United States, especially in our fourth fiscal quarter. Our fourth quarter is also at times impacted by delays in our customers’ calendar year budget approval processes.

## **Products**

We principally offer competitively priced, manufacturer branded products, ranging from simple hardware items to sophisticated test equipment, with per item prices ranging from less than \$1 to over \$50,000 and gross profit margins ranging from less than 5% to 99%. We offer products broadly classified into the following three categories: base station infrastructure; network systems; and installation, test and maintenance products.

Base station infrastructure products are used to build, repair and upgrade wireless broadband systems. These products include base station antennas, cable and transmission lines, small towers, lightning protection devices, connectors, power systems, enclosures, grounding, jumpers, miscellaneous hardware, and mobile antennas. Network systems products include fixed and mobile broadband radio equipment, wireless networking filtering systems, distributed antenna systems, two-way radios and security and surveillance products. Installation, test and maintenance products are used to install, tune, and maintain wireless communications equipment. Products include sophisticated analysis equipment and various frequency-, voltage- and power-measuring devices, as well as an assortment of tools, hardware, GPS, safety, replacement and component parts and supplies required by service technicians.

While we principally provide manufacturer branded products, a variety of products are developed, manufactured and offered under our own brand, Ventev®. These products generally consist of network infrastructure products, such as radio enclosures, power products, cable and antennas. Sales of Ventev® products were 8% of our revenues in fiscal year 2021.

Tessco’s Technical Services and Solutions Development teams are a key element of our offering as a value-added distributor. This includes Sales Engineering, Solution Architects, System Designers and Customer Technical Support (“CTS”). The broad product and supplier knowledge along with the multiple supplier certifications have also been recognized as a great benefit by our supplier partners and customers. The Sales Engineers provide regional coverage

supporting Tescos' customers on the total Solution portfolio. Solution Architects are specialists in their area of expertise providing consultation and system design. The CTS team are product level experts ensuring the correct devices are specified based on the application. This team can also recommend additional ancillary products (antennas, cables, power, enclosures, etc.) needed to provide a complete solution for the customer's application. These services, other than design services, which comprise an immaterial portion of our revenue, are provided as a complete offering and are not billed in addition to the product.

These teams provide customer support on thousands of calls and thousands of support ticket-items per year. They have completed designs covering solutions for DAS (Distributed Antenna Systems), IOT (Internet of Things), WiFi, Networking, Wireless Broadband, Power Systems and Test Systems. These solutions teams support both existing and emerging markets, including Smart Cities, Smart Buildings, Small Cell, FirstNet, Utilities, Transportation, Network Service Providers (NSP) and Fortune 500 companies.

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

Revenues from sales of products purchased from our largest wireless infrastructure supplier accounted for 29% of fiscal year 2021 continuing operations revenues. Sales of products purchased from our ten largest wireless infrastructure suppliers generated approximately 53% of our total fiscal year 2021 revenues. No other individual supplier accounted for more than 10% of sales.

The amount of purchases we make from each of our approximately 300 suppliers may significantly increase or decrease over time. As the level of business changes, we may request, or be requested by our suppliers, to adjust the terms of our relationships. Therefore, our ability to purchase and re-sell products from each of our suppliers depends on being able to reach and maintain agreements with these suppliers on acceptable business terms. In addition, the agreements and arrangements on which most of our larger supplier relationships are based are typically of limited duration and terminable for any or no reason by either party upon notice of varying lengths, usually between several months or otherwise short notice. Generally, we believe that alternative sources of supply are available for many of the product types we carry, although we may be unable, or find it more difficult, to source branded products from other than the manufacturer.

The scope of products available for purchase from a given supplier may fluctuate and is generally limited only by the scope of the supplier's catalog and available inventory. Therefore, we may source the same product type from multiple suppliers, although in some instances branded products are available only from the manufacturer or a particular supplier, and in some instances, customers might favor one supplier or brand over another. The terms of the supplier contract typically apply to all products purchased from a particular supplier, whether or not the item is specifically identified in the contract.

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

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

## Method of Operation

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

- Understanding and anticipating customers' needs and building solutions by cultivating lasting relationships;
- Providing customers with sales, service and technical support, 24 hours a day, 7 days a week, 365 days a year;
- Providing customers what they need, when and where they need it by delivering integrated product and supply chain solutions; and
- Helping customers enhance their operations by providing real-time order tracking and performance measurement.

*Market Development and Sales:* In order to meet the needs of a dynamic and diverse marketplace, our sales and marketing activities are focused on our customers across these broad markets: 1) public carriers, and 2) value-added resellers and integrators. This organization allows for the development of unique product and solution offerings to meet the needs of our diverse customer base.

We understand and anticipate our customers' needs, resulting in comprehensive solutions and long-lasting relationships. Our customer base includes more than 270,000 fully opted in contacts across the full breadth of the wireless industry, with over 250,000 additional active contacts in our database, representing potential new customers. We are able to identify each contact's unique need for information and the way in which they wish to receive it. This can include targeted marketing materials, including email marketing, web marketing, advertisements, direct mailers, and trade show marketing, to drive purchases and new business development. For instance, our email publication The Wireless Update is sent to a targeted list of 108,000 contacts each week.

Our dedicated sales team provides customer service and maintains key information about every customer or potential customer utilizing our Customer Relationship Management (CRM) and marketing automation tools ensuring a positive experience at every interaction and allowing us to identify promising leads and allocate resources to convert them to customers. We serve approximately 3,800 customers each month and our goal is to create an experience that nurtures loyalty among our customers and delivers mutually beneficial outcomes in every transaction.

*Solutions Development and Engineering and Product Management:* We actively monitor advances in technologies and industry trends, through both market research and continual customer and manufacturer interaction to enhance our product offering as new wireless communications products and technologies are developed. To complement our broad product portfolio, we provide technical expertise and consultation to assist our customers in understanding technology and choosing the right products for their specific application. Our personnel, including those we refer to as "Solution Architects" offer applications engineering to market-specific needs such as:

- DAS (Distributed Antenna Systems), Cellular and Public Safety IoT (Internet of Things)
- Two-Way/LMR (Land Mobile Radio)
- Wireless Networks
- PLTE
- Broadband
- Macro and Small Cells
- Power Systems
- Test Solutions

In addition to determining the product offering, our Product and Solutions Development and Engineering Teams provide the technical foundation for both customers and our personnel. Our product management software is continually updated to add new products and additional technical information in response to manufacturer specification changes and customer inquiries. This system contains detailed information on each SKU offered, including full product descriptions, category classifications, technical specifications, illustrations, product cost, pricing and delivery information, alternative



and associated products, and purchase and sales histories. This information is available on a real-time basis to all of our personnel for product development, procurement, technical support, cataloging and marketing.

*Strategic Marketing* – As a thought leader in the wireless industry, Tessco’s marketing materials educate the industry and promote our services and unique value proposition. Our weekly commercial digital newsletter, The Wireless Update, keeps 108,000 of our customers informed on the latest news in the industry, new products and solutions from our manufacturers, upcoming events and training opportunities, and more. In addition, strategic marketing supports the organization through the development of compelling original content, training programs, and other customer and manufacturer programs that solve business challenges and increase the value Tessco provides to the industry.

Tessco.com<sup>®</sup> is our e-commerce site and the digital gateway to our comprehensive industry expertise, products, and solutions for wireless. In addition to access to our inventory of products for every solution, Tessco.com features:

- Powerful parametric product search capabilities;
- Real-time product availability;
- Real-time customer-specific pricing;
- Easy ordering capabilities that allow for the construction and configuration of complete, end-to-end solution that can be converted to an order, or saved, copied, shared, uploaded and emailed;
- A variety of customer service, financial and technical support pages, including account controls which include all of the tools necessary to track and manage orders, update an account, find the right support, review saved orders, handle warranty claims, and explore Tessco’s capabilities;
- Order confirmation – specifying the contents, order status, delivery date, tracking number and total cost of an order;
- Order reservations, order status, and order history; and
- Manufacturer portal pages designed to showcase each manufacturer partner’s offer in a custom fashion.

Key improvements made to Tessco.com this past year include:

- Freight carrier information to enable order tracking;
- A “Proxy Shop” enabling Tessco sales team to provide live order assistance;
- Chatbot feature with expanded Live Chat Support; and
- Cart Abandonment Tool with automated email follow-up.

Tessco.com empowers our customers to make better decisions by delivering product knowledge so they are fully informed. This destination also enables our manufacturers to reach a broad and diverse customer base with their product offer and brand features.

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

Our information technology system provides detailed information on every customer account, including recent inquiries, buying and credit histories, separate buying locations within a customer account and contact history for key personnel, as well as detailed product information, including technical, product availability and pricing information. The information technology system enables any customer support representative to provide any customer with personalized

service and also allows non-technical personnel to provide a high level of technical product information and order assistance.

We believe that our commitment to providing prompt, professional and efficient customer service before, during and after the sale enables us to maximize sales, customer satisfaction and customer retention. The monthly average number of customers decreased from approximately 4,200 for fiscal year 2020 to approximately 3,800 in fiscal year 2021. Due to the addition of several larger new relationships, the average monthly purchase per customer increased from \$5,300 in fiscal year 2020 to \$5,500 in fiscal year 2021.

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

We use our information technology system to monitor and manage our inventory. Historical sales results, sales projections and information regarding supplier lead times are all used to determine appropriate inventory levels. Our information technology system also provides early warning reports regarding upcoming inventory requirements. As of March 28, 2021, and March 29, 2020, we had an immaterial level of backlog orders. Most backlog orders as of March 28, 2021 are expected to be filled within 90 days of fiscal year-end. For fiscal years ended March 28, 2021, and March 29, 2020, inventory write-offs and reserves were 1.0% and 0.7% of total purchases, respectively. Inventory turns for fiscal years 2021 and 2020 were 5.9 and 6.7, respectively.

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

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

*Information Technology:* Our information technology system is critical to the success of our operations. We have made and continue to make substantial investments in the development of these systems, which integrate cataloging, marketing, sales, fulfillment, inventory control and purchasing, financial control and internal and external communications. The information technology system includes highly developed customer and product databases and is integrated with our Configuration, Fulfillment and Delivery system. The information contained in these systems is available on a real-time basis to all of our employees as needed and is utilized in every area of our operations. Over the past two years we have been preparing to replace our legacy ERP system with a modern SAP ERP system. This new ERP system is expected to go live during fiscal year 2022.

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

## **Competition**

The wireless communications distribution industry is competitive and fragmented, and is comprised of distributors such as Alliance Corporation, Anixter, Connectronics Corporation, DoubleRadius, GetWireless, Graybar,

KGPCo Logistics, Primus, Talley Communications, Site Pro 1, WAV Wireless, and Winncom. In addition, many manufacturers sell and fulfill directly to customers. Barriers to entry for distributors are relatively low, and the risk of new competitors entering the market is high. In addition, the agreements or arrangements with our customers or suppliers looking to us for product and supply chain solutions are typically of limited duration and are often terminable by either party upon several months or otherwise short notice. Accordingly, our ability to maintain these relationships is subject to competitive pressures and challenges. Some of our current competitors have substantially greater capital resources and sales and distribution capabilities than we do. In response to competitive pressures from any of our current or future competitors, we may be required to lower selling prices in order to maintain or increase market share, and such measures could adversely affect our operating results. We believe, however, that our strength in service, the breadth and depth of our product offering, our information technology system, our knowledge and expertise in wireless technologies and the wireless marketplace, and our large customer base and purchasing relationships with approximately 300 manufacturers, provide us with a significant competitive advantage over new entrants to the market.

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

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

## **Intellectual Property**

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

TESSCO Communications Incorporated, a wholly-owned subsidiary of TESSCO Technologies Incorporated, maintains a number of registered trademarks and service marks in connection with our business activities, including: *A Simple Way of Doing Business Better*<sup>®</sup>, *LinkUPS*<sup>®</sup>, *Solutions That Make Wireless Work*<sup>®</sup>, *TerraWave Solutions*<sup>®</sup>, *TESSCO*<sup>®</sup>, *TESSCO Making Wireless Work*<sup>®</sup>, *TESSCO Technologies*<sup>®</sup>, *Tessco.com*<sup>®</sup>, *Ventev*<sup>®</sup>, *The Vital Link to a Wireless World*<sup>®</sup>, *Wireless Now*<sup>®</sup>, *Wireless Solutions*<sup>®</sup>, *The Wireless Update*<sup>®</sup>, *Your Total Source*<sup>®</sup>, and *Your Virtual Inventory*<sup>®</sup>, among many others. Our general policy is to file for trademark and service mark protection for each of our trademarks and trade names and to enforce our rights against any infringement.

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



## **Environmental Regulation**

We are subject to various laws and governmental regulations concerning environmental matters and employee safety and health matters in the United States. Compliance with these federal, state and local laws and regulations related to protection of the environment and employee safety and health has had no material effect on our business. There were no material capital expenditures for environmental projects in fiscal year 2021, and there are no material expenditures planned for such purposes in fiscal year 2022.

## **Human Capital**

At Tesco, we aspire to build partnerships within all levels of the organization to create a culture that values and rewards all team members. Our culture encourages and rewards exceptional performance and continuous improvement, fosters teamwork, and supports career development and growth. We provide benefits that address the needs of our team members, compensation that is rewarding, a learning environment that is both exciting and challenging and we provide many different growth opportunities that benefit from the many skills of our diverse workforce. We have a professional working environment that fosters respect and celebrates our diverse perspectives.

As of March 28, 2021, we had 589 full-time equivalent employees, reduced from 678 as of March 29, 2020, in part as a result of our Retail business exit. Of our full-time equivalent employees, 285 were engaged in customer and supplier service, marketing, sales and product management, 191 were engaged in fulfillment and distribution operations and 113 were engaged in administration and technology systems services. Our employees are not covered by collective bargaining agreements. Each year, we set corporate, department and individual goals that we use to measure performance during our annual review process.

We offer a very competitive health benefit that is the same for all of our team members and is very affordable. We encourage our employees to participate in our health and wellness programs which include medical, dental and vision insurance. We offer a 401(k) program with an employer match, tax saving flexible spending accounts and Tesco paid life insurance and Employee Assistance Program.

We believe that the structure of our compensation program is aligned with the interests of our shareholders, rewards performance and serves to attract and retain employees.

We post all of our positions internally and follow a selection process that is open to all. Team Members that want to learn more about new opportunities are encouraged to have discussions with any of our Team Leaders as outlined in our open-door policy. We follow all processes and procedures of Affirmative Action and set yearly goals to ensure diversity in all of our Equal Employment Opportunity categories.

We have a commitment to sustainable environmental practices and operations, diversity and inclusion, professional and leadership development, community involvement, and participation in and support of charitable causes. Our employee population is approximately 40% female and 36% minorities. Additionally, women currently hold 47% and minorities hold 21% of the key leadership positions. We continually strive to improve and created an ESG Committee made up of individuals from around the organization to focus on our employee population as well as our environmental and social stewardship. We strive to provide our employees with a variety of resources and tools to promote training and development. We consider our employee relations to be excellent.

## Executive Officers

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

<u>Name</u>	<u>Age</u>	<u>Position</u>	
Sandip Mukerjee	58	President and Chief Executive Officer	Sandip Mukerjee joined the Company in August of 2019. Mr. Mukerjee served as President, Global Professional and Consulting Business, Nokia Software from 2016 to 2018. Before that, Mr. Mukerjee worked for Alcatel where he held the positions of Sr. Vice President, Wireless and Software Strategy from 2006 to 2010 and then President and General Manager, Advanced Communications from 2010 to 2013 and President & General Manager, IP Platforms for the Americas.
Aric M. Spitulnik	49	Senior Vice President, Secretary, and Chief Financial Officer	Aric Spitulnik joined the Company in 2000. Mr. Spitulnik was appointed Controller in 2005 and Vice President in 2006. In 2012, he was appointed Corporate Secretary, and in 2014 he was appointed Senior Vice President. Since October 2013, Mr. Spitulnik has served as the Company's Chief Financial Officer.
Douglas A. Rein	61	Senior Vice President of Performance Systems and Operations	Douglas Rein joined the Company in July 1999 as Senior Vice President of Performance Systems and Operations. Previously, he was director of operations for Compaq Computer Corporation and Vice President, distribution and logistics operations for Intelligent Electronics.

## **Item 1A. Risk Factors.**

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

### **RISKS RELATING TO OUR BUSINESS**

***We have incurred net losses in each of the past two fiscal years, and we may not be able to achieve profitability, or do so in a timely manner.***

We incurred consolidated net losses of \$8.7 million and \$21.6 million for fiscal years 2021 and 2020, respectively (losses of \$14.3 million and \$15.6 million, respectively, from continuing operations). During the past three years, we have taken steps to refresh our management team and board of directors, and we have made and expect to make significant investments in the replacement of our information technology platform. These efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our revenue sufficiently to offset these higher expenses. While we believe we are making progress to improve our operating profitability, there can be no assurances that we will achieve profitability or that profitability will be achieved in a timely manner.

***We face risks related to adverse global or national economic conditions or events (including health epidemics and trade wars and other outbreaks and events beyond our control) that could significantly disrupt our business and adversely affect our business, financial position and results of operations.***

Our business, financial position and results of operations could be adversely affected by weak or unstable global or national economic conditions, including international trade protection measures and disputes, such as those between the United States and China, and public health issues or events, such as the COVID-19 pandemic discussed below. A significant portion of our product offerings, including a majority of our private label Ventev products and products we acquire from our suppliers, are manufactured in foreign countries, including China and Vietnam, and many of the component parts of our products manufactured in Vietnam are sourced from China. Our ability to meet our customers' demands depends, in part, on our ability to obtain timely and adequate delivery of inventory from our suppliers. Weak or unstable global or national economic conditions could harm our suppliers' businesses, contributing to product shortages or delays, supply chain disruptions, increased product costs and other adverse effects on their operations, which could hamper our ability or preclude us from obtaining timely and adequate delivery of inventory from our suppliers, as needed to support our business. In addition, many products produced for others in the industries we serve, and which our product offerings are intended to complement, are subject to many of the same risks and uncertainties as are ours, and perhaps others. If production or sales of those products are impacted by negative events, so will be the demand for our complementary products. Any of these events or occurrences could have a negative impact on our business, financial positions and results of operations.

In late December 2019, a strain of coronavirus, commonly referred to as COVID-19, surfaced in Wuhan, China. On January 30, 2020, the World Health Organization declared this coronavirus outbreak a health emergency of international concern. During the fourth quarter of fiscal year 2020, COVID-19 spread to the U.S. and resulted in most states imposing restrictions on travel, business operations and gatherings. As a result, many of our customers were temporarily closed or significantly scaled back their operations. Many non-essential projects were delayed, or project venues have been unreachable. While vaccines have been introduced and are continuing to be rolled out across the United States and elsewhere, our business and results of operations have been, and may continue to be, adversely affected to the extent the coronavirus and its ongoing and lingering effects continue to harm the U.S. and world economy generally, or otherwise interfere with our supply chain or the manufacture of products that ours are intended to complement or otherwise



rely upon. Because we source some of our products from foreign markets, we may be susceptible to the effects of continuing outbreaks or resurgences of coronavirus elsewhere, and any resulting disruption of our supply chain.

We may also experience negative effects from future health epidemics or outbreaks or other world events or disasters beyond our control. These events are impossible to forecast and difficult to mitigate. As a consequence, our operating results for a particular period may be more difficult to predict. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

***We face significant competition in the wireless communications distribution industry.***

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

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

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

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

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

If our suppliers refuse to, or for any reason are unable to, supply products to us in sufficient quantities to meet demand, or at all, and if we are not able to procure those products from alternative sources, we may not be able to maintain appropriate inventory levels to meet customer demand and our financial position and results of operations would be

adversely affected. Similarly, if customers decide to purchase from other sources, instead of from us, or experience significant changes in demand internally or from their own customer bases, become financially unstable (including on account of unforeseen events or events beyond their control, such as the COVID-19 pandemic), or are acquired by another company, our ability to generate revenues from these customers may, or in some cases would, be significantly affected, resulting in an adverse effect on our financial position and results of operations.

***The loss or any change in the business habits of key customers or suppliers may have a material adverse effect on our financial position and results of operations.***

Because our standing arrangements and agreements with our customers and suppliers typically contain no purchase or sale obligations and are terminable by either party upon several months or otherwise relatively short notice, we are subject to significant risks associated with the loss or change at any time in the business habits and financial condition of key customers or suppliers. We have experienced the loss and changes in the business habits of key customer and supplier relationships in the past and expect to do so again in the future. This is the nature of our business.

Sales of products purchased from our largest wireless infrastructure supplier generated approximately 29% of our revenues in fiscal year 2021, and sales of products purchased from our largest ten suppliers generated approximately 53% of fiscal year 2021 revenues. As is the case with many of our supplier and customer relationships, our contractual arrangements with these large suppliers are terminable by either party upon several months' notice. If these contracts or our relationships with these suppliers terminate for any reason, or if any of our other significant supplier relationships terminate for any reason, and we are not able to sell or procure a sufficient supply of those products from alternative sources, or at all, our financial position and results of operations would be adversely affected. Our suppliers are subject to many if not all of the same (or similar) risks and uncertainties to which we are subject, as well as other risks and uncertainties, and we compete with others for their business. Accordingly, we are at a continual risk of loss of their business on account of a number of factors and forces, many of which are largely beyond our control.

In fiscal year 2021, our largest customer accounted for 11% of our revenues. 26% of our sales in fiscal 2021 were made to five customers. Also, customer mix can change rapidly, and we may see changes in customer concentrations in the future. If or when any of our significant customer relationships terminate for any reason, and we are not able to replace those customers and associated revenues, our financial position and results of operations would be adversely affected.

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

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

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

We continually experience changes in customer and product mix that affects gross margin. Changes in customer and product mix result primarily from changes in customer demand, customer acquisitions or losses, selling and marketing activities and competition.

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

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

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

Our business requires substantial capital to operate and to finance accounts receivable and product inventory that are not financed by trade creditors. We have historically relied upon cash generated from operations, revolving credit facilities and trade credit from our suppliers to satisfy our capital needs and finance growth. The impact of the COVID-19 pandemic on financial markets continues to evolve, and as this occurs and new regulations come into effect, and as the financial markets change on account of other forces and events, 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. In addition, even if the terms of our revolving credit facility would otherwise allow or require, our lenders may refuse to lend to us through no fault of ours. The inability to maintain or when necessary obtain adequate sources of financing could have an adverse effect on our business. Our existing secured revolving credit facility includes 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 product inventory 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 and inventory. If the value of these accounts receivable and product inventory 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 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 \$12.5 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 be unable to successfully execute our merchandising and marketing strategic initiatives.***

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

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

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

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

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

The wireless service carrier industry has experienced significant consolidation in recent years. If any of our significant customers or partners are acquired or consolidate with other carriers, or are otherwise involved in any significant transaction that results in them ceasing to do business with us, or significantly reducing the level of business that they do with us, our revenues from those customers could be affected, resulting in an adverse effect on our financial position and results of operations.

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

We are highly dependent upon our internal information technology and telecommunication systems, many of which are proprietary, to operate our business. These systems support all aspects of our business operations, including means of internal and external communication, inventory and order management, shipping, receiving and accounting. Most of our information technology systems contain a number of internally developed applications. In addition, all of these systems require continued maintenance and also require upgrading or replacement from time to time. There can be no assurance that these systems will not fail or experience disruptions, that we will be able to attract and retain qualified personnel necessary for the operation of such systems, that we will be able to expand and improve our systems, that we will be able to convert to new systems efficiently as and when necessary, or that we will be able to integrate new programs effectively with our existing programs, in each case without incident or delay, or undue cost.

***Complications with the design or implementation of our new enterprise resource planning system could adversely impact our business and operations.***

We rely extensively on information systems and technology to manage our business and summarize operating results. We are in the process of an implementation of a new global enterprise resource planning (“ERP”) system. This ERP system will replace our existing operating and financial systems. The ERP system is designed to accurately maintain the Company’s financial records, enhance operational functionality and provide timely information to the Company’s management team related to the operation of the business. The ERP system implementation process has required, and will continue to require, the investment of significant personnel and financial resources. We may not be able to successfully implement the ERP system without experiencing delays, increased costs and other difficulties. If we are unable to successfully design and implement the new ERP system as planned, our financial positions, results of operations and cash flows could be negatively impacted. Additionally, if we do not effectively implement the ERP system as planned or the

ERP system does not operate as intended, the effectiveness of our internal control over financial reporting could be adversely affected or our ability to assess those controls adequately could be delayed.

***We, like most businesses, are subject to risk of cyber-attack and fraudulent and criminal activities of others and incur significant costs in efforts to defend these attacks and activities.***

We like most businesses are continually subject to risk of cyber-attack and fraudulent and criminal activities of others, and are continually engaged in an effort to defend against and to ward off attacks from hackers and others. We have experienced cyber-attacks and suffered as a result of the fraudulent and criminal activities of others from time to time. Any of such problems or events, including any significant damage or destruction of our systems, including pursuant to or as a result of system security breaches, data protection breaches or other cyber-attacks, could result in significant disruption in our business and operations, harm our relationship with our customers or suppliers, and result in significant losses in revenues. Corrective action and compliance with applicable privacy and data protection laws could be costly. Any of these or similar events or occurrences could have an adverse effect on our business, financial position and results of operations. While we maintain insurance in an effort to manage some of these risks, insurance may not cover all losses and recovery is subject to applicable deductibles and other terms and limitations of the policies.

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

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

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

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

We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, including the Payment Card Industry Data Security Standard (PCI DSS), a security standard applicable to companies that collect, store or transmit certain data regarding credit and debit cards, holders and transactions. From time to time we may not be fully or materially compliant with PCI DSS or other payment card operating rules. Any failure to comply fully or materially with the PCI DSS now or at any point in the future may violate payment card association operating rules and the terms of our contracts with payment processors and merchant banks, and could subject us to fines, penalties, damages and civil liability, and could result in the loss of our ability to accept credit and debit card payments. Maintaining compliance with these regulations is costly and there is no guarantee that we will be successful or avoid fines, penalties, damages or civil liability, and even if successful, there is no guarantee that PCI DSS compliance

will prevent illegal or improper use of our payment systems or the theft, loss or misuse of data pertaining to credit and debit cards, credit and debit card holders and credit and debit card transactions.

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

The nature of our business includes (but is not limited to) a high volume of transactions, business complexity, wide geographical coverage, and broad scope of products, suppliers, and customers. In order to compete, we must attract, retain and motivate executives and other key employees, including those in managerial, technical, sales, marketing and support positions. Hiring and retaining qualified executives, information technology and business generation personnel are critical to our business. Most of the members of our senior management team are parties to employment contracts or arrangements with us that provide for, among other things, various severance payments or benefits upon termination of their employment under certain circumstances, including termination by the Company without “cause” or for “good reason”, and those contracts generally renew from year to year, except for the employment contract with Mr. Mukerjee, our CEO, which commenced in August 2019 and expires in March 2023. The loss of any of the members of our senior management team, could have an adverse effect on our business, financial position and results of operations.

To attract, retain and motivate qualified employees, we rely heavily on stock-based incentive awards such as Performance Stock Units (PSUs) and stock options. If performance targets associated with PSUs are not met, or the value of such awards does not appreciate as measured by the performance of the price of our common stock and/or if our other stock-based compensation, such as stock options, otherwise ceases to be viewed as a valuable benefit, our ability to attract, retain and motivate our employees could be adversely impacted, which could negatively affect our business, financial position and results of operations and/or require us to increase the amount we spend on cash and other forms of compensation. Our ability to issue PSUs, stock options and other equity instruments is also limited by the provisions of and our available shares under our current and/or future stock incentive plans, which may be subject to shareholder approval. We may currently issue awards under our incentive plan through June 4, 2029, and only insofar as shares are available for awards thereunder. As of May 25, 2021, the most recent date when PSUs and other equity instruments were issued, there were 303,279 shares available for future awards. Therefore, our ability to offer stock-based incentive awards may be limited, which may have an adverse effect on our continued ability to attract and retain, and motivate, our employees, and, subsequently, on our business, financial position and results of operations. In addition, an increase in the number of shares for future awards, under either current or future compensation or incentive plans or arrangements could lead to dilution of our other stockholders.

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

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

***Disruption to our supply chain could impair our ability to produce or deliver inventory, resulting in a negative impact on our operating results.***

Due to several factors, including a raw materials shortage, global factory backlogs, transportation delays and customs delays caused in part due to the global economy recovering from the impact of COVID-19, our supply chain has been adversely impacted and lead times have increased considerably, beginning in the fourth quarter of fiscal year 2021. Future disruption to our global manufacturing operations or our supply chain could also result from, among other factors, the following:

- Natural disaster;
- Pandemic outbreak of disease;
- Climate change and severity of extreme weather;



- Fire or explosion;
- Terrorism or other acts of violence;
- Labor strikes or other labor activities;
- Unavailability of raw or packaging materials;
- Operational and/or financial instability of key suppliers, and other vendors or service providers; and
- Suboptimal production planning which could impact our ability to cost-effectively meet product demand.

While we believe that most competitors are experiencing similar supply chain delays, we also believe that we are taking adequate precautions to mitigate the impact of the current disruptions to the extent possible and reasonable. We have strategies and plans in place intended to manage disruptive events such as the current supply chain disruption and other disruptions, if and when they occur, including our global supply chain strategies. If we are unable, or find that it is not financially feasible, to effectively procure sufficient inventory on a timely basis to meet our customers' demands, due to the potential impacts of such disruptive events on our supply chain, our financial position, results of operations and cash flows could be negatively impacted if such events were to occur.

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

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

***We are subject to potential declines in inventory value.***

We are subject to the risk that the value of our inventory will decline as a result of price reductions by suppliers or technological obsolescence or failure. It is the policy of many of our suppliers to protect distributors like us from the loss in value of inventory due to technological change or failure, or the suppliers' price reductions. Some suppliers (including those who manufacture our proprietary products), however, may be unwilling or unable to pay us for price protection claims or products returned to them under purchase agreements. No assurance can be given that such practices to protect distributors like us will continue, that unforeseen new product developments, product failure or product obsolescence will not adversely affect us, or that we will be able to successfully manage our existing and future inventories.

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

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

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

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

In assessing the recoverability of indefinite lived intangible assets, we make estimates and assumptions about sales, operating margin, growth rates and discount rates based on our budgets, business plans, economic projections, anticipated future cash flows and marketplace data. There are inherent uncertainties related to these factors and

management's judgment in applying these factors. As of March 28, 2021, we had \$795,000 of indefinite lived intangible assets, which represented approximately 0.4% of total assets.

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

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

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

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

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

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

***We may explore additional growth through acquisitions.***

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

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

The products we sell are sourced from a wide variety of domestic and international suppliers. Global sourcing of many of the products we sell is an important factor in our financial performance. Since the onset of the weakness in the global economic environment due to the COVID-19 pandemic, certain of our suppliers, particularly those in the far-east, have experienced financial difficulties and we believe it is possible that a limited number of suppliers may either cease operations or require increased prices in order to fulfill their obligations. Changes in our relationships with suppliers or increases in the costs of purchased raw materials, component parts or finished goods could result in delays, inefficiencies or our inability to market products. In addition, our profit margins would decrease if prices of purchased raw materials, component parts, or finished goods increase and we are unable to pass on those increases to our customers. The adoption or expansion of trade restrictions or the occurrence of trade wars could have a material adverse effect on our business, financial position and results of operation.

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

We rely on arrangements with independent shipping companies, for the delivery of our products from suppliers and to customers. The failure or inability of these shipping companies to deliver products, or the unavailability of their shipping services, even temporarily, could have a material adverse effect on our business. We may also be adversely affected by an increase in freight surcharges due to rising fuel costs and added security. This could adversely impact our selling, general and administrative expenses or lead to price increases to our customers which could decrease customer demand for our products.

***Changes in income tax and other regulatory legislation.***

We operate in compliance with applicable laws and regulations and make plans for our structure and operations based upon existing laws and anticipated future changes in the law. When new legislation is enacted with minimal advance notice, or when new interpretations or applications of existing laws are made, we may need to implement changes in our policies or structure. We are susceptible to unanticipated changes in legislation, especially relating to income and other taxes, import/export laws, hazardous materials and other laws related to trade, accounting and business activities. Such changes in legislation may have an adverse effect on our business.

***We may be subject to litigation.***

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

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

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

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

Our product offering includes a growing number of our own proprietary products, which represented approximately 8% of our sales in fiscal year 2021. Our proprietary products often compete with other manufacturers' branded items that we offer. A manufacturer may choose to not sell its products to us, or may substantially increase the price of products to us, in response to the competition created by the sales of our proprietary branded products. Either could have an adverse effect on our business and financial performance.

***A significant portion of our product offerings, including a majority of our Ventev® products and products we acquire from our suppliers, are manufactured in foreign countries, making the price and availability of these products susceptible to international trade risks and other international conditions.***

A significant portion of our products are manufactured in foreign countries, including China. The countries, specifically China, in which many of our products currently are manufactured or may be manufactured in the future are or could become subject to trade restrictions imposed by the U.S., including increased tariffs or quotas, embargoes and customs restrictions, which would increase the cost or could reduce the supply of products available to us, and could have a material adverse effect on our business, financial condition and results of operations.

There is also a concern that the imposition of additional tariffs by the United States could result in the adoption of tariffs by other countries as well. Such tariffs on imports from foreign countries, as well as changes in tax and trade policies, such as a border adjustment tax or disallowance of certain tax deductions for imported product, could materially increase our manufacturing costs, the costs of our imported products or our income tax expense, which would have a material adverse effect on our financial condition and results of operations. Tariffs imposed by China or other foreign countries on imports of our products could also adversely affect our international e-commerce sales. Any increase in manufacturing costs, the cost of our products or limitation on the amount of products we are able to purchase, could have a material adverse effect on our financial condition and results of operations. Unless we are able to sufficiently mitigate their effects as applicable to us, the persistence or increase of tariffs, may adversely affect us or our business.

***Legislative or regulatory action could be taken that could limit our ability to use certain foreign suppliers to supply us with products.***

Members of the U.S. Congress and certain regulatory agencies have raised concerns about American companies purchasing equipment and software from Chinese telecommunications companies, including concerns relating to alleged violations of intellectual property rights by Chinese companies and potential security risks posed by U.S. companies purchasing technical equipment and software from Chinese companies. In October 2012, the U.S. House of Representatives Permanent Select Committee on Intelligence issued a report asserting that network equipment manufactured by Chinese telecommunications companies poses a security threat to the United States and recommending the use of other network suppliers. The report also recommends that Congress consider adopting legislation to address these and other purported risks. Any such legislative or regulatory requirement that restricts us from purchasing or utilizing equipment or software from Chinese or other foreign companies with which we do or seek to do business, any determination by foreign companies upon which we rely to cease doing business in the United States, any determination by any of our suppliers or customers not to do business with us on account of actual or perceived business relationships that we may have with these suspect Chinese or other foreign companies, or any determination that we otherwise make that it is either necessary or advantageous for us to cease doing business with such foreign companies, could limit our product offerings, result in increased costs of goods and have a material adverse effect on our financial condition and results of operations.

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

Our industry has increasingly been subject to patent and other intellectual property rights litigation. We expect this trend to continue and accelerate and expect that we may be required to defend against this type of litigation, not only asserted against our own intellectual property rights, but also against the intellectual property of products which we have

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

***We may be adversely affected by laws or regulations.***

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

**Risks Related to our Exit from the Retail Business**

***We may not receive all of the potential payments to us under the terms of the Inventory Purchase Agreement applicable to our exit from the Retail business, or we may otherwise realize less net cash from the sale than expected.***

In addition to amounts already paid to us, there are a number of payment obligations between the parties under the terms of the Inventory Purchase Agreement with Voice Comm for the sale of certain assets related to our Retail business. These include post-closing adjustments up to two years, potential payments to us in respect of certain future resales by Voice Comm of retail inventory purchased from us, potential royalty payments to us related to Voice Comm's sale of Ventev-branded mobile accessory products, and warranty and indemnity obligations. Voice Comm's business, on which its future payments to us are dependent, is subject to many of the same risks that we are subject to, and perhaps other risks. Accordingly, we may not receive all of the payments due to us under the terms of the Inventory Purchase Agreement or we may be required to make payments to Voice Comm in the form of adjustments or otherwise, and we may realize less overall net cash from the sale than we might otherwise anticipate. In addition, we have not transferred but have instead retained our receivables related to our historical Retail business, and those receivables remain subject to risks typically associated with receivables, including collection risks.

***The Inventory Purchase Agreement with Voice Comm exposes us to contingent liabilities and other risks that could adversely affect our business or financial condition.***

Pursuant to the Inventory Purchase Agreement, we have made customary representations and warranties and the parties have agreed to indemnify each other for breaches of representations, warranties and covenants contained in the Inventory Purchase Agreement. The Inventory Purchase Agreement also subjects us to other risks typical in business transactions of this type, including payment and performance risks. The terms of the Inventory Purchase Agreement are complex and address all aspects of our former Retail business, including return of sold inventory, product warranty

obligations, and customer and vendor relationships, among others. Should disputes arise or should we incur liability for breach of any of these representations, warranties or obligations, or should any of these other risks materialize, our business, financial condition or results of operations could be materially adversely affected. In addition, we have assigned or licensed Ventev®- related intellectual property to Voice Comm, including the Ventev® trademark for their use in connection with the sale of mobile device and accessory products, while we continue to use the brand and other Ventev®-related intellectual property in our ongoing and continuing business. This intellectual property sharing arrangement could result in identity confusion in the marketplace, and the actions or activities of one of Tessco or Voice Comm in respect of the shared intellectual property, whether positive or negative, may reflect on the other.

***Our long-term business prospects will depend on the success of our Commercial business.***

As a result of our exit from the Retail business, our Commercial business is our sole remaining cash-generating business, and our overall business has become less diverse. Our long-term business prospects will, therefore, be dependent almost entirely on the success of our Commercial business and any other businesses that we pursue.

***The Inventory Purchase Agreement with Voice Comm imposes non-compete obligations on us and our affiliates.***

Under the terms of the Inventory Purchase Agreement, the Company has agreed, on behalf of itself and its affiliates (including any owner of a majority of Tessco), not to compete with Voice Comm’s retail business as operated by the Company at closing, for a period of five years after the closing date. Tessco will, however, retain the ability to continue to supply retail products to its commercial customers; and other exceptions to the non-compete obligation allow Tessco to divest itself of Retail inventory not acquired by Voice Comm. The overall non-compete obligation may, however, be terminated early by us upon the occurrence of certain change in control events and the payment to Voice Comm of certain agreed upon amounts (approximately \$5,000,000, initially), which diminishes ratably over the five year non-compete period. This could make certain changes in control involving us more costly and therefore more difficult or less likely. Disagreements may arise between the parties as to the scope and meaning of the non-compete obligations and the various exceptions, which could be disruptive and subject us to claims for damages or specific performance of the non-compete obligations.

## **RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK**

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

Our executive officers, directors and beneficial owners of 5% or more of our common stock and their affiliates, in the aggregate, beneficially owned approximately 54% of our outstanding common stock as of March 28, 2021. Robert B. Barnhill, Jr., our Chairman of the Board, beneficially owned approximately 18% of our outstanding common stock as of March 28, 2021. These shareholders, and particularly if they decide to act together, have or would have the ability to significantly influence all matters requiring shareholder approval, including the election of directors and any significant corporate transaction requiring shareholder approval.

***Our business could be negatively impacted as a result of any future activism activities by Robert B. Barnhill, Jr. and certain other participants in his consent solicitation and/or other activist investors.***

As noted above, Mr. Robert B. Barnhill Jr. holds approximately 18% of our outstanding common stock. In September 2020, Mr. Barnhill and persons acting together with Mr. Barnhill initiated a consent solicitation to seek the consent of our stockholders holding at least a majority of our outstanding shares of common stock to, among other things, remove five members of our Board and replace them with four director candidates identified by Mr. Barnhill (the “Consent Solicitation”). Consents solicited during the Consent Solicitation were delivered to the Company on December 11, 2020.

The Consent Solicitation and the Company’s response to it has resulted in, significant distraction for management and significant costs to the Company. Further, Consent Solicitations or other activities by Mr. Barnhill or by other activist shareholders could result in yet additional distractions and costs and could lead to a materially adverse impact on our business or operating results.



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

Our revenue and operating results have fluctuated from quarter to quarter in the past and may continue to do so in the future. As a result, you should not rely on quarter-to-quarter comparisons of our operating results as an indication of our future performance. Fluctuations in our revenue and operating results could negatively affect the trading price of our stock. Most of our operating expenses, such as compensation expenses, do not vary directly with the amount of sales and are difficult to adjust in the short term. As a result, if sales in a particular quarter are below expectations for that quarter, we may not proportionately reduce operating expenses for that quarter, and therefore such a sales shortfall would have a disproportionate effect on our net income for the quarter. Therefore, our revenue and results of operations may, in the future, be below the expectations of analysts and investors, which could cause our stock price to decline. Factors that are likely to cause our revenue and operating results to fluctuate include the risk factors discussed throughout this section.

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

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

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

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

#### **Item 1B. Unresolved Staff Comments.**

None.

#### **Item 2. Properties.**

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

Our sales, marketing and administrative offices are located in 102,200 square feet of leased office space near the GLC, in Timonium, Maryland. The monthly rent payments range from \$183,000 to \$203,800 throughout the remaining lease term, which expires on December 31, 2025.

In addition, we lease 66,000 square feet of office and warehouse space adjacent to the GLC in Hunt Valley, Maryland. The monthly rent for this facility ranges from \$40,500 to \$43,000 throughout the remaining lease term, which expires on July 31, 2023, subject to our annual option to terminate.

Additional sales and marketing offices are located in 13,100 square feet of leased office space in San Antonio, Texas. Monthly rent payments are \$19,100 and the lease expires October 31, 2021.

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

While we anticipate the need for additional space, we believe our existing facilities are generally adequate for our current requirements and that suitable additional space will be available as needed to accommodate future expansion of our operations.

### **Item 3. Legal Proceedings.**

Lawsuits and claims are filed against us from time to time in the ordinary course of business. We do not believe that any lawsuits or claims currently pending against the Company, individually or in the aggregate, are material, or will have a material adverse effect on our financial condition or results of operations. In addition, from time to time, we are also subject to review from federal and state taxing authorities in order to validate the amounts of income, sales and/or use taxes which have been claimed and remitted.

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

### **Item 4. Mine Safety Disclosures**

Not applicable.

## Part II

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

Our common stock has been publicly traded since September 28, 1994, on Nasdaq, under the symbol "TESS."

As of June 2, 2021, the number of shareholders of record of the Company was 160. We estimate that the number of beneficial owners as of that date was approximately 3,049.

On July 28, 2009, we announced that our Board of Directors had decided to commence a cash dividend program and thereafter our Board of Directors declared dividends on a quarterly basis, through the fourth quarter of fiscal 2020. On April 28, 2020, the Board of Directors suspended Tescos dividend in an effort to further strengthen its cash position. Any future declaration of dividends and the establishment of any corresponding record and payment dates remains subject to further determination from time to time by the Board of Directors. Additional information with respect to the quarterly dividends declared in fiscal years 2021 and 2020 is contained in our Selected Financial Data. The declaration and payment of future dividends will depend on many factors, including, but not limited to, our earnings, financial condition, business development needs and regulatory considerations, and is at the discretion of our Board of Directors. Our revolving credit facility may limit the amount of cash dividends that we may pay through the application of financial covenants and ratios that restrict dividend payments.

We also withhold shares from our employees and directors from time to time to facilitate employees' minimum federal and state tax withholdings related to vested performance stock units, restricted stock and exercised stock options. For fiscal years 2021 and 2020 the total value of shares withheld for taxes were \$121,500 and \$201,000, respectively.

The secured Revolving Credit Facility also restricts our ability to pay dividends and to repurchase our shares. Assuming that no default exists, we may redeem or repurchase up to \$2,000,000 of our shares in any 12 consecutive month period in connection with the payment or satisfaction of tax withholding obligations of participants under our equity compensation plans. We may pay dividends or effect redemptions provided that no default exists or will exist after giving effect to the dividend or repurchase, and the average Excess Availability is not less than \$18,750,000 during the immediately preceding thirty-day period and after giving effect to the dividend or repurchase on a pro forma basis, and for each day of the thirty-day period not less than \$12,500,000. Excess Availability is generally defined as Availability minus the aggregate amount of trade payables aged in excess of historical levels and all book overdrafts in excess of historical practices. In addition to these conditions, dividends and repurchases of our shares, other than repurchases in connection with tax withholding as noted above are in any event limited to \$625,000 per quarter and not more than \$2,500,000 in the aggregate during the period October 29, 2020 through October 28, 2021, at which time these quarterly and aggregate limits expire. At March 28, 2021 we had the ability to withhold or repurchase \$2 million in additional shares of our common stock during fiscal 2021, without violating this covenant.

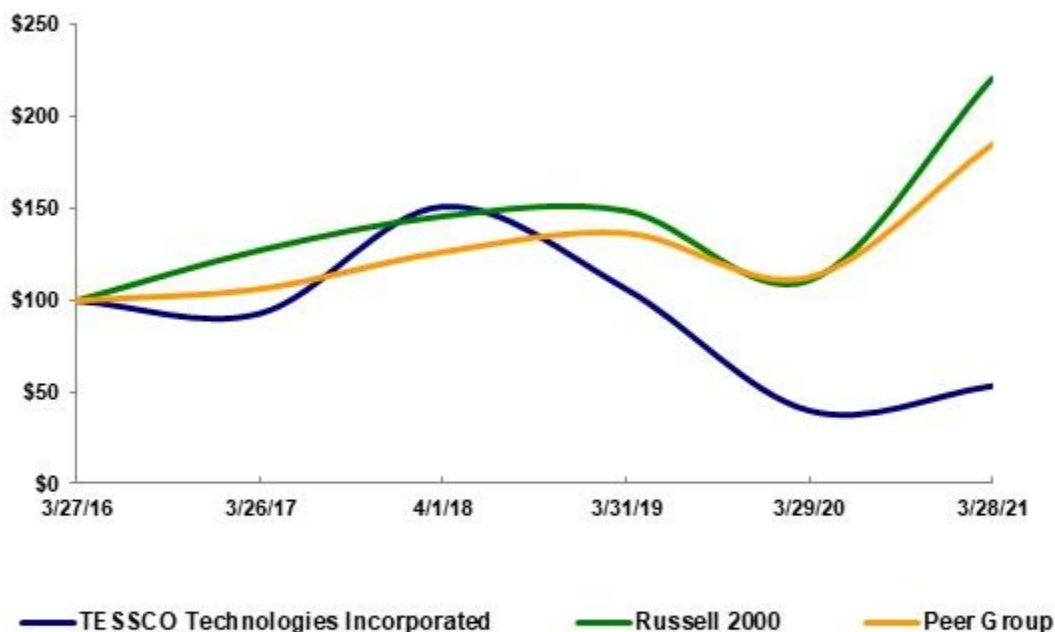
The information required by Item 201(d) of Regulation S-K, pursuant to paragraph (a) of Item 5 of Form 10-K, is incorporated by reference to the information set forth under the caption "Equity Compensation Plan Information" in the Company's Proxy Statement for the 2021 Annual Meeting of Shareholders, which is anticipated to be filed pursuant to Regulation 14A no later than one hundred twenty (120) days following the end of the fiscal year reported on.

## Stock Performance Graph

The graph set forth below shows the value of an investment of \$100 on March 27, 2016 in each of the Company's common stock, the Russell 2000 Index and a peer group for the period of March 27, 2016 to March 28, 2021. The graph assumes that all dividends, if any, were reinvested.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among TESSCO Technologies Incorporated, the Russell 2000 Index, and Peer Group



\*\$100 invested on 3/27/16 in stock or index, including reinvestment of dividends. Fiscal year ending March 28.

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	<u>3/27/2016</u>	<u>3/26/2017</u>	<u>4/1/2018</u>	<u>3/31/2019</u>	<u>3/29/2020</u>	<u>3/28/2021</u>
TESSCO Technologies Incorporated	\$ 100.00	\$ 92.99	\$ 151.08	\$ 106.46	\$ 40.29	\$ 53.68
Russell 2000	100.00	127.34	145.74	148.72	110.91	220.28
Peer Group <sup>(1)</sup>	100.00	106.32	126.37	136.59	112.65	184.69

<sup>(1)</sup> – The Peer Group consists of the following: ScanSource Inc., and W.W. Grainger Inc.

The peer group was selected based on a review of publicly available information about these companies and the Company's determination that they are engaged in business similar to that of the Company. This group has been updated since prior years to remove two previously included peer group companies whose shares are no longer traded.

## Item 6. Selected Financial Data.

In accordance with the SEC staff Financial Reporting Manual and in conjunction with the filing of the fiscal 2021 Form 10-K, we elected not to recast the selected financial data for fiscal year 2017 and 2018 for the exit of the Retail business that occurred in fiscal 2021 as discontinued operations. As such, the below selected financial data for fiscal years 2017 and 2018 includes the results of the divested Retail segment.

	Fiscal Years Ended				
	March 28, 2021	March 29, 2020	March 31, 2019	April 1, 2018	March 26, 2017
<b>STATEMENT OF INCOME DATA</b>					
Revenues	\$ 373,340,700	\$ 409,014,400	\$ 419,044,800	\$ 580,274,700	\$ 533,295,100
Cost of goods sold	<u>305,625,100</u>	<u>329,372,500</u>	<u>334,640,100</u>	<u>460,046,300</u>	<u>421,527,300</u>
Gross profit	67,715,600	79,641,900	84,404,700	120,228,400	111,767,800
Selling, general and administrative expenses	85,507,100	92,005,200	95,347,000	112,326,700	108,416,300
Goodwill impairment	—	9,108,600	—	—	—
Restructuring charge	—	488,000	—	—	806,600
Operating (loss) income	<u>(17,791,500)</u>	<u>(21,959,900)</u>	<u>(10,942,300)</u>	7,901,700	2,544,900
Interest expense, net	<u>426,300</u>	<u>1,116,300</u>	<u>853,800</u>	<u>429,100</u>	<u>58,600</u>
(Loss) income from continuing operations before (benefit from) provision for income taxes	(18,217,800)	(23,076,200)	(11,796,100)	7,472,600	2,486,300
(Benefit from) provision for income taxes	<u>(3,844,500)</u>	<u>(7,474,800)</u>	<u>(2,913,800)</u>	<u>2,277,200</u>	<u>1,041,200</u>
Net (loss) income from continuing operations	<u>(14,373,300)</u>	<u>(15,601,400)</u>	<u>(8,882,300)</u>	<u>5,195,400</u>	<u>1,445,100</u>
EBITDA <sup>(1)</sup>	<u>(14,047,000)</u>	<u>(17,933,800)</u>	<u>(7,323,400)</u>	<u>11,894,300</u>	<u>6,783,800</u>
Diluted (loss) earnings per share from continuing operations	\$ (1.65)	\$ (1.83)	\$ (1.05)	\$ 0.61	\$ 0.17
Adjusted EBITDA <sup>(1)</sup>	<u>(12,836,000)</u>	<u>(7,650,600)</u>	<u>(6,079,400)</u>	<u>12,896,400</u>	<u>7,218,200</u>
Cash dividends declared per common share	\$ —	\$ 0.62	\$ 0.80	\$ 0.80	\$ 0.80
<b>Percentage of Revenues</b>					
Revenues	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	<u>81.9</u>	<u>80.5</u>	<u>79.9</u>	<u>79.3</u>	<u>79.0</u>
Gross profit	18.1	19.5	20.1	20.7	21.0
Selling, general and administrative expenses	22.9	22.5	22.8	19.4	20.3
Goodwill impairment	—	2.2	—	—	—
Restructuring charge	—	0.1	—	—	0.2
Operating expenses	<u>22.9</u>	<u>24.8</u>	<u>22.8</u>	<u>19.4</u>	<u>20.5</u>
Operating (loss) income	<u>(4.8)</u>	<u>(5.4)</u>	<u>(2.6)</u>	<u>1.4</u>	<u>0.5</u>
Interest, net	0.1	0.3	0.2	0.1	0.0
(Loss) income from continuing operations before (benefit from) provision for income taxes	(4.9)	(5.6)	(2.8)	1.3	0.5
(Benefit from) provision for income taxes	<u>(1.0)</u>	<u>(1.8)</u>	<u>(0.7)</u>	<u>0.4</u>	<u>0.2</u>
Net (loss) income from continuing operations	<u>(3.8)%</u>	<u>(3.8)%</u>	<u>(2.1)%</u>	<u>0.9 %</u>	<u>0.3 %</u>

	Fiscal Years Ended				
	March 28, 2021	March 29, 2020	March 31, 2019	April 1, 2018	March 26, 2017
<b>SELECTED OPERATING DATA</b>					
Average commercial buyers per month	3,800	4,200	4,800	11,600	12,500
Return on assets <sup>(2)</sup>	(7.6)%	(8.4)%	(5.0)%	2.8 %	0.8 %
Return on equity <sup>(3)</sup>	(17.9)%	(16.2)%	(8.2)%	4.8 %	1.3 %

	As of Fiscal Years Ended				
	March 28, 2021	March 29, 2020	March 31, 2019	April 1, 2018	March 26, 2017
<b>BALANCE SHEET DATA</b>					
Working capital	\$ 67,840,900	\$ 51,164,700	\$ 74,636,000	\$ 74,789,400	\$ 77,194,500
Total assets	189,077,900	208,708,700	206,495,800	199,423,700	173,980,500
Short-term debt	—	25,563,900	14,380,400	10,862,700	26,500
Long-term debt	30,583,200	—	—	2,300	29,800
Shareholders' equity	76,750,200	83,702,700	108,787,200	108,051,600	108,016,300

- (1) See “Reconciliation of Non-GAAP Measures” in this Management’s Discussion and Analysis of Financial Condition and Results of Operations, below in this Annual Report on Form 10-K.
- (2) Net income divided by the average total assets.
- (3) Net income divided by the average total equity.

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

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

### Business Overview and Environment

TESSCO Technologies Incorporated (“Tessco”, “we”, “our”, “us”, or the “Company”) architects and delivers innovative product and value chain solutions to support wireless systems. Although we sell products to customers in over 50 countries, approximately 97% of our sales are to customers in the United States. We have operations and office facilities in Timonium and Hunt Valley, Maryland, Reno, Nevada and San Antonio, Texas.

On December 2, 2020, we sold most of our Retail inventory and certain other retail-related assets to Voice Comm. In connection with this sale, we assigned or licensed certain Ventev®- related intellectual property to Voice Comm, including our Ventev® trademark for their use in connection with the sale of mobile device and accessory products. Together, this resulted in our exit from our Retail business. Cash proceeds of \$9.5 million were received at the time of sale. As part of the sale agreement, we are entitled to royalty payments, up to \$3.0 million in the aggregate, on the sale of Ventev® branded products by Voice Comm over a four-year period after closing. Additionally, some customer returns we receive may be resold to Voice Comm over a two-year period after closing. As a result of the disposal, the operating results of our former Retail segment have been included in Income (loss) from discontinued operations, net of taxes in the Consolidated Statements of (Loss) Income for all periods presented. We retain the Ventev® tradename for non-mobile device accessory products.

As a result of this sale and our exit from the Retail business during the third quarter of fiscal 2021, we now operate as one business segment, which we had historically referred to as our Commercial segment.

We provide certain information within two key 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 includes value-added resellers, the government channel and private system operator



markets. Inventory typically has a life cycle that tends to be tied to changes in regulation or technology and includes products typically used by business entities or governments.

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

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, and the risk of new competitors entering the market is high. Consolidation of larger wireless carriers has and will most likely continue to impact our current and potential customer base. In addition, the agreements or arrangements with our customers or suppliers looking to us for product and supply chain solutions are typically of limited duration and are terminable by either party upon several months or otherwise short notice. Our ability to maintain these relationships is subject to competitive pressures and challenges. We believe, however, that our strength in service, the breadth and depth of our product offering, our information technology system, our large customer base and our purchasing relationships with approximately 300 manufacturers provide us with a significant competitive advantage over new entrants to the market.

## Results of Continuing Operations

The following tables summarize the results of our continuing operations for fiscal years 2021, 2020 and 2019:

(Dollars in thousands, except per share data)

	2021	2020	2020 to 2021		2019	2019 to 2020	
			\$ Change	% Change		\$ Change	% Change
<b>Revenues</b>							
Public Carriers	\$ 149,825	\$ 156,395	\$ (6,570)	(4.2)%	\$ 156,983	\$ (588)	(0.4)%
Value-added resellers and integrators	223,516	252,619	(29,103)	(11.5)%	262,062	(9,443)	(3.6)%
<b>Total Revenues</b>	<b>\$ 373,341</b>	<b>\$ 409,014</b>	<b>\$ (35,673)</b>	<b>(8.7)%</b>	<b>\$ 419,045</b>	<b>\$ (10,031)</b>	<b>(2.4)%</b>
<b>Gross Profit</b>							
Public Carriers	\$ 16,585	\$ 18,699	\$ (2,114)	(11.3)%	\$ 20,275	\$ (1,576)	(7.8)%
Value-added resellers and integrators	51,131	60,943	(9,812)	(16.1)%	64,130	(3,187)	(5.0)%
<b>Total Gross Profit</b>	<b>67,716</b>	<b>79,642</b>	<b>(11,926)</b>	<b>(15.0)%</b>	<b>84,405</b>	<b>(4,763)</b>	<b>(5.6)%</b>
Selling, general and administrative expenses	85,507	92,005	(6,498)	(7.1)%	95,347	(3,342)	(3.5)%
Goodwill impairment	—	9,109	(9,109)	(100.0)%	—	9,109	100.0 %
Restructuring Charge	—	488	(488)	(100.0)%	—	488	— %
Operating loss	(17,791)	(21,960)	4,168	(19.0)%	(10,942)	(11,018)	100.7 %
Interest, net	426	1,116	(691)	(61.9)%	854	263	30.7 %
Loss from continuing operations before provision for income taxes	(18,218)	(23,076)	4,858	(21.1)%	(11,796)	(11,280)	95.6 %
Benefit from income taxes	(3,845)	(7,475)	3,630	(48.6)%	(2,914)	(4,561)	156.5 %
<b>Net loss from continuing operations</b>	<b>\$ (14,373)</b>	<b>\$ (15,601)</b>	<b>\$ 1,228</b>	<b>(7.9)%</b>	<b>\$ (8,882)</b>	<b>\$ (6,719)</b>	<b>75.6 %</b>
Diluted loss per share from continuing operations	\$ (1.65)	\$ (1.83)	\$ 0.18	(9.7)%	\$ (1.05)	\$ (0.78)	73.8 %

## Fiscal Year 2021 Compared to Fiscal Year 2020

As noted above, we exited our Retail business during fiscal year 2021 and now report activity from that Retail business as discontinued operations. The analysis below reflects activity and results from continuing operations only, including references to Ventev®.

**Revenues.** Revenue for fiscal year 2021 decreased by 8.7% as compared to fiscal year 2020. Revenue in our public carrier market and value-added resellers and integrators market decreased by 4.2% and 11.5%, respectively. The decline was largely driven by a combination of continued headwinds from the economic downturn and the impact of COVID-19. Both markets were also impacted in the fourth quarter by delays in the global supply chain which delayed our receipt of inventory from our vendors and as a result caused delays in our ability to ship products to our customers. These delays are expected to continue into a substantial portion of fiscal year 2022.

**Cost of Goods Sold.** Cost of goods sold for fiscal year 2021 decreased by 7.2% as compared to fiscal year 2020. Cost of goods sold in our public carrier market and value-added resellers and integrators market decreased by 3.2% and 10.1%, respectively. The decline was primarily due to a decrease in related revenue in both markets.

**Gross Profit.** Gross profit decreased by 15.0% in fiscal year 2021 as compared to fiscal year 2020. This compares to a decline in revenue of 8.7% in fiscal year 2021 as compared to fiscal year 2020. Gross profit in our public carrier market and value-added resellers and integrators market decreased from 12.0% to 11.1% and from 24.1% to 22.9%, respectively. We experienced margin compression within our public carrier market primarily due to a change in customer mix, with increased sales going to larger customers which require better pricing. The margin decline in the value-added resellers and integrators market declined due to product mix, including lower sales of Ventev® products and customer mix. As a result of these drivers on gross profit, overall gross profit margin decreased to 18.1% in fiscal year 2021, compared to 19.5% in fiscal year 2020.

Our ongoing ability to earn revenues and gross profits from customers and suppliers looking to us for product and supply chain solutions is dependent upon a number of factors. The terms, and accordingly the factors, applicable to each relationship often differ. Among these factors are the strength of the customer's or supplier's business, the supply and demand for the product or service, including price stability, changing customer or supplier requirements, and our ability to support the customer or supplier and to continually demonstrate that we can improve the way they do business. In addition, the agreements or arrangements on which our customer and supplier relationships are based are typically of limited duration, typically do not include any obligation in respect of any specific product purchase or sale and are terminable by either party upon several months or otherwise short notice. Our customer relationships could also be affected by wireless carrier consolidation or global financial crisis, including the COVID-19 pandemic or other events beyond our control.

We account for inventory at the lower of cost or net realizable value and as a result write-offs/write-downs occur due to damage, deterioration, obsolescence, changes in prices and other causes. These expenses were 3% or less of overall purchases for each of the last three fiscal years.

**Selling, General, Administrative and Restructuring Expenses.** Total selling, general and administrative expenses decreased 7.1% during fiscal year 2021 as compared to fiscal year 2020. Total selling, general and administrative expenses as a percentage of revenues increased from 22.5% in fiscal year 2020 to 22.9% in fiscal year 2021. The following are descriptions of changes in significant components of selling, general, administrative, goodwill charges and restructuring expenses.

- Compensation and benefits expenses decreased by \$6.2 million in fiscal year 2021 as compared to fiscal year 2020, mainly due to lower operations overhead as well as a \$1.4 million decrease in health insurance expense.
- Marketing expenses, including travel and entertainment costs, decreased by \$2.7 million in fiscal year 2021 as compared to fiscal year 2020, primarily as a result of fewer customer and vendor events and tradeshows as a result of the COVID-19 pandemic.
- Fiscal year 2021 included \$2.6 million of costs, net of insurance recoveries, related to the consent solicitation that concluded during the third quarter.

- The Company also incurred a \$0.5 million restructuring charge related to severance expense for the first quarter of fiscal 2020, and a \$9.1 million non-cash goodwill impairment loss during fiscal 2020. The goodwill impairment was due to the decline of results in fiscal year 2020 and future year projections, the significant reduction in our market capitalization during the second half of the fiscal year (due to a decrease in stock price) and significant decline in market multiples considered in the market based valuation. There was no restructuring cost or goodwill impairment loss during fiscal 2021.

We continually evaluate the credit worthiness of our existing customer receivable portfolio and provide an appropriate reserve based on this evaluation. We also evaluate the credit worthiness of prospective and current customers and make decisions regarding extension of credit terms to such customers based on this evaluation. Accordingly, we recorded a recovery of bad debts of \$0.3 million for fiscal year 2021, and a provision for bad debts of \$1.1 million, for fiscal year 2020. The recovery of bad debts for fiscal year 2021 primarily related to receivables written off in fiscal 2020 based on the uncertainty caused by the COVID-19 pandemic.

**Interest, Net.** Net interest expense decreased from \$1.1 million in fiscal year 2020 to \$0.6 million in fiscal year 2021. The decrease is primarily related to higher capitalized interest amount. Refer to Note 6 of the financial statements included as part of this Annual Report on Form 10-K for additional information on our borrowings.

**Income Taxes, Net Income and Diluted Earnings Per Share.** The effective tax rates in fiscal year 2021 and 2020 were 21.1% and 32.4%, respectively. The decrease in the effective tax rate is primarily a result of provisions in the CARES Act which allowed the Company to carry back certain net operating losses up to five years. These net operating losses were applied against net income that was taxed at a higher federal rate prior to the Tax Cuts & Jobs Act which was signed into law in December 2017 (the “2017 Tax Act”) and went into effect in the third quarter of fiscal 2018. The benefit of the carry back provision of the CARES Act was partially offset by valuation allowances on the deferred tax assets. As a result of the factors discussed above, net loss for fiscal year 2021 decreased 7.9% and net loss per diluted share decreased by 9.7%, compared with fiscal year 2020.

### **Fiscal Year 2020 Compared to Fiscal Year 2019**

As noted above, we exited our Retail business during fiscal year 2021 and now report activity from that Retail business as discontinued operations. The analysis below is based on activity and results from continuing operations only, including references to Ventev®.

**Revenues.** Revenue for fiscal year 2020 decreased by 2.4% as compared to fiscal year 2019. Revenue in our public carrier market and value-added resellers and integrators market decreased by 0.4% and 3.6%, respectively. The decline was primarily because we did not realize the full benefits of sales strategy refinements in the value-added resellers and integrators market.

**Cost of Goods Sold.** Cost of goods sold for fiscal year 2020 decreased by 1.6% as compared to fiscal year 2019. Cost of goods sold in our value-added resellers and integrators market decreased by 3.2%, partially offset by a cost of goods sold increase in our public carrier market of 0.7%. The decline was primarily due to a decrease in related revenue in the value-added resellers and integrators market.

The imposition of tariffs on products that we imported increased the costs of those products and adversely affected our gross profits and overall financial performance. A significant portion of our Ventev products are manufactured in foreign countries, including China and increasingly of late, Vietnam. On May 9, 2019, the United States government announced a 25% tariff on a range of products from China that are exported to the U.S. Responding to this, we were successful in moving the manufacturing of a majority of our Ventev products out of China in an effort to mitigate tariff costs, but we continued to incur additional tariff costs on product we have manufactured in, or component parts we continue to source from, China. In January 2020, China and the U.S. entered the first phase of an economic and trade agreement. There is no assurance that a broader trade agreement will be successfully negotiated between the U.S. and China to reduce or eliminate existing tariffs applicable to the business of the Company.

**Gross Profit.** Gross profit decreased by 5.6% in fiscal year 2020 as compared to fiscal year 2019. This compares to a decline in revenue of 2.4% in fiscal year 2020 as compared to fiscal year 2019. Gross profit in our public carrier market and value-added resellers and integrators market decreased from 12.9% to 12.0% and from 24.5% to 24.1%, respectively. We experienced margin compression within our public carrier market primarily due to a change in customer mix, with increased sales going to larger customers which require better pricing. As a result of these drivers on gross profit, overall gross profit margin decreased to 19.5% in fiscal year 2020, compared to 20.1% in fiscal year 2019.

**Selling, General, Administrative and Restructuring Expenses.** Total selling, general and administrative expenses decreased 3.5% during fiscal year 2020 as compared to fiscal year 2019. Total selling, general and administrative expenses as a percentage of revenues decreased from 22.8% in fiscal year 2019 to 22.5% in fiscal year 2020. The following are descriptions of changes in significant components of selling, general, administrative, goodwill charges and restructuring expenses.

- Compensation and benefits expenses decreased by \$3.6 million in fiscal year 2020 as compared to fiscal year 2019, mainly due to a decrease in variable compensation in both sales and operations related to the decline in overall revenues.
- Performance bonus expense (including both cash and equity plans) decreased by \$2.1 million in fiscal year 2020 as compared to fiscal year 2019. Our bonus programs are typically based on achieving annual performance targets. The relationship between expected performance and actual performance led to lower bonus expenses in fiscal 2020, as compared to fiscal 2019.
- Expenses related to information technology increased by \$2.8 million in fiscal year 2020 as compared to fiscal year 2019, primarily due to increased cost to support our sales initiatives and to build more efficient and effective systems.

The Company also incurred a \$0.5 million restructuring charge related to severance expense for the first quarter of fiscal 2020, and a \$9.1 million non-cash goodwill impairment loss during fiscal 2020. The goodwill impairment was due to the decline of results in fiscal year 2020 and future year projections, the significant reduction in our market capitalization during the second half of the fiscal year (due to decrease in stock price) and significant decline in market multiples considered in the market based valuation.

We continually evaluate the credit worthiness of our existing customer receivable portfolio and provide an appropriate reserve based on this evaluation. We also evaluate the credit worthiness of prospective and current customers and make decisions regarding extension of credit terms to such customers based on this evaluation. Accordingly, we recorded a provision for bad debts of \$1.1 million and \$1.4 million for fiscal year 2020 and fiscal year 2019, respectively.

**Interest, Net.** Net interest expense increased from \$0.9 million in fiscal year 2019 to \$1.1 million in fiscal year 2020. The increase is primarily related to higher borrowing levels on our secured revolving credit facility. Refer to Note 6 of the financial statements included as part of this Annual Report on Form 10-K for additional information on our borrowings.

**Income Taxes, Net Income and Diluted Earnings Per Share.** The effective tax rates in fiscal year 2020 and 2019 were 32.4% and 24.7%, respectively. The change in the effective tax rate is primarily a result of provisions in the CARES Act which allows the Company to carry back certain net operating losses up to five years. These net operating losses for fiscal year 2020 were applied against net income that was taxed at a higher federal rate prior to the Tax Cuts & Jobs Act which was signed into law in December 2017 (the “2017 Tax Act”) and went into effect in the third quarter of fiscal 2018. The benefit of the carry back provision of the CARES Act was partially offset by valuation allowances recorded in fiscal year 2020 on the deferred tax assets. As a result of the factors discussed above, net loss and diluted loss per share for fiscal year 2020 increased 75.6% and 74.3%, respectively, compared with fiscal year 2019.

## Liquidity and Capital Resources

In summary, our cash flows were as follows (includes both continuing and discontinued operations):

	Fiscal Year		
	2021	2020	2019
Cash flow (used in) provided by operating activities	\$ (684,200)	\$ 908,200	\$ 8,246,700
Cash flow used in investing activities	(2,654,400)	(6,845,700)	(5,164,700)
Cash flow provided by (used in) financing activities	4,398,600	5,957,200	(3,071,100)
Net increase in cash and cash equivalents	\$ 1,060,000	\$ 19,700	\$ 10,900

We used \$0.7 million of net cash from operating activities during fiscal year 2021. This outflow was driven by net loss (net of depreciation and amortization, gain on the retail sale, and non-cash stock compensation expense), and a decrease in accounts payable partially offset by the decreases in accounts receivable and inventory. A decrease in deferred income tax assets was offset by an increase income taxes receivable. Accounts receivable, inventory, and accounts payable decreased due to our exit of the Retail business during the third quarter of fiscal 2021.

We generated \$0.9 million of net cash from operating activities during fiscal year 2020. This inflow was driven by net loss (net of depreciation and amortization, goodwill impairment loss, and non-cash stock compensation expense) and a decrease in accounts receivable, partially offset by an increase in prepaid expenses and other current assets and an increase in deferred income taxes. Accounts receivable decreased due to the timing of sales at the end of the fourth quarter of fiscal year 2020 as compared to the fourth quarter of fiscal year 2019. Prepaid expenses and other current assets increased due to an increase in income taxes receivable. Due to the CARES Act, the Company is able to carry back net operating losses up to five years and receive a refund of taxes paid in prior years.

We generated \$8.2 million of net cash from operating activities during fiscal year 2019. This inflow was driven by net income (net of depreciation and amortization and non-cash stock compensation expense), an increase in accounts payable and a decrease in inventory, partially offset by an increase in accounts receivable. Accounts payable increased due to strategic purchase of inventory during the fourth quarter with extended terms to support our public carrier business. Inventory decreased due to an intentional reduction of overall inventory in line with our efforts to manage working capital. Accounts receivable increased due to the timing of sales at the end of the fourth quarter of fiscal year 2019 as compared to the fourth quarter of fiscal year 2018.

Capital expenditures of \$11.9 million in fiscal year 2021 were up from \$6.8 million in fiscal year 2020 and from \$5.2 million in fiscal year 2019. Fiscal year 2020, 2019 and 2018 capital expenditures were largely comprised of investments in information technology of \$11.4 million, \$6.8 million, and \$4.4 million, respectively, primarily related to the anticipated replacement of our legacy ERP system with a modern SAP ERP system. In fiscal year 2021, we generated \$9.2 million in cash proceeds related to the sale of certain retail assets to Voice Comm.

Cash flows generated from financing in fiscal year 2021 were primarily related to borrowings from our line of credit. Cash flows generated from financing in fiscal year 2020 were primarily related to borrowings from our line of credit, partially offset by cash dividends paid to shareholders. During the fourth quarter of fiscal year 2020, the Board of Directors decreased the cash dividend from \$0.20 to \$0.02 in order to reallocate resources to increase investment in the technology and talent to accelerate the Company's long-term growth. Subsequent to fiscal year 2020, the Board of Directors suspended Tessco's dividend to further strengthen its cash position as the Company continues to monitor and address the effects of the COVID-19 pandemic and other challenges. Cash flows used in financing in fiscal year 2019 were primarily related to cash dividends paid to shareholders partially offset by borrowings from our line of credit.

On October 29, 2020, we entered into a Credit Agreement (the "Credit Agreement") among the Company, the Company's primary operating subsidiaries as co-borrowers, the Lenders party thereto, and Wells Fargo Bank, National Association ("Wells"), as Administrative Agent, swingline lender and an issuing bank, and terminated our previous secured Revolving Credit Facility. The Credit Agreement provides for a senior secured asset based revolving credit facility of up

to \$75 million (the “Revolving Credit Facility”), which matures in forty-two months, on April 29, 2024. As of March 28, 2021, borrowings under the secured Revolving Credit Facility totaled \$30.6 million; therefore, we then had \$44.4 million available, subject to the Borrowing Base limitations and compliance with the other applicable terms of the Credit Agreement discussed in Note 6 to our Consolidated Financial Statements included in this Annual Report on Form 10-K. Borrowings under the Credit Agreement accrue interest at the rates, and the Company is required to pay a monthly commitment fee, as also discussed in Note 6 to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

At the end of fiscal year 2021, we were in compliance with all required financial covenants applicable under our revolving credit facility with SunTrust Bank.

Working capital (current assets less current liabilities) increased to \$67.8 million as of March 28, 2021 as compared to \$51.2 million as of March 29, 2020. Shareholders' equity was \$76.8 million as of March 28, 2021, and \$83.7 million as of March 29, 2020.

We believe that our existing cash, payments from customers, pending tax refunds and availability under our revolving credit facility (including any amendment or replacement thereof), or if needed, financing we believe would be available to us from other sources, will be sufficient to support our operations for at least the next twelve months. We expect to meet short-term liquidity needs through cash on our balance sheet and operating cash flow, supplemented by our revolving credit facility; and we expect to meet long-term liquidity needs through these same resources. If we were to undertake an acquisition or other major capital purchases that require funds in excess of our existing sources of liquidity, we would look to sources of funding from additional credit facilities, debt and/or equity issuances. There can be no assurances that such additional future sources of funding, either to fund an acquisition or major capital purchase, or to support our cash flow needs in the event of the termination of our existing revolving credit facility before it can be replaced with an asset based facility, would be available on terms acceptable to us, if at all.

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 possible downturn in the global economy, caused in part by the COVID-19 pandemic among other factors. Anticipated capital expenditures for fiscal year 2022 are expected to range from \$6 million to \$10 million.

### **Reconciliation of Non-GAAP Measures**

We believe that presenting certain non-GAAP financial measures may enhance an investor’s understanding of our financial performance. We further believe that these financial measures are useful in assessing our operating performance from period to period by excluding certain items that we believe are not representative of our core business. We also use certain of these financial measures for business planning purposes, including management incentives.

Accordingly, the below selected financial data includes certain non-GAAP financial measures we believe are commonly used by investors to evaluate our performance and that of our competitors. The use of EBITDA (earnings before interest, taxes, depreciation, and amortization) and Adjusted EBITDA (EBITDA, less stock compensation and goodwill impairment) should not be considered as an alternative to operating income (loss), net income (loss) or any other performance measures derived in accordance with U.S. GAAP as measures of operating performance, operating cash flows or liquidity.

In accordance with the SEC staff Financial Reporting Manual and in conjunction with the filing of the fiscal 2021 Form 10-K, we elected not to recast the selected financial data for fiscal year 2017 and 2018 for the exit of the Retail business that occurred in fiscal 2021 as discontinued operations. As such, the below selected financial data for fiscal years 2017 and 2018 includes the results of the since divested Retail segment, while fiscal years 2021, 2020, and 2019 exclude that Retail activity.

	Fiscal Years Ended				
	March 28, 2021	March 29, 2020	March 31, 2019	April 1, 2018	March 26, 2017
Net income (loss) from continuing operations	\$ (14,373,300)	\$ (15,601,400)	\$ (8,882,300)	\$ 5,195,400	\$ 1,445,100
Add:					
(Benefit from) provision for income taxes	(3,844,500)	(7,474,800)	(2,913,800)	2,277,200	1,041,200
Interest, net	426,300	1,116,300	853,800	429,100	58,600
Depreciation and amortization	3,744,500	4,026,100	3,618,900	3,992,600	4,238,900
EBITDA	(14,047,000)	(17,933,800)	(7,323,400)	11,894,300	6,783,800
Add:					
Stock-based compensation	1,211,000	1,174,600	1,244,000	1,002,100	434,400
Goodwill impairment	—	9,108,600	—	—	—
Adjusted EBITDA	<u>\$ (12,836,000)</u>	<u>\$ (7,650,600)</u>	<u>\$ (6,079,400)</u>	<u>\$ 12,896,400</u>	<u>\$ 7,218,200</u>

### Contractual Obligations

The following tables reflect a summary of our contractual cash obligations and other commercial commitments as of March 28, 2021:

	Payment Due by Fiscal Year				
	Total	Less Than 1 Year	Years 1-3	Years 4-5	More Than 5 Years
Revolving credit facility <sup>(1)</sup>	\$ 35,156,000	\$ 1,487,300	\$ 2,974,600	\$ 30,694,100	\$ —
Lease obligations	13,505,500	3,164,000	5,744,000	4,597,500	—
Other long-term liabilities <sup>(2)</sup>	954,800	63,300	126,600	126,600	638,300
Total contractual cash obligations	<u>\$ 49,616,300</u>	<u>\$ 4,714,600</u>	<u>\$ 8,845,200</u>	<u>\$ 35,418,200</u>	<u>\$ 638,300</u>

- (1) We are subject to a variable interest rate on the outstanding balance on our revolving credit facility and a 0.25% fee on the unused portion of our revolving credit facility. This balance includes projected variable interest payments based on there being no movement on the line from what was outstanding at March 28, 2021, with the variable payments based on a static rate of 4.5% on the outstanding balance and 0.25% related to the unused commitment fee.
- (2) Other Long-Term Liabilities reflected on the Consolidated Balance Sheet include amounts owed under a Supplemental Executive Retirement Plan.

### Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of our operations are based on our 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 conditions.

We have identified the policies below as critical to our business operations and the understanding of our results of operations:

*Revenue Recognition.* We account for revenue in accordance with ASC No. 606, Revenue from Contracts with Customers, which we adopted on April 2, 2018, using the modified retrospective method. We recognize revenue when control of promised goods is transferred to the customer. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled in exchange for transferring the goods.



In most cases, shipments are made using Freight on Board (FOB) shipping terms. FOB destination terms are used for a portion of sales, and revenue for these sales is recorded when the product is received by the customer. Prices are always fixed at the time of sale. Historically, there have not been any material price concessions provided to customers, future discounts provided by the Company, or other incentives subsequent to a sale. The Company sells under normal commercial terms and, therefore, only records sales on transactions where collectability is reasonably assured. The Company recognizes revenues net of sales tax.

We recognize revenues from sales transactions containing sales returns provisions at the time of the sale. The potential for customer returns are considered a component of variable consideration under ASC No. 606 and it is therefore considered when estimating the transaction price for a sale. We use the most likely amount method to determine the amount of expected returns. The amount of expected returns is recognized as a refund liability, representing the obligation to return the customer's consideration. The return asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods.

Our current and potential customers are continuing to look for ways to reduce their inventories and lower their total costs, including distribution, order taking and fulfillment costs, while still providing their customers excellent service. Some of these companies have turned to us to implement supply chain solutions, including purchasing inventory, assisting in demand forecasting, configuring, packaging, kitting and delivering products and managing customer and supplier relations, from order taking through cash collections. In performing these solutions, we assume varying levels of involvement in the transactions and varying levels of credit and inventory risk. As our offerings continually evolve to meet the needs of our customers, we constantly evaluate our revenue accounting based on the guidance set forth in accounting standards generally accepted in the United States. When applying this guidance in accordance with the FASB standard regarding revenue recognition for principal-agent considerations, we look at the following indicators: whether we are the primary obligor in the transaction; whether we have general inventory risk; whether we have latitude in establishing price; whether the customer holds us responsible for the acceptability of the product; whether the product returns are handled by us; and whether an obligation exists between the other parties and our customer. Each of our customer relationships is independently evaluated based on the above guidance and revenues are recorded on the appropriate basis. Based on a review of the factors above, in the majority of our sales relationships, we have concluded that we are the principal in the transaction, and we record revenues based upon the gross amounts earned and booked. However, we do have certain relationships where we are not the principal and we record revenues on a net fee basis, regardless of amounts billed (less than 1% of our total revenues for fiscal year 2021).

*Allowance for Doubtful Accounts.* We use estimates to determine the amount of the allowance for doubtful accounts necessary to reduce accounts receivable to their expected net realizable value. We estimate the amount of the required allowance by reviewing the status of past-due receivables and analyzing historical bad debt trends. Actual collection experience has not varied significantly from estimates, due primarily to credit policies, collection experience and our stability as it relates to our current customer base. Typical payments from commercial customers are due 30 days from the date of the invoice. We write-off receivables deemed to be uncollectible to the allowance for doubtful accounts. Accounts receivable balances are not collateralized by our customers.

*Inventory Reserves.* We establish inventory reserves for excess and obsolete inventory. We regularly review inventory to evaluate continued demand and identify any obsolete or excess quantities of inventory. We record a provision for the difference between excess and obsolete inventory and its estimated realizable value. Estimated realizable value is based on anticipated future product demand, market conditions and liquidation values. Actual results differing from these projections could have a material effect on our results of operations.

*Impairment of Long-Lived and Indefinite-Lived Assets.* Our Consolidated Balance Sheet as of March 28, 2021, includes indefinite lived intangible assets of \$0.8 million. We perform an annual impairment test for the indefinite lived asset on the first day of our fourth quarter. We also periodically evaluate our long-lived assets for potential impairment indicators. The intangible assets impairment test involves an initial qualitative analysis to determine if it is more likely than not that an intangible asset's fair value is less than its carrying amount. If qualitative factors suggest a possible impairment the Company then performs a quantitative analysis. Our judgments regarding the existence of impairment indicators are based on estimated future cash flows, market conditions, operational performance and legal factors.

Future events, such as significant changes in cash flow assumptions, could cause us to conclude that impairment indicators exist and that the net book value of long-lived assets or intangible assets are impaired. Had the determination been made that the indefinite lived intangible assets were impaired, the value of this asset would have been reduced by an amount up to \$0.8 million, resulting in a corresponding charge to operations.

*Income Taxes.* We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review our deferred tax assets for recoverability. This review is based on historical taxable income, projected future taxable income and the expected timing of the reversals of existing temporary differences. Based on this review, we have established a valuation allowance on the deferred tax assets that are not more likely than not realizable.

We account for income taxes under the FASB's ASC No. 740 on accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

*Stock-Based Compensation.* We record stock-based compensation in accordance with the FASB standard regarding stock compensation and share-based payments. We account for forfeitures as they occur rather than estimate expected forfeitures. The standard also requires stock awards granted or modified after the adoption of the standard that include both performance conditions and graded vesting to be amortized by an accelerated method rather than the straight-line method.

#### **Off-Balance Sheet Arrangements**

We have no material off-balance sheet arrangements.

#### **Recent Accounting Pronouncements**

A description of recently issued and adopted accounting pronouncements is contained in Note 2 to our Consolidated Financial Statements.

#### **Forward-Looking Statements**

This Report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts contained herein, including statements regarding our future results of operations and financial position, strategy and plans, and our expectations for future operations, are 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 absence of these words or phrases does not necessarily mean that a statement is not forward looking.

We have based these forward-looking statements on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, strategy, short- and long-term business operations and objectives, and financial needs. 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 described in Part I, Item IA "Risk Factors." In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances included herein may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Consequently, the reader is cautioned to consider all forward-looking statements in light of the risks to which they are subject. Forward-looking statements include, but are not limited to, statements about:

- our expectations regarding the continuing impact of the COVID-19 pandemic on our business, operations, revenues, profits, customers or suppliers;

- our ability to sustain or grow our customer base and market share;
- our ability to sustain and grow our supplier relationships;
- our expectations regarding the size and growth in markets;
- the needs and demands of our customers and the production capacity of our suppliers;
- trends in the wireless communications industry, our competitors and competing business models;
- the execution of our business plans and strategies;
- our ability to benefit from the disposition of our Retail business, including royalty revenues;
- our ability to benefit from our Commercial business;
- our liquidity and working capital requirements and ability to access capital;
- our ability to secure, maintain and upgrade our information technology, telecommunications and e-commerce systems;
- our ability to anticipate and navigate existing and changes in laws or regulations, including tariffs and trade restrictions, applicable to our business;
- our ability to enter into and perform contracts and to realize anticipated revenues or anticipated savings; and
- our expectations regarding future revenues, expenses and profitability, and financial results generally.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. In addition, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. Any forward-looking statement made by us in this Annual Report speaks only as of the date on which it is made. We disclaim any duty to update any of these forward-looking statements after the date of this Annual Report to confirm these statements to actual results or revised expectations.

The above list should not be construed as exhaustive and should be read in conjunction with our other disclosures, including but not limited to the risk factors described in Part I, Item 1A of this Annual Report. Other risks may be described from time to time in our filings made under the securities laws. New risks emerge from time to time. It is not possible for our management to predict all risks.

### **Available Information**

Our internet web site address is: [www.tessco.com](http://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. We have not incorporated herein by reference the information on our website, and it should not be considered a part of this filing.

### **Item 7A. 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. Based on March 28, 2021 borrowing levels, a 1.0% increase or decrease in current market interest rates would not have material effect on our Consolidated Statements of (Loss) 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 8. Financial Statements and Supplementary Data.

### TESSCO TECHNOLOGIES INCORPORATED AND SUBSIDIARIES Consolidated Balance Sheets

	March 28, 2021	March 29, 2020
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,110,000	\$ 50,000
Trade accounts receivable, net	70,045,700	82,868,400
Product inventory, net	53,060,000	50,298,100
Income taxes receivable	10,432,500	5,746,700
Prepaid expenses and other current assets	3,980,900	5,960,800
Current portion of assets held for sale	1,196,900	18,849,900
Total current assets	<u>139,826,000</u>	<u>163,773,900</u>
Property and equipment, net	12,571,600	13,433,700
Intangible assets, net	19,136,500	11,157,400
Deferred tax assets, net	—	3,032,500
Lease asset - right of use	11,285,800	13,949,800
Other long-term assets	6,258,000	3,361,400
Total assets	<u>\$ 189,077,900</u>	<u>\$ 208,708,700</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$ 59,415,600	\$ 75,512,600
Payroll, benefits and taxes	6,279,800	4,258,300
Income and sales tax liabilities	803,900	450,800
Accrued expenses and other current liabilities	2,912,300	4,244,400
Revolving line of credit	—	25,563,900
Lease liability, current	2,573,500	2,579,200
Total current liabilities	<u>71,985,100</u>	<u>112,609,200</u>
Deferred tax liabilities, net	26,500	—
Revolving line of credit	30,583,200	—
Non-current lease liability	8,923,500	11,481,100
Other non-current liabilities	809,400	915,700
Total liabilities	<u>112,327,700</u>	<u>125,006,000</u>
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, 8,844,083 shares issued and 8,833,833 shares outstanding as of March 28, 2021, and 14,354,368 shares issued and 8,577,549 shares outstanding as of March 29, 2020	104,200	101,400
Additional paid-in capital	67,227,700	65,318,500
Treasury stock, at cost, 10,250 shares as of March 28, 2021 and 5,776,819 shares as of March 29, 2020	(62,800)	(58,496,200)
Retained earnings	9,481,100	76,779,000
Total shareholders' equity	<u>76,750,200</u>	<u>83,702,700</u>
Total liabilities and shareholders' equity	<u>\$ 189,077,900</u>	<u>\$ 208,708,700</u>

The accompanying Notes to the Consolidated Financial Statements are an integral part of these consolidated statements.

**TESSCO TECHNOLOGIES INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of (Loss) Income**

	Fiscal Years Ended		
	March 28, 2021	March 29, 2020	March 31, 2019
Revenues	\$ 373,340,700	\$ 409,014,400	\$ 419,044,800
Cost of goods sold	305,625,100	329,372,500	334,640,100
Gross profit	67,715,600	79,641,900	84,404,700
Selling, general and administrative expenses	85,507,100	92,005,200	95,347,000
Goodwill impairment	—	9,108,600	—
Restructuring charge	—	488,000	—
Operating loss	(17,791,500)	(21,959,900)	(10,942,300)
Interest expense, net	426,300	1,116,300	853,800
Loss from continuing operations before benefit from income taxes	(18,217,800)	(23,076,200)	(11,796,100)
Benefit from income taxes	(3,844,500)	(7,474,800)	(2,913,800)
Net loss from continuing operations	(14,373,300)	(15,601,400)	(8,882,300)
Income (loss) from discontinued operations, net of taxes	5,630,400	(5,967,500)	14,428,100
Net loss	\$ (8,742,900)	\$ (21,568,900)	\$ 5,545,800
Basic (loss) income per share			
Continuing operations	\$ (1.65)	\$ (1.83)	\$ (1.05)
Discontinued operations	\$ 0.65	\$ (0.70)	\$ 1.71
Consolidated operations	\$ (1.01)	\$ (2.53)	\$ 0.66
Diluted (loss) income per share			
Continuing operations	\$ (1.65)	\$ (1.83)	\$ (1.05)
Discontinued operations	\$ 0.65	\$ (0.70)	\$ 1.68
Consolidated operations	\$ (1.01)	\$ (2.53)	\$ 0.65
Basic weighted-average common shares outstanding	8,697,369	8,526,965	8,436,796
Effect of dilutive options and other equity instruments	—	—	—
Basic and diluted weighted-average common shares outstanding	8,697,369	8,526,965	8,436,796
Cash dividends declared per common share	\$ —	\$ 0.62	\$ 0.80

*The accompanying Notes to these Consolidated Financial Statements are an integral part of these consolidated statements.*

**TESSCO TECHNOLOGIES INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Shareholders' Equity**

	Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total Shareholders' Equity
	Shares	Amount				
<b>Balance at April 1, 2018</b>	8,396,537	99,000	60,611,900	(57,503,000)	104,843,700	108,051,600
Proceeds from issuance of stock	52,067	500	810,800	—	—	811,300
Treasury stock purchases	(6,332)	—	—	(111,100)	—	(111,100)
Non-cash stock compensation expense	26,257	300	1,243,700	—	—	1,244,000
Cash dividends paid	—	—	—	—	(6,754,400)	(6,754,400)
Net income	—	—	—	—	5,545,800	5,545,800
<b>Balance at March 31, 2019</b>	8,468,529	99,800	62,666,400	(57,614,100)	103,635,100	108,787,200
Proceeds from issuance of stock	72,430	700	797,300	—	—	798,000
Treasury stock purchases	(55,321)	—	—	(882,100)	—	(882,100)
Non-cash stock compensation expense	43,786	400	1,174,200	—	—	1,174,600
Exercise of stock options	48,125	500	680,600	—	—	681,100
Cash dividends paid	—	—	—	—	(5,287,200)	(5,287,200)
Net income	—	—	—	—	(21,568,900)	(21,568,900)
<b>Balance at March 29, 2020</b>	8,577,549	101,400	65,318,500	(58,496,200)	76,779,000	83,702,700
Proceeds from issuance of stock	130,907	1,300	699,700	—	—	701,000
Treasury stock purchases	(23,031)	—	—	(121,600)	—	(121,600)
Non-cash stock compensation expense	148,408	1,500	1,209,500	—	—	1,211,000
Retirement of treasury stock	—	—	—	58,555,000	(58,555,000)	—
Net loss	—	—	—	—	(8,742,900)	(8,742,900)
<b>Balance at March 28, 2021</b>	<b>8,833,833</b>	<b>\$ 104,200</b>	<b>\$ 67,227,700</b>	<b>\$ (62,800)</b>	<b>\$ 9,481,100</b>	<b>\$ 76,750,200</b>

*The accompanying Notes to these Consolidated Financial Statements are an integral part of these consolidated statements.*

**TESSCO TECHNOLOGIES INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**

	Year Ended		
	March 28, 2021	March 29, 2020	March 31, 2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income (Loss)	\$ (8,742,900)	\$ (21,568,900)	\$ 5,545,800
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Depreciation and amortization	3,744,500	4,026,100	3,618,900
Goodwill impairment	—	11,677,700	—
Gain on sale of discontinued operations	(3,020,800)	—	—
Non-cash stock-based compensation expense	1,211,000	1,174,600	1,244,000
Deferred income taxes and other	3,032,500	(2,977,200)	665,200
Change in trade accounts receivable	12,676,000	11,097,800	(6,103,900)
Change in product inventory	9,279,900	2,697,400	477,600
Change in prepaid expenses and other current assets	(2,007,600)	(6,144,700)	(1,073,700)
Change in other assets and other liabilities	(3,304,200)	(251,400)	938,900
Change in trade accounts payable	(15,197,600)	905,300	5,073,600
Change in payroll, benefits and taxes	2,021,500	(1,671,200)	(2,361,600)
Change in income and sales tax liabilities	353,100	(298,200)	(1,590,200)
Change in accrued expenses and other current liabilities	(729,600)	2,240,900	1,812,100
Net cash (used in) provided by operating activities	<u>(684,200)</u>	<u>908,200</u>	<u>8,246,700</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property and equipment	(806,100)	(288,000)	(2,855,200)
Proceeds from sale of discontinued operations	9,201,500	—	—
Purchases of internal use software licenses eligible for capitalization	<u>(11,049,800)</u>	<u>(6,557,700)</u>	<u>(2,309,500)</u>
Net cash used in investing activities	<u>(2,654,400)</u>	<u>(6,845,700)</u>	<u>(5,164,700)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net proceeds (borrowings) from 2016 Revolving Credit Facility	(25,565,300)	11,185,800	3,542,700
Gross proceeds from borrowings from 2020 Revolving Credit Facility	137,868,500	—	—
Repayments of borrowings on 2020 Revolving Credit Facility	(107,283,900)	—	—
Payments of debt issuance costs	(698,300)	—	—
Payments on long term debt	—	(2,300)	(27,300)
Proceeds from issuance of stock	199,200	262,400	279,000
Proceeds from exercise of stock options	—	680,600	—
Cash dividends paid	—	(5,287,200)	(6,754,400)
Purchase of treasury stock and repurchase of stock from employees and directors for minimum tax withholdings	(121,600)	(882,100)	(111,100)
Net cash provided by (used in) financing activities	<u>4,398,600</u>	<u>5,957,200</u>	<u>(3,071,100)</u>
Net increase in cash and cash equivalents	1,060,000	19,700	10,900
CASH AND CASH EQUIVALENTS, beginning of period	<u>50,000</u>	<u>30,300</u>	<u>19,400</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 1,110,000</u>	<u>\$ 50,000</u>	<u>\$ 30,300</u>

*The accompanying Notes to the Consolidated Financial Statements are an integral part of these consolidated statements.*

## **Note 1. Organization**

TESSCO Technologies Incorporated, a Delaware corporation (“Tessco”, “we”, “our”, 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 97% 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.

## **Note 2. Summary of Significant Accounting Policies**

### ***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

### ***Fiscal Year***

The Company's fiscal year is the 52 or 53 weeks ending on the Sunday falling on or between March 26 and April 1 to allow the financial year to better reflect the Company's natural weekly accounting and business cycle. The fiscal years ended March 28, 2021, March 29, 2020 and March 31, 2019 contained 52 weeks.

### ***Reclassifications***

Certain prior period amounts have been reclassified to conform to current year presentations, including Income taxes receivable on the Company’s Consolidated Balance Sheets. The Company has filed for a refund with the IRS.

### ***Cash and Cash Equivalents***

Cash and cash equivalents include cash and highly liquid investments with an original maturity of 90 days or less.

### ***Allowance for Doubtful Accounts***

The Company uses estimates to determine the amount of the allowance for doubtful accounts necessary to reduce accounts receivable to their expected net realizable value. The Company estimates the amount of the required allowance by reviewing the status of past-due receivables and analyzing historical bad debt trends and current economic conditions. Actual collection experience has not varied significantly from estimates, due primarily to consistent credit policies, collection experience, as well as the Company’s stability as it relates to its current customer base. Typical payments from a large majority of commercial customers are due 30 days from the date of the invoice. The Company charges-off receivables deemed to be uncollectible to the allowance for doubtful accounts. Accounts receivable balances are not collateralized by our customers. At March 28, 2021 and March 29, 2020, the Company had a reserve for the allowance for doubtful accounts related to customers in continuing operations of \$1,584,200 and \$3,288,800, respectively.

### ***Product Inventory***

Product inventory, consisting primarily of finished goods, is stated at the lower of cost or net realizable value, cost being determined on the first-in, first-out (“FIFO”) method and includes certain charges directly and indirectly incurred in bringing product inventories to the point of sale. Inventory is written down for estimated obsolescence equal to the difference between the cost of inventory and the estimated net realizable value, based upon specifically known inventory-related risks (such as technological obsolescence and the nature of supplier terms surrounding price protection and product returns), and assumptions about future demand. At March 28, 2021 and March 29, 2020, the Company had a reserve for excess and obsolete inventory of \$3,359,000 and \$9,666,100, respectively. At March 28, 2021 and March 29, 2020, the reserve for excess and obsolete inventory included balances related to the discontinued Retail operations of \$81,000 and \$6,350,800 respectively, which are included in the Current portion of assets held for sale on the Consolidated Balance Sheets. The reduction in the reserve is primarily related to the exit from the Retail business that occurred in fiscal year 2020. The reserve as of March 29, 2020 included reserves on retail inventory and were higher than normal levels due in part to concerns surrounding the COVID-19 pandemic at that time.



## ***Property and Equipment***

Property and equipment is stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

	<u>Useful lives</u>
Information technology equipment	1 - 3 years
Furniture, telephone system, equipment and tooling	3 - 10 years
Building, building improvements and leasehold improvements	2 - 40 years

Leasehold improvements are amortized over the shorter of their useful lives or the remaining lease term.

## ***Intangibles***

The Company capitalizes computer software costs incurred in connection with developing or obtaining computer software for internal use when both the preliminary project stage is completed and when management authorizes and commits to funding the project and it is probable that the project will be completed. Development and acquisition costs are capitalized when the focus of the software project is either to develop new software, to increase the life of existing software or to add significantly to the functionality of existing software. Capitalization ceases when the software project is substantially complete and ready for its intended use. Amortization is recorded using the straight-line method over the estimated useful life which ranges from one to three years.

## ***Impairment of Long-Lived Assets***

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be fully recoverable. These events or changes in circumstances may include a significant deterioration of operating results, changes in business plans, or changes in anticipated future cash flows. If an impairment indicator is present, the Company evaluates recoverability by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. Assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows generated by other asset groups. If future undiscounted cash flows are less than the carrying value of the asset group, the Company calculates the fair value of the asset group. If the assets are impaired, the impairment recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. Fair value is generally determined by estimates of discounted cash flows. The discount rate used in any estimate of discounted cash flows would be the rate required for a similar investment of like risk. There were no impairment charges of long-lived assets other than goodwill, in fiscal years 2021, 2020, or 2019.

## ***Indefinite-Lived Intangible Assets***

The indefinite lived intangible asset impairment test involves an initial qualitative analysis to determine if it is more likely than not that an intangible asset's fair value is less than its carrying amount. If qualitative factors suggest a possible impairment, the Company then determines the fair value of the intangible asset. If the fair value of the intangible asset is less than its carrying value, an impairment loss is recognized for an amount equal to the difference. The intangible asset is then carried at its new fair value. We measure the fair value of our indefinite-lived intangible asset using the "relief from royalty" method. Significant estimates in this approach include projected revenues and royalty and discount rates. The estimates of discounted cash flows will likely change over time as impairment tests are performed.

Based on the Company's quantitative impairment tests performed, the Company recognized a \$11.7 million impairment loss on goodwill in fiscal year 2020 (\$9.1 million related to continuing operations and \$2.6 million related to discontinued operations). The Company did not recognize an impairment loss on goodwill or other indefinite lived intangible assets in fiscal years 2021 or 2019.

The methods of assessing fair value for our reporting units with goodwill as well as for indefinite lived assets require significant judgments to be made by management, including future revenues, expenses, cash flows and discount rates. Changes in such estimates or the application of alternative assumptions could produce significantly different results.

### ***Other Long-Term Assets***

Other long-term assets consist of capitalized implementation costs of hosting arrangements, cash surrender value of life insurance policies related to a Supplemental Executive Retirement Plan (see Note 13), and deferred debt financing costs. Capitalized implementation costs of hosting arrangements that are accounted for as service contracts, which relate to our SAP ERP implementation, was \$3.1 million and \$0.8 million as of March 28, 2021 and March 29, 2020, respectively.

### ***Revenue Recognition***

We account for revenue in accordance with ASC No. 606, Revenue from Contracts with Customers, which we adopted on April 2, 2018, using the modified retrospective method. We recognize revenue when control of promised goods is transferred to the customer. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled in exchange for transferring the goods.

In most cases, shipments are made using FOB (freight on board) shipping terms. FOB destination terms are used for a portion of sales, and revenue for these sales is recorded when the product is received by the customer. Prices are always fixed at the time of sale. Historically, there have not been any material concessions provided to or by customers, future discounts provided by the Company, or other incentives subsequent to a sale. The Company sells under normal commercial terms and, therefore, only records sales on transactions at the estimated transaction price. The Company recognized revenues net of sales tax.

We recognize revenues from sales transactions containing sales returns provisions at the time of the sale. The potential for customer returns are considered a component of variable consideration under ASC No. 606 and it is therefore considered when estimating the transaction price for a sale. We use the most likely amount method to determine the amount of expected returns. The amount of expected returns is recognized as a refund liability, representing the obligation to return the customer's consideration. The return asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, which is included in prepaid expenses and other current assets on the accompanying Consolidated Balance Sheets.

Our current and potential customers are continuing to look for ways to reduce their inventories and lower their total costs, including distribution, order taking and fulfillment costs, while still providing their customers excellent service. Some of these companies have turned to us to implement supply chain solutions, including purchasing inventory, assisting in demand forecasting, configuring, packaging, kitting and delivering products and managing customer and supplier relations, from order taking through cash collections. In performing these solutions, we assume varying levels of involvement in the transactions and varying levels of credit and inventory risk. As our offerings continually evolve to meet the needs of our customers, the Company constantly evaluates its revenue accounting based on the guidance set forth in accounting standards generally accepted in the United States. When applying this guidance in accordance with ASC No. 606, the Company looks at the following indicators: whether we are the primary obligor in the transaction; whether we have general inventory risk; whether we have latitude in establishing price; whether the customer holds us responsible for the acceptability of the product; whether the product returns are handled by us; and whether obligation exists between the other parties and our customer. Each of the Company's customer relationships is independently evaluated based on the above guidance and revenues are recorded on the appropriate basis. Based on a review of the factors above, in the majority of the Company's sales relationships, the Company has concluded that it is the principal in the transaction and records revenues based upon the gross amounts earned and booked. However, the Company does have relationships where it is not the principal and records revenues on a net fee basis, regardless of amounts billed (less than 1% of total revenues for fiscal year 2021).

Other than sales relating to the Company's private brands, we offer no product warranties in excess of original equipment manufacturers' warranties. Warranty expense was immaterial for fiscal years 2021, 2020, and 2019.

### ***Supplier Programs***

Funds received from suppliers for price protection, product rebates and marketing/promotion are recorded as a reduction in cost of goods sold in accordance with ASC No. 705-20: Cost of Sales and Services - Accounting for Consideration Received from a Vendor.

### ***Shipping and Handling Costs***

Shipping costs incurred to ship products from our distribution centers to our customers' sites are included in selling, general and administrative expenses in the Consolidated Statements of (Loss) Income and totaled \$10,036,100, \$10,222,800, and \$11,647,700 for fiscal years 2021, 2020, and 2019, respectively.

### ***Stock Compensation Awards***

The Company records stock compensation expense for awards in accordance with ASC No. 718. The Company accounts for forfeitures as they occur rather than estimate expected forfeitures. The standard also requires stock awards granted or modified after the adoption of the standard that include both performance conditions and graded vesting based on service to the Company to be amortized by an accelerated method rather than the straight-line method.

### ***Income Taxes***

The Company accounts for income taxes under the asset and liability method in accordance with ASC No. 740. Under this method, deferred income tax assets and liabilities arise from differences between the tax basis of assets or liabilities and their reported amounts in the financial statements. Deferred tax balances are determined by using the enacted tax rate to be in effect when the taxes are paid or refunds received. A valuation allowance related to deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

In accordance with ASC No. 740, no provision for tax uncertainties was determined to be necessary as of March 28, 2021, March 29, 2020 and March 31, 2019.

### ***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company reviews and evaluates its estimates and assumptions, including but not limited to, those that relate to tax reserves, stock-based compensation, accounts receivable reserves, inventory reserves and future cash flows associated with impairment testing for long-lived assets. Actual results could significantly differ from those estimates.

### ***Recently issued accounting pronouncements not yet adopted:***

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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, 2022. 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 2024 fiscal year.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, and the methodology for calculating income taxes in an interim period. This ASU is effective for periods beginning after December 15, 2020. The Company is currently evaluating the impact the adoption of this new standard will have on its Consolidated Financial Statements.

### Note 3. Property and Equipment

All of the Company's property and equipment is located in the United States and is summarized as follows:

	<u>2021</u>	<u>2020</u>
Land	\$ 4,740,800	\$ 4,740,800
Building, building improvements and leasehold improvements	21,265,400	20,921,800
Information technology equipment	5,003,000	5,255,000
Furniture, telephone system, equipment and tooling	8,910,500	9,039,000
	<u>39,919,700</u>	<u>39,956,600</u>
Less accumulated depreciation	(27,348,100)	(26,522,900)
Property and equipment, net	<u>\$ 12,571,600</u>	<u>\$ 13,433,700</u>

Depreciation of property and equipment was \$1,667,500, \$1,683,000, and \$1,507,300 for fiscal years 2021, 2020 and 2019, respectively.

### Note 4. Goodwill and Other Intangible Assets

Due to lower than expected results and a significant reduction in market capitalization (due to reduced stock price), we performed a quantitative impairment test for goodwill during the third and fourth quarters of fiscal year 2020. Based on the quantitative tests we did in fiscal year 2020, we recorded \$9.1 million of non-cash goodwill impairment loss related to continuing operations and \$2.6 million of impairment loss related to discontinued operations. There was no goodwill carrying amount at any time during fiscal year 2021.

Intangibles, net on our Consolidated Balance Sheets as of March 28, 2021 and March 29, 2020, consists of capitalized software for internal use and an indefinite lived intangible assets. Capitalized software for internal use, net of accumulated amortization, which primarily related to our SAP ERP implementation as of March 28, 2021 and March 29, 2020 was \$18,341,100 and \$10,362,100, respectively. Amortization expense of capitalized software for internal use was \$2,077,000, \$1,954,700, and \$1,620,800 for fiscal years 2021, 2020, and 2019. Indefinite lived intangible assets were \$795,400 as of March 28, 2021 and March 29, 2020.

### Note 5. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consisted of the following:

	<u>March 28, 2021</u>	<u>March 29, 2020</u>
Returns Reserve	\$ 1,967,300	\$ 3,440,100
Other Accrued Expenses	945,000	804,300
Total Accrued Expenses and other current liabilities	<u>\$ 2,912,300</u>	<u>\$ 4,244,400</u>

The amount of expected returns are recognized as a refund liability within the Accrued expenses and other current liabilities line item on the Consolidated Balance Sheets. This liability represents the obligation to return customer consideration. The value of the expected goods returned by customers is recognized as a return asset within the Prepaid expenses and other current assets line item of the Consolidated Balance Sheets. 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 return asset are recorded as reductions to cost of goods sold. As of March 28, 2021, the return asset and return liability amounts were \$1.0 million and \$2.0 million, respectively. As of March 29, 2020, the return asset and return liability amounts were \$2.7 million and \$3.4 million, respectively.

## **Note 6. Borrowings Under Revolving Credit Facility**

### ***Fiscal Year 2020 Revolving Credit Facility Activity***

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”). On October 19, 2017, the Company and its primary operating subsidiaries, as co-borrowers, entered into an Amended and Restated Credit Agreement with SunTrust Bank, as Administrative Agent and Lender, and Wells Fargo Bank, National Association, as a Lender (the “Amended and Restated Credit Agreement”). Pursuant to the Amended and Restated Credit Agreement, the Credit Agreement for the secured Revolving Credit Facility, as previously established in June 2016, 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 Note 6 under the heading, “Fiscal Year 2020 Revolving Credit Facility Activity” have the meanings ascribed to each in the Amended and Restated Credit Agreement.

On March 29, 2020, the interest rate applicable to borrowings under the Revolving Credit Facility was 3.09%. The weighted average interest rate on borrowings under the Company’s Revolving Credit Facility during fiscal year 2020 was 3.52%. Under certain circumstances, the Applicable Rate was subject to change at the Lenders’ option from the Eurodollar Rate plus the Applicable Margin to the Base Rate plus the Applicable Margin.

Interest expense on the Revolving Credit Facility for fiscal year 2020 totaled \$1,114,900. Average borrowings under this Revolving Credit Facility totaled \$33,755,700 and maximum borrowings totaled \$56,069,900 for fiscal year 2020. In addition to the interest charged on borrowings, the Company was subject to a 0.25% fee on the unused portion of this Revolving Credit Facility.

Borrowings under this Revolving Credit Facility could 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 March 29, 2020, borrowings under this Revolving Credit Facility totaled \$25.6 million and, therefore, the Company had \$49.4 million available for borrowing as of March 29, 2020, subject to the Borrowing Base limitation and compliance with the other applicable terms of the Amended and Restated Credit Agreement, including the applicable covenants. The Company’s previous line of credit had a lockbox arrangement associated with it and therefore the outstanding balance was classified as a current liability on our Consolidated Balance Sheet as of March 29, 2020.

There is a financial covenant that the Company was required to maintain at any time during which borrowings under this Revolving Credit Facility exceeded \$65 million. The Company’s borrowings did not exceed \$65 million during fiscal year 2020. The Company was in compliance with the terms and other covenants applicable to the revolving credit facility at the end of fiscal year 2020.

This Revolving Credit Facility restricted our ability to pay dividends and to repurchase our shares, either upon a default or when our borrowing availability was below \$15.0 million, or in certain more limited circumstances \$11.3 million, and also limited to \$2.0 million the aggregate dollar value of shares that may be withheld or repurchased in connection with satisfaction of tax withholding obligations related to vested equity grants during any 12 month period. It also contained other financial covenants and ratios that could restrict dividends and repurchases. At March 29, 2020, we had the ability to withhold or repurchase \$1.8 million in additional shares of our common stock during fiscal 2020, without violating this covenant.

### ***Fiscal Year 2021 Revolving Credit Facility Activity***

On October 29, 2020, the Company entered into a Credit Agreement (the “2020 Credit Agreement”) among the Company, the Company’s primary operating subsidiaries as co-borrowers, the Lenders party thereto, and Wells Fargo Bank, National Association (“Wells”), as Administrative Agent, swingline lender and an issuing bank, and terminated the secured Revolving Credit Facility discussed above. Terms used, but not defined, in this Note 6 under the heading “Fiscal Year 2021 Revolving Credit Facility Activity” have the meanings set forth in the Credit Agreement or the related Guaranty and Security Agreement.

The 2020 Credit Agreement provides for a senior secured asset based revolving credit facility of up to \$75 million (the “2020 Revolving Credit Facility”), which matures in forty-two months, on April 29, 2024. The 2020 Revolving Credit Facility includes a \$5.0 million letter of credit sublimit and provides for the issuance of Swing Loans. The 2020 Credit Agreement also includes a provision permitting the Company, subject to certain conditions, to increase the aggregate amount of the commitments under the 2020 Revolving Credit Facility to an aggregate commitment amount of up to \$125 million with optional additional commitments from then existing Lenders or new commitments from additional lenders, although no Lender is obligated to increase its commitment. Availability is determined in accordance with the Borrowing Base, which is generally 85% of Eligible Accounts *minus* the Dilution Reserve, *plus* a calculated value of Eligible Inventory aged less than 181 days *plus* the lesser of \$4 million and a calculated value of Inventory aged more than 180 days *minus* a calculated Reserve, as further detailed and set forth in the Credit Agreement.

Borrowings initially accrue interest from the applicable borrowing date: (A) if a LIBOR Rate Loan, at a per annum rate equal to the LIBOR Rate *plus* the LIBOR Rate Margin of 2.25% until the March 2021 financial statements are delivered and thereafter (i) if the Fixed Charge Coverage Ratio is less than 1.10:1.00, then 2.25% or (ii) if the Fixed Charge Coverage Ratio is greater than or equal to 1.10:1.00, then 2.00%; (B) if a Base Rate Loan, at a per annum rate equal to the Base Rate *plus* the Base Rate Margin of 1.25% per annum until the March 2021 financial statements are delivered and thereafter (i) if the Fixed Charge Coverage Ratio is less than 1.10:1.00, then 1.25% or (ii) if the Fixed Charge Coverage Ratio is greater than or equal to 1.10:1.00, then 1.00%. The Credit Agreement contains a LIBOR floor of 0.25% so that if the LIBOR Rate is below 0.25%, then the LIBOR Rate will be deemed to be equal to 0.25% for purposes of the Credit Agreement. On March 28, 2021, the interest rate applicable to borrowings under the secured 2020 Revolving Credit Facility was 4.50%.

Following an Event of Default, the Lenders’ may at their option increase the applicable per annum rate to a rate equal to two percentage points above such rate and, with certain events of default such increase is automatic.

The Company is required to pay a monthly Unused Line Fee on the average daily unused portion of the 2020 Revolving Credit Facility, at a per annum rate equal to 0.25%.

The Credit Agreement contains one financial covenant, a Fixed Charge Coverage Ratio, which is tested only if Excess Availability is less than the greater of (a) 16.7% of the maximum amount of the Credit Facility (at closing, \$12,525,000) and (b) \$12,500,000. In addition, the 2020 Credit Agreement contains provisions that could 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 under the 2020 Revolving Credit Facility were initially used to pay all indebtedness outstanding under the previously existing credit facility among the Company and certain subsidiaries, the lenders party thereto and Truist Bank (successor by merger to SunTrust Bank), as administrative agent, and may be used for working capital and other general corporate purposes, and as further provided in, and subject to the applicable terms of, the 2020 Credit Agreement.

The Company is required to make certain prepayments under the 2020 Revolving Credit Facility under certain circumstances, including from net cash proceeds from certain asset dispositions in excess of certain thresholds.

The 2020 Credit Agreement contains representations, warranties and affirmative covenants. The Credit Agreement also contains negative covenants and restrictions on, among other things: (i) Indebtedness, (ii) liens, (iii) fundamental changes, (iv) disposition of assets, (v) restricted payments (including certain restrictions on redemptions and dividends, discussed below), (vi) investments and (vii) transactions with affiliates. The 2020 Credit Agreement also contains events of default, such as payment defaults, cross-defaults to other material indebtedness, misrepresentations, bankruptcy and insolvency, the occurrence of a Change of Control and the failure to observe the negative covenants and other covenants contained in the 2020 Credit Agreement and the other loan documents.

The secured Revolving Credit Facility also restricts our ability to pay dividends and to repurchase our shares. Assuming that no default exists, we may redeem or repurchase up to \$2,000,000 of our shares in any twelve consecutive month period in connection with the payment or satisfaction of tax withholding obligations of participants under our equity

compensation plans. We may pay dividends or effect redemptions provided that no default exists or will exist after giving effect to the dividend or repurchase, and the average Excess Availability is not less than \$18,750,000 during the immediately preceding thirty-day period and after giving effect to the dividend or repurchase on a pro forma basis, and for each day of the thirty-day period not less than \$12,500,000. Excess Availability is generally defined as Availability minus the aggregate amount of trade payables aged in excess of historical levels and all book overdrafts in excess of historical practices. In addition to these conditions, dividends and repurchase of our shares are in any event limited to \$625,000 per quarter and not more than \$2,500,000 in the aggregate during the period October 29, 2020 through October 28, 2021, at which time these quarterly and aggregate limits expire.

Pursuant to a related Guaranty and Security Agreement, by and among the Company, the other borrowers under the 2020 Credit Agreement and other operating subsidiaries of the Company (collectively, the “Loan Parties”), and Wells, as Administrative Agent, the Obligations, which include the obligations under the 2020 Credit Agreement, are guaranteed by the Loan Parties, and secured by continuing first priority security interests in the Company’s and the other Loan Parties’ (including both borrowers and guarantors) Accounts, Books, Chattel Paper, Deposit Accounts, General Intangibles, Inventory, Negotiable Collateral, Supporting Obligations, Money, Cash Equivalents or other assets that come into the possession, custody or control of the Agent or any Lender, and related assets, and the proceeds and products of any of the foregoing (the “Collateral”). The security interests in the Collateral are in favor of the Administrative Agent, for the benefit of the Lenders party to the 2020 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 March 28, 2021, the interest rate applicable to borrowings under the 2020 Revolving Credit Facility was 4.50%. The weighted average interest rate on borrowings under the Company’s Revolving Credit Facility during fiscal year 2021 was 2.89%. 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.

Interest expense on both Revolving Credit Facilities in the aggregate for fiscal year 2021 totaled \$556,100, net of capitalized interest of \$450,200. Average borrowings under the facilities totaled \$34,404,500 and maximum borrowings totaled \$43,283,000 for fiscal year 2021. In addition to the interest charged on borrowings, the Company continues to be subject to a 0.25% fee on the unused portion of the 2020 Revolving Credit Facility.

Borrowings under the 2020 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 2020 Credit Agreement. As of March 28, 2021, borrowings under the 2020 Revolving Credit Facility totaled \$30.6 million and, therefore, the Company had \$44.4 million available for borrowing as of March 28, 2021, subject to the Borrowing Base limitation and compliance with the other applicable terms referenced above. The 2020 Revolving Credit Facility has no lockbox arrangement associated with it, and therefore the outstanding balance is classified as a long-term liability on the Consolidated Balance Sheet as of March 28, 2021. Accordingly, borrowings from and repayments to the Company’s current line of credit are reflected on a gross basis in the cash flows from financing activities in the Consolidated Statements of Cash Flow.

#### **Note 7. Lease**

The Company is committed to making rental payments under non-cancelable operating leases covering various facilities and equipment. Our leases have remaining lease terms of 1 to 5 years, some of which include options to extend the leases for up to 5 years. Rent expense for fiscal years 2021, 2020 and 2019 totaled \$3,453,500, \$3,046,000, and \$3,001,800, respectively.

The Company leases office space in Timonium, Maryland, where the Company’s sales, marketing and administrative offices are located. This space is nearby to the Company’s Global Logistics Center in Hunt Valley, Maryland. The Agreement of Lease expires on December 31, 2025. Monthly rent payments now range from \$183,000 to \$203,800 through the remaining lease term.

The Company also leases office and warehouse space in Hunt Valley, Maryland, adjacent to the Company’s Global Logistics Center, expiring on July 31, 2023. The Company has an ongoing annual option to terminate the lease. The monthly rental fee ranges from \$40,500 to \$43,000 through the remaining lease term.

Additional sales and marketing offices are located in additional leased office space in San Antonio, Texas. This space is leased pursuant to a lease agreement expiring on October 31, 2021. Monthly rent payments are \$19,100 through the remaining lease term.

Quantitative information regarding the Company's leases is as follows:

	<u>As of March 28, 2021</u>	
<b>Maturities of lease liabilities by fiscal year are as follow:</b>		
2022	\$	3,164,000
2023		3,018,300
2024		2,725,700
2025		2,609,900
2026		1,987,600
Total		13,505,500
Less: present value discount		<u>(2,008,500)</u>
Present value of lease liabilities	\$	11,497,000
Weighted-average discount rate:		3.9%
Weighted-average remaining lease term		4.5 years

#### **Note 8. Commitments and Contingencies**

Lawsuits and claims are filed against the Company from time to time in the ordinary course of business. The Company does not believe that any lawsuits or claims pending against the Company, individually or in the aggregate, are material, or will have a material adverse effect on the Company's financial condition or results of operations. In addition, from time to time, the Company is 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.

As the Company is routinely audited by state taxing authorities, the Company has estimated exposure and established reserves for its estimated sales tax audit liability.

#### **Note 9. Operating Segment**

The Company evaluates its business as one segment, as the chief operating decision maker reviews results as one unit. However, to provide investors with increased visibility into the markets it serves, the Company also reports revenue and gross profit by 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 includes value-added resellers, the government channel and private system operator markets. Inventory typically has a life cycle that tends to be tied to changes in regulation or technology and includes products typically used by business entities or governments.

Market activity for the fiscal years ended 2021, 2020 and 2019 is as follows (in thousands):

	<b>Year Ended</b>		
	<u>March 28, 2021</u>	<u>March 29, 2020</u>	<u>March 31, 2019</u>
<b><u>Revenues</u></b>			
Public Carrier	\$ 149,825	\$ 156,395	\$ 156,983
Value-added resellers and Integrators	<u>223,516</u>	<u>252,619</u>	<u>262,062</u>
Total revenues	\$ 373,341	\$ 409,014	\$ 419,045
<b><u>Gross Profit</u></b>			
Public Carrier	\$ 16,585	\$ 18,699	\$ 20,275
Value-added resellers and Integrators	<u>51,131</u>	<u>60,943</u>	<u>64,130</u>
Total gross profit	\$ 67,716	\$ 79,642	\$ 84,405



## Note 10. Stock Buyback

The Company withholds shares of common stock 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 fiscal years 2021, 2020, and 2019 the total value of shares withheld for taxes was \$121,500, \$201,000, and \$111,100, respectively.

## Note 11. Retirement of Treasury Stock

On July 2, 2020, the Board of Directors adopted resolutions providing for the retirement of the Company's then accumulated treasury stock, and for a corresponding reduction in capital. Immediately prior to the retirement, the Company held 5,789,600 shares of issued but not outstanding common stock as treasury stock, at a cost of \$58,555,000. Upon retirement, the cost of the treasury stock was netted against retained earnings, and the number of authorized and unissued shares of common stock correspondingly increased by 5,789,600 shares. The total number of authorized shares of common stock remains unchanged at 15,000,000. There has been no change to the total stockholders' equity as a result of such resolutions.

## Note 12. Income Taxes

A reconciliation of the difference between the provision for income taxes computed at statutory rates and the provision for income taxes from continuing operations provided in the consolidated statements of income is as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Statutory federal rate	21.0 %	21.0 %	21.0 %
State taxes, net of federal benefit	3.4	1.8	(1.3)
Non-deductible expenses	(1.2)	(0.7)	2.2
Change in uncertain tax positions	—	—	2.8
Change in valuation allowance	(7.6)	(2.9)	—
Rate change for loss carrybacks	6.2	12.5	—
Other	(0.7)	0.7	—
Effective rate	<u>21.1 %</u>	<u>32.4 %</u>	<u>24.7 %</u>

The provision for income taxes from continuing operations was comprised of the following:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Federal: Current	\$ (4,263,700)	\$ (4,008,000)	\$ (3,120,400)
Deferred	(48,200)	(2,642,800)	509,400
State: Current	16,700	(411,000)	(321,500)
Deferred	450,700	(413,000)	18,700
Benefit from income taxes	<u>\$ (3,844,500)</u>	<u>\$ (7,474,800)</u>	<u>\$ (2,913,800)</u>

Total net deferred tax assets (liabilities) as of March 28, 2021 and March 29, 2020, and the sources of the differences between financial accounting and tax basis of the Company's assets and liabilities which give rise to the deferred tax assets, are as follows:

	<u>2021</u>	<u>2020</u>
<b>Deferred tax assets:</b>		
Deferred compensation	\$ 163,600	\$ 264,300
Accrued vacation	362,600	469,100
Deferred rent	2,638,100	3,258,600
Allowance for doubtful accounts	357,300	1,130,900
Inventory reserves	766,300	2,794,200
Sales tax reserves	104,500	122,900
Sales return assets	451,400	1,200,400
Net operating loss	518,500	275,400
Business interest limitation carryforward	383,800	259,300
Other assets	925,900	1,013,600
	<u>6,672,000</u>	<u>10,788,700</u>
Valuation allowance	<u>(2,866,800)</u>	<u>(2,047,300)</u>
Total deferred tax assets	3,805,200	8,741,400
<b>Deferred tax liabilities:</b>		
Depreciation and amortization	(214,600)	(419,200)
Sales return liabilities	(224,100)	(950,600)
Lease right of use	(2,589,600)	(3,232,900)
Prepaid expenses and other liabilities	(803,400)	(1,106,200)
Total deferred tax liabilities	<u>(3,831,700)</u>	<u>(5,708,900)</u>
Net deferred tax (liability) assets	<u>\$ (26,500)</u>	<u>\$ 3,032,500</u>

The valuation allowance recorded by the Company as of March 28, 2021 and March 29, 2020 resulted from the uncertainties of the future realization of federal and state deferred tax assets. The Company will continue to assess and evaluate strategies that will enable the deferred tax asset, or portion thereof, to be realized, and will reduce the valuation allowance appropriately as such time when it is determined that the “more likely than not” criteria is satisfied.

As of March 28, 2021, the Company had state net operating loss carryforwards of \$72,966,720 which will generally begin to expire in fiscal year 2030 through fiscal year 2040. Certain state net operating loss carryovers do not expire.

As of March 28, 2021 and March 29, 2020, the Company had no unrecognized tax benefits.

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 fiscal year 2021, 2020 and 2019 was a benefit of \$0, \$0, and \$250,500 (net of federal benefit), respectively. The cumulative amount included in the consolidated balance sheet as of March 28, 2021 and March 29, 2020 was \$0.

A reconciliation of the changes in the gross balance of unrecognized tax benefit amounts, exclusive of interest, is as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Beginning balance 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 of unrecognized tax benefits	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act, which we refer to herein as the 2017 Tax Act. While the changes from the Tax Act were generally effective for tax years beginning after December 31, 2017, ASC No. 740, Accounting for Income Taxes, requires companies to recognize the effect of tax law changes in the period of enactment. Given the significance of the legislation, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118), which allowed registrants to record provisional amounts in earnings for the year ended April 1, 2018. The Company was required to complete its tax accounting for the 2017 Tax Act when it had obtained, prepared and analyzed the information to complete the income tax accounting but no later than December 22, 2018. Accordingly, during fiscal year 2019, the Company completed its accounting for the tax effects of the enactment of the 2017 Tax Act based on the Company's interpretation on the new tax regulations and related guidance issued by the U.S. Department of the Treasury and the IRS. The Company did not record a material adjustment in fiscal year 2019 to the provided provisional amount of \$0.2 million.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law making several changes to the Internal Revenue Code. The changes include but are not limited to: increasing the limitation on the amount of deductible business interest expense, allowing companies to carryback certain net operating losses to the preceding five years, and increasing the amount of net operating loss carryforwards that corporations can use to offset taxable income.

The Company files income tax returns in U.S. federal, state and local jurisdictions. Tax returns for fiscal years 2015 through 2021 remain open to examination by U.S. federal, state and local tax authorities. All state net operating losses generated to date are subject to adjustment for state income tax purposes.

#### **Note 13. Retirement Plans**

The Company has a 401(k) plan that covers all eligible employees. Contributions to the plan can be made by employees and the Company may make matching contributions at its discretion. Expense related to this matching contribution was \$806,000, \$937,500, and \$957,100 during fiscal years 2021, 2020, and 2019, respectively. As of March 28, 2021, plan assets included 232,000 shares of common stock of the Company.

The Company maintains a Supplemental Executive Retirement Plan for Robert B. Barnhill, Jr., the Company's Chairman of the Board. This plan is funded through life insurance policies for which the Company is the sole beneficiary. The cash surrender value of the life insurance policies and the net present value of the benefit obligation of approximately \$2,680,700 and \$809,400, respectively, as of March 28, 2021 and \$2,523,500 and \$915,700, respectively, as of March 29, 2020, are included in Other long-term assets and Other non-current liabilities, respectively, in the accompanying Consolidated Balance Sheets.

#### **Note 14. 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. Shares of common stock are excluded from the calculation if they are determined to be anti-dilutive. In fiscal years 2021 and 2020, the Company had a net loss and accordingly recorded EPS by using only basic shares outstanding.

The following table presents the calculation of basic and diluted earnings per common share from continuing operations:

<i>Amounts in thousands, except per share amounts</i>	<i>Amounts in thousands, except per share amounts</i>		
	2021	2020	2019
<b>Earnings per share from continuing operations – Basic:</b>			
Net loss	\$ (14,373)	\$ (15,601)	\$ (8,882)
Weighted average common shares outstanding – Basic	8,697	8,527	8,437
Earnings per common share from continuing operations – Basic	\$ (1.65)	\$ (1.83)	\$ (1.05)
<b>Earnings per share – Diluted:</b>			
Net loss	\$ (14,373)	\$ (15,601)	\$ (8,882)
Weighted average common shares outstanding – Basic	8,697	8,527	8,437
Effect of dilutive options	—	—	—
Weighted average common shares outstanding – Diluted	8,697	8,527	8,437
Loss per common share from continuing operations – Diluted	\$ (1.65)	\$ (1.83)	\$ (1.05)
Anti-dilutive equity awards not included above	755	852	94

At March 28, 2021, March 29, 2020, and March 31, 2019 stock options with respect to 925,000, 862,000 and 591,500 shares of common stock were outstanding, respectively. The anti-dilutive stock options outstanding at March 28, 2021, March 29, 2020, and March 31, 2019 total 755,000, 852,000 and 94,000, respectively. There were no anti-dilutive Performance Stock Units or Restricted Stock Units outstanding as of March 28, 2021, March 29, 2020, and March 31, 2019.

#### **Note 15. Stock-Based Compensation**

The Company's selling, general and administrative expenses for the fiscal years ended March 28, 2021, March 29, 2020, and March 31, 2019 includes \$1,211,000, \$1,174,600, and \$1,244,000, respectively, of stock compensation expense. Provision for income taxes for the fiscal years ended March 28, 2021, March 29, 2020, and March 31, 2019 includes \$255,600, \$386,100, and \$307,300, respectively, of income tax benefits related to our stock-based compensation arrangements. Stock 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") and 2019 Stock and Incentive Plan (the "2019 Plan" and together with the 1994 Plan, the "Plans), which was approved at the Annual Meeting of Shareholders held on July 25, 2019. No additional awards may be granted under the 1994 Plan, although awards outstanding under the 1994 Plan remain outstanding and governed by its terms.

As of March 28, 2021, 528,709 shares were available for issue in respect of future awards under the 2019 Plan. Subsequent to the Company's 2021 fiscal year end, on May 15, 2021, 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 187,500 shares of the Company's common stock. In addition, as further discussed below, RSU awards for 12,000 shares and restricted stock awards for 22,252 shares were made on April 29, 2021, entitling the recipients to receive up to 34,252 shares of common stock in the aggregate, depending upon vesting. Accordingly, as of June 2, 2021, and after accounting for shares added back to the 2019 Plan in the interim, an aggregate of 303,279 shares were available for future awards under the 2019 Plan.

**Performance Stock Units:** Under a program established by the Board of Directors, PSUs have been granted under the Plans to selected employees. Each PSU entitles the participant to earn Tescoco common stock, but only after earnings per share and, for non-director employee participants, individual performance targets are met over a defined performance cycle. Performance cycles, which are fixed for each grant at the date of grant, are one year. Once earned, shares vest and are issued over a specified period of time determined at the time of the grant, provided that the

participant remains employed by or associated with the Company at the time of share issuance. Earnings per share targets, which take into account the earnings impact of this program, are set by the Board of Directors in advance for the complete performance cycle at levels designed to grow shareholder value. If actual performance does not reach the minimum annual or threshold targets, no shares are issued. In accordance with ASC No. 718, the Company records compensation expense on its PSUs over the service period, based on the number of shares management estimates will ultimately be issued. Accordingly, the Company determines the periodic financial statement compensation expense based upon the stock price at the PSU grant date, net of the present value of dividends expected to be paid on Tescro common stock before the PSU vests, management's projections of future EPS performance over the performance period, and the resulting amount of estimated share issuances. As discussed in Note 2 above, the Company 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.

The following table summarizes the activity under the Company's PSU program for fiscal years 2021, 2020 and 2019:

	2021		2020		2019	
	Shares	Weighted Average Fair Value at Grant	Shares	Weighted Average Fair Value at Grant	Shares	Weighted Average Fair Value at Grant
Unvested shares available for issue under outstanding PSUs, beginning of period	68,355	\$ 15.00	98,306	\$ 14.55	67,000	\$ 12.65
PSUs Granted	—	—	51,616	15.93	71,000	15.58
PSUs Vested	(21,690)	14.21	(29,036)	14.09	(14,257)	12.66
PSUs Forfeited/Cancelled	(33,113)	15.69	(52,532)	9.82	(25,437)	13.46
Unvested shares available for issue under outstanding PSUs, end of period	<u>13,552</u>	\$ 14.57	<u>68,355</u>	\$ 15.00	<u>98,306</u>	\$ 14.55

As of March 28, 2021, there was \$16,943 unrecognized compensation cost, related to PSUs earned. Total fair value of shares vested during fiscal years 2021, 2020 and 2019 was \$103,300, \$780,400 and \$460,800, respectively.

The PSUs canceled during fiscal year 2021 primarily related to the fiscal year 2020 grant of PSUs which had a one-year measurement period (fiscal 2020) and employee departures. The PSUs were canceled because the minimum applicable fiscal 2020 performance targets were not fully satisfied. Per the provisions of the 2019 Plan, the shares related to these forfeited and canceled PSUs were added back to the 2019 Plan and became available for future issuance under the 2019 Plan.

The remaining 13,552 shares covered by PSUs outstanding at the end of fiscal year 2021 were earned based on fiscal year 2019 and 2018 performance, but were not yet vested as of March 28, 2021. Assuming the respective participants remain employed by, or affiliated with the Company, these shares will vest on or about May 1 of 2021 and 2022 as follows:

	Number of Shares
Fiscal Year 2022	9,023
Fiscal Year 2023	4,529
	<u>13,552</u>

Subsequent to the Company's 2021 fiscal year end, on May 26, 2021, the Compensation Committee, with the concurrence of the full Board of Directors, granted an aggregate of 96,603 PSU awards to certain employees of the Company. These awards will be earned based on achievement of pre-defined EBITDA targets for the Company's continuing operations and if earned, provide for the issuance of shares of the Company's common stock in accordance with a vesting schedule. These awards, if earned, will vest and shares will be issued June 1, 2022 provided that the participant remains associated with the Company (or meets other criteria as prescribed in the agreement) on that date.

**Restricted Stock/Restricted Stock Units:** On May 10, 2018 and June 6, 2018, the Compensation Committee, with the concurrence of the full Board of Directors, granted an aggregate of 21,000 RSU awards to non-employee directors of the Company and to the then Executive Chairman. These awards provide for the issuance of shares of the Company's

common stock in accordance with a vesting schedule. These awards have vested or will vest, and shares have been or will be issued, 25% on or about each of May 1 of 2019, 2020, 2021 and 2022, provided that the participant remains associated with the Company (or meets other criteria as prescribed in the agreement) on each such date. As of March 28, 2021, there was less than \$0.1 million of total unrecognized compensation costs related to these awards. Unrecognized compensation costs related to these awards are expected to be recognized ratably over a period of approximately one years.

On May 10, 2019, the Compensation Committee, with the concurrence of the full Board of Directors, granted an aggregate of 21,000 RSU, ratably to the then six non-employee directors, including the then Chairman of the Board of the Company. These RSU awards provide for the issuance of shares of the Company's common stock in four equal installments beginning on May 10, 2020 and continuing on the same date in 2021, 2022 and 2023, provided that the director remains associated with the Company on each such date (or meets other criteria as prescribed in the applicable award agreement). As of March 28, 2021, there was less than \$0.1 million of total unrecognized compensation costs related to these awards. Unrecognized compensation costs related to these awards are expected to be recognized ratably over a period of approximately two years.

On May 15, 2020, July 24, 2020 and November 12, 2020, the Compensation Committee, with the concurrence of the full Board of Directors, granted an aggregate of 30,000 RSU awards to the then non-employee directors of the Company. These RSU awards provide for the issuance of shares of the Company's common stock in accordance with a vesting schedule. These awards provide for vesting and that shares will be issued 25% on or about each of May 1 of 2021, 2022, 2023 and 2024, provided that the participant remains associated with the Company (or meets other criteria as prescribed in the agreement) on each such date. As of March 28, 2021, there was approximately \$0.1 million of total unrecognized compensation costs related to these awards. Unrecognized compensation costs related to these awards are expected to be recognized ratably over a period of approximately three years.

In addition, and also on May 15, 2020 and July 24, 2020, the Compensation Committee, with the concurrence of the full Board of Directors, granted an aggregate of 72,202 shares of restricted stock to non-employee directors of the Company in lieu of their annual cash retainer for fiscal 2021. The amount of shares issued was the cash equivalent of the required retainers on the approval date. These awards provide for the issuance of shares of the Company's common stock subject to a risk of forfeiture that will lapse in whole or in part in July 2021, generally depending on the length of continued service of the recipient on the Board for fiscal 2021. Dividends accruing in respect of the shares of restricted stock, if any, will accrue but will not be paid until July 1, 2021 and only in respect of those shares for which the risk of forfeiture has then lapsed. At March 28, 2021, 56,805 of these shares were expected to vest.

Changes in the composition of the Board during fiscal year 2021, in connection with or occurring during the term of a consent solicitation initiated by certain of our stockholders during the year resulted in the accelerated vesting of 30,000 of the current and prior year RSUs discussed in the previous two paragraphs and the issuance of a corresponding number of shares of Common Stock to departing directors.

Subsequent to the Company's 2021 fiscal year end, on April 29, 2021, the Compensation Committee, with the concurrence of the full Board of Directors, granted an aggregate of 12,000 RSU awards to non-employee directors of the Company. These awards provide for the issuance of shares of the Company's common stock in accordance with a vesting schedule. These awards will vest and shares will be issued 25% on or about each of April 29 of 2022, 2023, 2024 and 2025, provided that the participant remains associated with the Company (or meets other criteria as prescribed in the agreement) on each such date.

Also subsequent to the Company's 2021 fiscal year end, on May 25, 2021, the Compensation Committee, with the concurrence of the full Board of Directors, granted an aggregate of 24,761 RSU awards to non-employee directors of the Company. These awards were awarded in lieu of the directors' receiving estimated cash payments that would otherwise be received for attendance at Board and Committee meetings during fiscal 2022 and provide for the vesting and issuance of shares of the Company's common stock to the non-employee director on May 25, 2022, provided that the director remains associated with the Company (or meets service and other criteria as prescribed in the agreement) on that date.

In addition, and also on April 29, 2021, the Compensation Committee, with the concurrence of the full Board of Directors, granted an aggregate of 22,252 shares of restricted stock to non-employee directors of the Company in lieu of

their annual cash retainer for fiscal 2022. The amount of shares issued was the cash equivalent of the required retainers on the approval date. These awards provide for the issuance of shares of the Company's common stock subject to a risk of forfeiture that will lapse in whole or in part on July 1, 2022, generally depending on the length of continued service of the recipient on the Board for fiscal 2022. Dividends accruing in respect of the shares of restricted stock, if any, will accrue but will not be paid until July 1, 2022 and only in respect of those shares for which the risk of forfeiture has then lapsed.

PSUs, RSUs and restricted stock awards 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, in the case of PSUs and RSUs, 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 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:** The grant date value of the Company's stock options has been determined using the Black-Scholes-Merton pricing model, based upon facts and assumptions existing at the date of grant. Stock options granted have exercise prices equal to the market price of the Company's stock on the grant date. The stock options vest 25% after one year and then 1/36 per month for the following three years. During fiscal 2021, stock options for 177,042 shares were forfeited due to employee departures. The weighted-average remaining contractual term of options exercisable as of March 28, 2021 was 2.8 years.

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.

	2021		2020	
	Shares	Weighted Average Fair Value at Grant	Shares	Weighted Average Fair Value at Grant
Unvested options, beginning of period	465,374	\$ 2.38	281,292	2.39
Options Granted	240,000	2.05	405,000	2.53
Options Forfeited/Cancelled	(127,625)	3.13	(81,376)	3.23
Options Vested	(194,079)	3.28	(139,542)	2.32
Unvested options, end of period	383,670	1.47	465,374	2.38

Grant Fiscal Year	Options Granted	Option Exercise Price	March 28, 2021	
			Options Outstanding	Options Exercisable
2021	240,000	\$ 4.70	165,000	-
2020	405,000	\$ 13.54	341,000	138,788
2019	66,500	\$ 16.31	35,000	23,749
2018	230,000	\$ 15.12	80,000	74,791
2017	410,000	\$ 12.57	263,958	263,961
2016	100,000	\$ 22.42	40,000	40,000
Total			924,958	541,288

Grant Fiscal Year	Expected Stock Price Volatility	Risk-Free Interest Rate	Expected Dividend Yield	Average Expected Term	Resulting Black Scholes Value
2021	46.82 %	1.17 %	0.00 %	4.0	\$ 2.05
2020	35.88 %	2.00 %	5.82 %	4.0	\$ 2.53
2019	35.59 %	3.11 %	4.99 %	4.0	\$ 3.38

As of March 28, 2021, there was approximately \$0.8 million of total unrecognized compensation costs related to these awards. Unrecognized compensation costs related to these awards are expected to be recognized ratably over a period of approximately three years. Total value of options exercised during fiscal 2020 was \$681,100. 48,125 shares were

exercised, and the weighted average exercise price of these shares was \$14.15. No options were exercised during fiscal 2021 or 2019.

On April 30, 2020, May 15, 2020, August 19, 2020 and February 8, 2021, the Compensation Committee, with the concurrence of the full Board of Directors, granted an aggregate of 165,000 stock options to select key employees. The grant date value of these stock options has been determined using the Black-Scholes-Merton pricing model, based upon facts and assumptions existing at the date of grant. Stock options granted have exercise prices equal to the market price of the Company's stock on the grant date. The stock options vest 25% after one year and then 1/36 per month for the following three years.

On May 15, 2020, the Compensation Committee, with the concurrence of the full Board of Directors, granted an aggregate of 65,000 performance-based stock options to select key employees. The grant date value of these stock options has been determined using the Black-Scholes-Merton pricing model, based upon facts and assumptions existing at the date of grant. Stock options granted have exercise prices equal to the market price of the Company's stock on the grant date. If certain performance-based milestones are met and the employee remains employed by the Company, the stock options vest 25% after one year and then 1/36 per month for the following three years.

Subsequent to the Company's 2021 fiscal year end, on April 29, 2021, the Compensation Committee, with the concurrence of the full Board of Directors, granted an aggregate of 187,500 stock options to select key employees. The grant date value of these stock options has been determined using the Black-Scholes-Merton pricing model, based upon facts and assumptions existing at the date of grant. Stock options granted have exercise prices equal to the market price of the Company's stock on the grant date. The stock options vest 25% after one year and then 1/36 per month for the following three years.

**Team Member Stock Purchase Plan:** The Company has a Team Member Stock Purchase Plan that permits eligible employees to purchase up to an aggregate of 450,000 shares of the Company's common stock at 85% of the lower of the market price on the first day of a six-month period or the market price on the last day of that same six-month period. Expenses incurred for the Team Member Stock Purchase Plan during the fiscal years ended March 28, 2021, March 29, 2020, and March 31, 2019 were \$61,500, \$78,400, and \$82,600, respectively. During the fiscal years ended March 28, 2021, March 29, 2020, and March 31, 2019, 40,493, 34,829, and 19,183 shares were sold to employees under this plan, having a weighted average market value of \$4.92, \$7.51, and \$14.54, respectively.

#### **Note 16. 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.

As of March 28, 2021 and March 29, 2020, the Company has no assets or liabilities recorded at fair value.

The carrying amounts of cash and cash equivalents, trade accounts receivable, product inventory, trade accounts payable, accrued expenses, revolving credit facility, life insurance policies and other current liabilities approximate their fair values as of March 28, 2021 and March 29, 2020 due to their short-term nature.

#### **Note 17. Supplemental Cash Flow Information**

Cash paid for income taxes net of refunds, for fiscal years 2021, 2020, and 2019 totaled \$21,000, \$1,515,300, and \$1,835,400, respectively. Cash paid for interest during fiscal years 2021, 2020, and 2019 totaled \$952,700, \$1,106,300, and \$809,000, respectively. Interest capitalized during fiscal years 2021 and 2020 was \$450,200 and \$87,700, respectively. No interest was capitalized during fiscal year 2019.



#### **Note 18. Concentration of Risk Related to Continuing Operations**

Sales to customers and purchases from suppliers are largely governed by individual sales or purchase orders, so there is no guarantee of future business. In some cases, the Company has more formal agreements with significant customers or suppliers, but they are largely administrative in nature and are terminable by either party upon several months or otherwise short notice and they typically contain no obligation to make purchases from Tescor. In the event a significant customer decides to make its purchases from another source, experiences a significant change in demand internally or from its own customer base, becomes financially unstable, or is acquired by another company, the Company's ability to generate revenues from these customers may be significantly affected, resulting in an adverse effect on its financial position and results of operations.

The Company is dependent on third-party equipment manufacturers, distributors and dealers for all of its supply of wireless communications equipment. For fiscal years 2021, 2020, and 2019, sales of products purchased from the Company's top ten suppliers accounted for 53%, 54%, and 50% of total revenues, respectively. Products purchased from the Company's largest supplier related to continuing operations accounted for approximately 29%, 30%, and 24% of total revenues in fiscal years 2021, 2020, and 2019, respectively. The Company is dependent on the ability of its suppliers to provide products on a timely basis and on favorable pricing terms. The Company believes that alternative sources of supply are available for many of the product types it carries, but not for all products offered by the Company. The loss of certain principal suppliers, including the suppliers referenced above, or of other suppliers whose products may be difficult to source on comparable terms elsewhere, would have a material adverse effect on the Company.

As noted, the Company's future results could also be negatively impacted by the loss of certain customers, and/or supplier relationships. For fiscal years 2021, 2020, and 2019, sales of products to the Company's top ten customer relationships accounted for 34%, 34%, and 31% of total revenues, respectively. There was one customer that accounted for 11%, 15%, and 14% of total revenues in fiscal year 2021, 2020 and 2019, respectively.

#### **Note 19. Discontinued Operations**

On December 2, 2020, the Company sold most of its Retail inventory and certain other Retail-related assets to Voice Comm. In addition, we assigned or licensed Ventev®- related intellectual property to Voice Comm, including the Ventev® trademark, for their use in connection with the sale of mobile device and accessory products. Cash proceeds of \$9.5 million were received at closing. As part of the sale agreement, the Company is entitled to royalty payments of up to \$3.0 million in the aggregate on the sale of Ventev® branded products by Voice Comm over a four-year period after the closing. Additionally, future customer returns to the Company may be resold to Voice Comm over a two-year period after the closing.

A pre-tax gain on disposal of \$3.0 million was recorded in the fiscal quarter ended December 27, 2020, which is included in Income (loss) from discontinued operations, net of taxes in the Consolidated Statements of (Loss) Income.

The accompanying Consolidated Financial Statements for all periods presented reflect the results of the Retail segment as a discontinued operation. The following table presents the financial results of the Retail segment for the fiscal years ended March 28, 2021, March 29, 2020 and March 31, 2019:

	Fiscal Years Ended		
	March 28, 2021	March 29, 2020	March 31, 2019
Revenues	\$ 86,728,300	\$ 131,283,900	\$ 187,769,000
Cost of goods sold	74,238,800	119,102,800	150,815,000
Gross profit	12,489,500	12,181,100	36,954,000
Selling, general and administrative expenses	7,652,100	15,809,500	17,866,700
Goodwill impairment	—	2,569,100	—
Income (loss) from operations	4,837,400	(6,197,500)	19,087,300
Gain on disposal	3,020,800	—	—
Income (loss) before provision for (benefit from) income taxes	7,858,200	(6,197,500)	19,087,300
Provision for (benefit from) income taxes	2,227,800	(230,000)	4,659,200
Net income (loss) attributable to discontinued operations	<u>\$ 5,630,400</u>	<u>\$ (5,967,500)</u>	<u>\$ 14,428,100</u>

The financial results reflected above may not fully represent our former Retail segment stand-alone operating net profit, as the results reported within Income (loss) from discontinued operations, net of taxes, include only certain costs that are directly attributable to this former segment and exclude certain corporate overhead and operational costs that may have been previously allocated for each period.

The following table summarizes the major classes of assets attributable to discontinued operations that are included in the Current portion of assets held for sale in the Company's consolidated balance sheets as of March 28, 2021 and March 29, 2020:

	March 28, 2021	March 29, 2020
<b>ASSETS</b>		
Product inventory, net	\$ 1,196,900	\$ 18,849,900
Current portion of assets held for sale	<u>\$ 1,196,900</u>	<u>\$ 18,849,900</u>

The product inventory remaining at March 28, 2021 represents Retail inventory that was not sold to Voice Comm. Management intends to sell through this inventory in the near term in alignment with its complete exit from the Retail business.

Discontinued operations related to this Retail sale in future years will primarily include:

- Revenue related to royalty income, purchase price adjustments and selling inventory from customer returns to Voice Comm
- Sale or liquidation of inventory continuing to be held for sale
- Product returns from customers
- Changes in estimates of inventory and returns reserves
- Minor operating expenses related to above items

In our Consolidated Statements of Cash Flows, the cash flows from discontinued operations are not separately classified. Cash provided by operating activities from discontinued operations during fiscal 2021, 2020, and 2019 was \$13.2 million, \$11.3 million, and \$17.3 million, respectively. Cash provided by investing activities from discontinued operations during fiscal 2021, 2020, and 2019 was \$9.2 million, \$0 million, and \$0 million, respectively.

## Note 20. Quarterly Results of Operations (Unaudited)

Summarized quarterly financial data for the fiscal years ended March 28, 2021 and March 29, 2020 is presented in the table below.

	Fiscal Year 2021 Quarters Ended				Fiscal Year 2020 Quarters Ended			
	March 28, 2021	December 27, 2020	September 27, 2020	June 28, 2020	March 29, 2020	December 29, 2019	September 29, 2019	June 30, 2019
Revenues	\$ 88,733,100	\$ 99,237,600	\$ 88,892,400	\$ 96,477,600	\$ 105,839,700	\$ 100,844,000	\$ 103,651,000	\$ 98,679,700
Cost of goods sold	71,907,100	81,921,900	71,771,200	80,024,900	86,251,300	81,196,300	83,466,700	78,458,200
Gross profit	16,826,000	17,315,700	17,121,200	16,452,700	19,588,400	19,647,700	20,184,300	20,221,500
Selling, general and administrative expenses	19,580,000	23,606,800	20,787,800	21,532,500	23,547,600	21,994,800	22,029,900	24,432,900
Goodwill impairment	—	—	—	—	9,108,600	—	—	—
Restructuring charges	—	—	—	—	—	—	—	488,000
Operating expenses	19,580,000	23,606,800	20,787,800	21,532,500	32,656,200	21,994,800	22,029,900	24,920,900
Operating loss	(2,754,000)	(6,291,100)	(3,666,600)	(5,079,800)	(13,067,800)	(2,347,100)	(1,845,600)	(4,699,400)
Interest, net	58,500	151,200	105,900	110,700	204,600	367,900	335,100	208,700
Loss from continuing operations before (benefit from) provision for income taxes	(2,812,500)	(6,442,300)	(3,772,500)	(5,190,500)	(13,272,400)	(2,715,000)	(2,180,700)	(4,908,100)
(Benefit from) provision for income taxes	(1,958,000)	(740,400)	(824,300)	(321,800)	(5,297,200)	(641,000)	(109,600)	(1,427,000)
Net loss from continuing operations	\$ (854,500)	\$ (5,701,900)	\$ (2,948,200)	\$ (4,868,700)	\$ (7,975,200)	\$ (2,074,000)	\$ (2,071,100)	\$ (3,481,100)
(Loss) income from discontinued operations, net of taxes	(2,075,700)	4,787,500	2,681,300	237,300	(6,101,500)	(2,947,400)	2,093,100	988,300
Net (loss) income	\$ (2,930,200)	\$ (914,400)	\$ (266,900)	\$ (4,631,400)	\$ (14,076,700)	\$ (5,021,400)	\$ 22,000	\$ (2,492,800)
Basic and diluted (loss) earnings per share from continuing operations								
Continuing operations	\$ (0.10)	\$ (0.66)	\$ (0.34)	\$ (0.56)	\$ (0.93)	\$ (0.24)	\$ (0.24)	\$ (0.41)
Discontinued operations	\$ (0.24)	\$ 0.55	\$ 0.31	\$ 0.03	\$ (0.71)	\$ (0.35)	\$ 0.24	\$ 0.12
Consolidated operations	\$ (0.33)	\$ (0.11)	\$ (0.03)	\$ (0.54)	\$ (1.65)	\$ (0.59)	\$ 0.00	\$ (0.29)
Basic weighted-average common shares outstanding	8,814,859	8,699,937	8,656,877	8,617,803	8,554,348	8,541,020	8,650,320	8,494,168
Effect of dilutive options and other equity instruments	—	—	—	—	—	—	—	—
Basic and diluted weighted-average common shares outstanding	8,814,859	8,699,937	8,656,877	8,617,803	8,554,348	8,541,020	8,650,320	8,494,168
Cash dividends declared per common share	\$ —	\$ —	\$ —	\$ —	\$ 0.02	\$ 0.20	\$ 0.20	\$ 0.20

## **Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of TESSCO Technologies Incorporated

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of TESSCO Technologies Incorporated and subsidiaries (the Company) as of March 28, 2021 and March 29, 2020, the related consolidated statements of (loss) income, changes in shareholders' equity and cash flows for each of the three fiscal years in the period ended March 28, 2021, and the related notes and financial statement schedule listed in the Index at Item 15(a)2 (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at March 28, 2021 and March 29, 2020, and the results of its operations and its cash flows for each of the three years in the period ended March 28, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 28, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated June 11, 2021 expressed an unqualified opinion thereon.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex auditor judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### **Inventory Reserve**

*Description of the Matter*

The Company had inventories of \$53.1 million as of March 28, 2021, net of reserves for excess and obsolete inventory of \$3.4 million. The Company's inventory is evaluated for estimated obsolescence and is written down based on the difference between the cost of inventory and the estimated net realizable value. As described in Note 2 to the consolidated financial statements, management applies judgment to determine its reserves for excess and obsolete inventory, considering specifically known inventory risks and assumptions about future demand.

Auditing the Company's estimated inventory reserves were complex and highly judgmental because the estimate was sensitive to changes in assumptions, including changes to future demand.

*How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's process to estimate inventory reserves. For example, we tested controls over management's review of the significant assumptions and data underlying the inventory reserve estimate.

To test the adequacy of the Company's inventory reserves, our audit procedures included, among others, testing the accuracy and completeness of the underlying data, evaluating the consistency of the methodology between periods, and evaluating management's significant assumptions. For example, we tested the historical purchasing and sales data in the calculation of excess inventory and tested the mathematical accuracy of the Company's reserve calculation. We assessed the future demand assumptions by performing inquiries with those who were involved in sales and inventory management, and we compared future demand assumptions to historical data and trends, sales subsequent to year end, and potential contrary information. To evaluate management's ability to accurately estimate future demand in their sales projections, we retrospectively reviewed inventory write-offs and reserves during the current year in order to assess the accuracy of the prior year reserve.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002.

Baltimore, Maryland  
June 11, 2021

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

### **Item 9A. Controls and Procedures.**

#### *Disclosure Controls and Procedures*

We maintain a system of disclosure controls and procedures that is designed to provide reasonable assurance that information, which is required to be disclosed by the Company in the reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and is accumulated and communicated to management in a timely manner. Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K, and have concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

#### *Internal Control over Financial Reporting*

### **Management’s Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13(a)-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our system of internal control is designed to provide reasonable assurance to management and the Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Any system of internal control over financial reporting, no matter how well designed, has inherent limitations and may not prevent or detect misstatements. Therefore, internal control systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may be inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our President and Chief Executive Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls, and the conclusion of this evaluation. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of March 28, 2021.

The effectiveness of our internal control over financial reporting as of March 28, 2021 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included within this Item 9A of Part II of this Annual Report on Form 10-K.

#### *Changes in Internal Control over Financial Reporting*

There has not been any change in our internal control over financial reporting during the fourth quarter of fiscal year 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We rely extensively on information systems and technology to manage our business and summarize operating results. We are in the process of implementation of a new enterprise resource planning (“ERP”) system, which will replace our existing operating and financial systems. The ERP system is designed to accurately maintain our financial records, enhance operational functionality and provide timely information to the Company’s management team related to the operation of the business. The implementation is expected to occur in phases over the next several quarters. There have been no significant changes in our internal control over financial reporting as of March 28, 2021. However, as the next phases of the updated processes are rolled out in connection with the ERP implementation, we will give appropriate consideration to whether these process changes necessitate changes in the design of and testing for effectiveness of internal controls over financial reporting.

## **Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of TESSCO Technologies Incorporated

### **Opinion on Internal Control over Financial Reporting**

We have audited TESSCO Technologies Incorporated and subsidiaries' internal control over financial reporting as of March 28, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, TESSCO Technologies Incorporated and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of March 28, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of TESSCO Technologies Incorporated and subsidiaries as of March 28, 2021 and March 29, 2020, the related consolidated statements of (loss) income, changes in shareholders' equity and cash flows for each of the three years in the period ended March 28, 2021, and the related notes and financial statement schedule listed in the Index at Item 15(a)2 and our report dated June 11, 2021 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Management's Annual Report on Internal Control Over Financial Reporting, appearing in Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Baltimore, Maryland  
June 11, 2021

## **Item 9B. Other Information.**

None.

## **Part III**

### **Items 10, 11, 12, 13 and 14.**

The information with respect to the identity and business experience of executive officers of the Company as required to be included in Item 10 to this Form 10-K is set forth in Part I of this Form 10-K. The information otherwise required by Items 10 through 14 will be contained in a definitive proxy statement for our Annual Meeting of Shareholders, which we anticipate will be filed no later than 120 days after the end of our fiscal year pursuant to Regulation 14A, and accordingly, these items have been omitted in accordance with General Instruction G (3) to Form 10-K.

## **Part IV**

### **Item 15. Exhibits and Financial Statement Schedules.**

(a) The following documents are filed as part of this report:

1. The following consolidated financial statements are included in Item 8 of this report:

Consolidated Balance Sheets as of March 28, 2021 and March 29, 2020

Consolidated Statements of (Loss) Income for the fiscal years ended March 28, 2021, March 29, 2020 and March 31, 2019

Consolidated Statements of Changes in Shareholders' Equity for the fiscal years ended March 28, 2021, March 29, 2020 and March 31, 2019

Consolidated Statements of Cash Flows for the fiscal years ended March 28, 2021, March 29, 2020 and March 31, 2019

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

2. The following financial statement schedules are required to be filed by Item 8 and paragraph (b) of this Item 15 included herewith:

Schedule II                      Valuation and Qualifying Accounts

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable.



### 3. Exhibits

- 3.1.1 Amended and Restated Certificate of Incorporation of the Company filed with the Secretary of State of Delaware on September 29, 1993 (incorporated by reference to Exhibit 3.1.1 to the Company's Registration Statement on Form S-1 (No. 33-81834)).
- 3.1.2 Certificate of Retirement of the Company filed with the Secretary of State of Delaware on January 13, 1994 (incorporated by reference to Exhibit 3.1.2 to the Company's Registration Statement on Form S-1 (No. 33-81834)).
- 3.1.3 Certificate of Amendment to Certificate of Incorporation of the Company filed with the Secretary of State of Delaware on July 20, 1994 (incorporated by reference to Exhibit 3.1.3 to the Company's Registration Statement on Form S-1 (No. 33-81834)).
- 3.1.4 Certificate of Amendment to Certificate of Incorporation of the Company filed with the Secretary of State of Delaware on September 6, 1996 (incorporated by reference to Exhibit 3.1.4 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 28, 1997).
- 3.1.5 Certificate of Correction filed with the Secretary of State of Delaware on February 7, 2007 to Certificate of Amendment to Certificate of Incorporation of the Company filed with the Secretary of State of Delaware on September 6, 1996 (incorporated by reference to Exhibit 3.1.5 to the Company's Quarterly Report on Form 10-Q filed for the fiscal quarter ended December 24, 2006).
- 3.2.1 Sixth Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 28, 2011).
- 3.2.2 First Amendment to Sixth Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 22, 2011).
- 3.2.3 Second Amendment to Sixth Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 29, 2016).
- 3.2.4 Third Amendment to Sixth Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 11, 2020).
- 3.2.5 Fourth Amendment to Sixth Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 17, 2020).
- 4.1.1 Description of Capital Stock (incorporated by reference to Exhibit 4.1.1 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 29, 2020).
- 10.1.1 Team Member Stock Purchase Plan (incorporated by reference to Appendix No. 2 to the Company's Definitive Proxy Statement filed with the Securities and Exchange Commission on July 15, 1999).
- 10.2.1 TESSCO Technologies Incorporated Third Amended and Restated 1994 Stock and Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 27, 2016).
- 10.2.2 Form of TESSCO Technologies Incorporated Performance Share Unit Agreement – Officers and Employees (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed for the fiscal quarter ended June 27, 2004).
- 10.2.3 Form of TESSCO Technologies Incorporated Performance Share Unit Agreement – Non-Employee Directors (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed for the fiscal quarter ended June 27, 2004).
- 10.2.4 Form of Restricted Stock Award under the TESSCO Technologies Incorporated Third Amended and Restated 1994 Stock and Incentive Plan (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed for the fiscal quarter ended June 26, 2011).
- 10.2.5 Form of Restricted Stock Unit Award (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 30, 2013).
- 10.2.6 Form of Performance Stock Unit Agreement – Officers and Employees (incorporated by reference to Exhibit 10.5.1 to the Company's Quarterly Report on Form 10-Q filed for the fiscal quarter ended June 26, 2016).

- 10.2.7 Form of Restricted Stock Unit Agreement (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 10, 2017).
- 10.2.8 Form of Stock Option (incorporated herein by reference to Exhibit 10.1.1 to the Company's Quarterly Report on Form 10-Q filed for the fiscal quarter ended July 1, 2018).
- 10.3.1 TESSCO Technologies Incorporated 2019 Stock and Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 30, 2019).
- 10.3.2 Form of Stock Option (Performance) under the Tessco Technologies Incorporated 2019 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3.2 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 29, 2020).
- 10.3.3 Form of Restricted Stock Award under the Tessco Technologies Incorporated 2019 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3.3 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 29, 2020).
- 10.3.4 Form of Stock Option under the Tessco Technologies Incorporated 2019 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3.4 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 29, 2020).
- 10.3.5 Form of Restricted Stock Unit Award under the Tessco Technologies Incorporated 2019 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3.5 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 29, 2020).
- 10.3.6 Form of Performance Share Unit Agreement – Officers and Employees, under the Tessco Technologies Incorporated 2019 Stock and Incentive Plan (incorporated by reference to Exhibit 10.3.6 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 29, 2020).
- 10.4.1 Agreement of Lease by and between Atrium Building, LLC and TESSCO Technologies Incorporated (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed for the fiscal quarter ended September 28, 2003).
- 10.4.2 Third Amendment to Agreement of Lease by and between Atrium Building, LLC and TESSCO Technologies Incorporated (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 18, 2011).
- 10.4.3 Sixth Amendment to Agreement of Lease by and between ATAPCO Padonia, LLC and TESSCO Technologies Incorporated (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-K, filed with the Securities and Exchange Commission on August 2, 2019).
- 10.5.1 Credit Agreement dated as of October 29, 2020, among TESSCO Technologies Incorporated, the additional borrowers party thereto, the Lenders party thereto, and Wells Fargo Bank, National Association, as Administrative Agent for each member of the Lender Group and the Bank Product Providers (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 4, 2020).
- 10.5.2 Guaranty and Security Agreement dated as of October 29, 2020, among TESSCO Technologies Incorporated and its subsidiaries and Wells Fargo Bank, National Association, as Administrative Agent for each member of the Lender Group and the Bank Product Providers (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 4, 2020).
- 10.6.1 Supplemental Executive Retirement Plan, dated as of March 31, 1994, between the Company and Robert B. Barnhill, Jr., (originally filed as Exhibit C to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (No. 33-81834)) (incorporated by reference to Exhibit 10.9.1 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 29, 2009).
- 10.6.2 Amendment No. 1 to Supplemental Executive Retirement Plan, effective as of January 1, 2005, between the Company and Robert B. Barnhill, Jr. (incorporated by reference to Exhibit 10.9.2 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 29, 2009).
- 10.7.1 Form of Severance and Restrictive Covenant Agreement entered into between the Company and Douglas A. Rein (incorporated by reference to Exhibit 10.10.1 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 29, 2009).
- 10.7.2 Form of Severance and Restrictive Covenant Agreement, entered into between the Company and Aric Spitulnik (incorporated by reference to Exhibit 10.8.2 to the Company's Annual Report on Form 10-K filed for the fiscal year ended March 30, 2014).

- 10.7.3 Form of Severance and Restrictive Covenant Agreement entered into between the Company and Elizabeth S. Robinson (incorporated by reference to Exhibit 10.7.3 to the Company’s Annual Report on Form 10-K filed for the fiscal year ended April 1, 2018).
- 10.7.4 Form of Severance and Restrictive Covenant Agreement, entered into between the Company and Joseph Cawley (incorporated by reference to Exhibit 10.7.4 to the Company’s Annual Report on Form 10-K filed for the fiscal year ended March 29, 2020).
- 10.8.1 Employment Agreement, dated as of August 29, 2016, by and between the Company and Murray Wright (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K, filed with the Securities and Exchange Commission on September 1, 2016).
- 10.8.2 Form of Stock Option to Murray Wright (incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K, filed with the Securities and Exchange Commission on September 1, 2016).
- 10.8.3 Letter Agreement dated August 14, 2019, by and between the Company and Murray Wright (incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 20, 2019).
- 10.9.1 Employment Agreement, dated as of August 19, 2019, by and between the Company and Sandip Mukerjee (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 20, 2019).
- 10.9.2 Form of Stock Option to Sandip Mukerjee on November 15, 2019 (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 19, 2019).
- 10.10.1 Inventory Purchase Agreement dated as of October 28, 2020, by and among Voice Comm, LLC and TESSCO Technologies Incorporated, TESSCO Communications Incorporated and TESSCO Incorporated (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 6, 2020).
- 21.1.1\* Subsidiaries of the Company.
- 23.1.1\* Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
- 31.1.1\* Rule 15d-14(a) Certification of Sandip Mukerjee, Chief Executive Officer.
- 31.2.1\* Rule 15d-14(a) Certification of Aric Spitulnik, Chief Financial Officer.
- 32.1.1\* Section 1350 Certification of Sandip Mukerjee, Chief Executive Officer.
- 32.2.1\* Section 1350 Certification of Aric Spitulnik, Chief Financial Officer.
- 101.1\* The following financial information from TESSCO Technologies Incorporated’s Annual Report on Form 10-K for the year ended March 28, 2021 formatted in Inline XBRL: (i) Consolidated Statement of Income for the years ended March 28, 2021, March 29, 2020 and March 31, 2019; (ii) Consolidated Balance Sheet at March 28, 2021 and March 29, 2020; (iii) Consolidated Statement of Cash Flows for the years March 28, 2021 and March 29, 2020; and (iv) Notes to Consolidated Financial Statements.
- 104.1\* Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101.1)

\* Filed herewith

## Schedule II: Valuation and Qualifying Accounts

For the fiscal years ended:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>Allowance for doubtful accounts:</i>			
Balance, beginning of period	\$ 3,288,800	\$ 2,137,900	\$ 1,094,900
Provision for bad debts and other adjustments	(971,600)	2,100,400	1,721,200
Write-offs	(733,000)	(949,500)	(678,200)
Balance, end of period	<u>\$ 1,584,200</u>	<u>\$ 3,288,800</u>	<u>\$ 2,137,900</u>

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>Inventory Reserve:</i>			
Balance, beginning of period	\$ 9,666,100	\$ 5,870,600	\$ 5,739,700
Inventory reserve expense	146,600	11,801,500	4,863,100
Write-offs and other adjustments	(6,453,600)	(8,006,000)	(4,732,200)
Balance, end of period	<u>\$ 3,359,100</u>	<u>\$ 9,666,100</u>	<u>\$ 5,870,600</u>

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>Allowance for deferred tax asset:</i>			
Balance, beginning of period	\$ 2,047,300	\$ 141,600	\$ —
Income tax expense	819,500	1,905,700	141,600
Write-offs and other adjustments	—	—	—
Balance, end of period	<u>\$ 2,866,800</u>	<u>\$ 2,047,300</u>	<u>\$ 141,600</u>

## Signatures

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Sandip Mukerjee

Sandip Mukerjee, President and Chief Executive Officer  
June 11, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>/s/ Sandip Mukerjee</u> Sandip Mukerjee	President and Chief Executive Officer (principal executive officer)	June 11, 2021
<u>/s/ Aric Spitulnik</u> Aric Spitulnik	Senior Vice President, Chief Financial Officer, and Corporate Secretary (principal financial and accounting officer)	June 11, 2021
<u>/s/ Paul J. Gaffney</u> Paul J. Gaffney	Chairman of the Board	June 11, 2021
<u>/s/ Jay G. Baitler</u> Jay G. Baitler	Director	June 11, 2021
<u>/s/ Robert B. Barnhill, Jr.</u> Robert B. Barnhill, Jr.	Director	June 11, 2021
<u>/s/ Tim Bryan</u> Tim Bryan	Director	June 11, 2021
<u>/s/ Stephanie Dismore</u> Stephanie Dismore	Director	June 11, 2021
<u>/s/ Kathleen McLean</u> Kathleen McLean	Director	June 11, 2021



