TESSCO TECHNOLOGIES INC
Form 10-Q
February 10, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 27, 2009

or

o **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: 0-24746

TESSCO TECHNOLOGIES INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**52-0729657**
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification No.)
11126 McCormick Road, Hunt Valley, Maryland	**21031**
(Address of principal executive offices)	(Zip Code)

(410) 229-1000

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of shares of the registrant s Common Stock, $0.01 par value per share, outstanding as of January 29, 2010, was 4,801,693.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

TESSCO TECHNOLOGIES INCORPORATED

Unaudited Consolidated Balance Sheets

	December 27, 2009	March 29, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,510,400	$ 599,800
Trade accounts receivable, net	55,112,100	44,601,300
Product inventory, net	58,832,200	36,540,400
Deferred tax assets	4,366,700	4,366,700
Prepaid expenses and other current assets	1,580,400	2,168,500
Total current assets	125,401,800	88,276,700
Property and equipment, net	20,924,900	21,566,900
Goodwill, net	9,017,700	6,550,700
Other long-term assets	2,012,100	2,258,300
Total assets	$ 157,356,500	$ 118,652,600
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	$ 67,123,200	$ 40,481,600
Payroll, benefits and taxes	8,597,800	6,494,400
Income and sales tax liabilities	4,557,600	2,908,400
Accrued expenses and other current liabilities	1,441,800	1,405,900
Current portion of long-term debt	377,800	361,400
Total current liabilities	82,098,200	51,651,700
Deferred tax liabilities	2,416,000	2,416,000
Long-term debt, net of current portion	3,436,400	3,481,700
Other long-term liabilities	1,585,500	937,000
Total liabilities	89,536,100	58,486,400
Shareholders equity:		
Preferred stock		
Common stock	81,400	80,100
Additional paid-in capital	36,360,800	34,503,700
Treasury stock	(42,819,400)	(42,155,700)
Retained earnings	74,307,400	67,880,900
Accumulated other comprehensive loss, net of tax	(109,800)	(142,800)
Total shareholders equity	67,820,400	60,166,200

Total liabilities and shareholders equity	$	157,356,500	$	118,652,600

See accompanying notes.

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TESSCO TECHNOLOGIES INCORPORATED

Unaudited Consolidated Statements of Income

	Fiscal Quarters Ended		Nine Months Ended	
	December 27, 2009	**December 28, 2008**	**December 27, 2009**	**December 28, 2008**
Revenues	$ 149,721,200	$ 118,943,300	$ 391,476,200	$ 384,785,300
Cost of goods sold	116,932,800	89,675,900	298,058,700	290,284,400
Gross profit	32,788,400	29,267,400	93,417,500	94,500,900
Selling, general and administrative expenses	27,939,700	26,868,200	81,023,400	84,660,800
Income from operations	4,848,700	2,399,200	12,394,100	9,840,100
Interest expense, net	90,600	213,700	276,200	516,400
Income before provision for income taxes	4,758,100	2,185,500	12,117,900	9,323,700
Provision for income taxes	1,850,900	944,100	4,706,100	3,780,900
Net income	$ 2,907,200	$ 1,241,400	$ 7,411,800	$ 5,542,800
Basic earnings per share	$ 0.59	$ 0.26*	$ 1.51	$ 1.09*
Diluted earnings per share	$ 0.56	$ 0.25*	$ 1.45	$ 1.06*
Cash dividends declared per common share	$ 0.10	$	$ 0.20	$

* Prior year basic and diluted earnings per share have been adjusted to show the effects of adoption of the FASB standard addressing accounting for participating securities under the two-class method. See Note 3 for further discussion.

See accompanying notes.

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TESSCO TECHNOLOGIES INCORPORATED

Unaudited Consolidated Statements of Cash Flows

	Nine Months Ended December 27, 2009	Nine Months Ended December 28, 2008
Cash flows from operating activities:		
Net income	$ 7,411,800	$ 5,542,800
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,086,000	3,164,900
Gain on sale of property and equipment		(157,600)
Non-cash stock compensation expense	1,750,600	1,350,500
Deferred income taxes and other	918,800	(61,800)
Change in trade accounts receivable	(10,510,800)	10,875,100
Change in product inventory	(22,291,800)	(2,605,800)
Change in prepaid expenses and other current assets	646,400	(755,800)
Change in trade accounts payable	26,556,600	(11,849,400)
Change in payroll, benefits and taxes	2,103,400	3,446,000
Change in income and sales tax liabilities	1,649,200	(700,200)
Change in accrued expenses and other current liabilities	101,800	291,800
Net cash provided by operating activities	11,422,000	8,540,500
Cash flows from investing activities:		
Purchases of property and equipment	(2,318,400)	(2,491,100)
Proceeds from sale of property and equipment		220,000
Additional earn-out payments on acquired businesses	(2,382,000)	(1,309,000)
Net cash used in investing activities	(4,700,400)	(3,580,100)
Cash flows from financing activities:		
Net borrowings on revolving line of credit		2,829,100
Payments on long-term debt	(278,900)	(269,500)
Proceeds from debt issuance	250,000	
Proceeds from issuance of stock	57,600	58,700
Cash dividends paid	(985,300)	
Purchases of treasury stock and repurchases of stock from employees and directors for minimum tax withholdings	(484,900)	(8,419,600)
Payments of debt issue costs	(175,000)	
Excess tax (loss) benefit from stock-based compensation	(194,500)	187,900
Net cash used in financing activities	(1,811,000)	(5,613,400)
Net increase (decrease) in cash and cash equivalents	4,910,600	(653,000)
Cash and cash equivalents, beginning of period	599,800	2,086,200
Cash and cash equivalents, end of period	$ 5,510,400	$ 1,433,200

See accompanying notes.

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TESSCO TECHNOLOGIES INCORPORATED

Notes to Unaudited Consolidated Financial Statements

December 27, 2009

Note 1. Description of Business and Basis of Presentation

TESSCO Technologies Incorporated, a Delaware corporation (TESSCO, we, or the Company), is a leading provider of integrated product and supply chain solutions to the professionals that design, build, run, maintain and use wireless, mobile, fixed and in-building 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. Over 99% of the Company s sales are made in United States Dollars.

In management s opinion, the accompanying interim consolidated financial statements of the Company include all adjustments, consisting only of normal, recurring adjustments, necessary for a fair presentation of the Company s financial position for the interim periods presented. These statements are presented in accordance with the rules and regulations of the United States Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in the Company s annual financial statements have been omitted from these statements, as permitted under the applicable rules and regulations. The results of operations presented in the accompanying interim consolidated financial statements are not necessarily representative of operations for an entire year. The information included in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended March 29, 2009.

Note 2. Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued a new standard to provide guidance for using fair value to measure assets and liabilities. The standard also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. It does not expand the use of fair value in any new circumstances. In February 2008, the FASB partially deferred the effective date of this standard for certain non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis until fiscal years beginning after November 15, 2008 or in the Company s case, the fiscal year beginning March 30, 2009. The Company adopted this standard for its financial assets and liabilities effective as of March 31, 2008, and adopted the standard for non-financial assets and liabilities effective March 30, 2009. The adoption of the standard did not have a material impact on the Company s consolidated financial statements. See Note 5 for additional disclosures.

In December 2007, the FASB issued a new standard establishing principles and guidance regarding the information provided in financial reports about a business combination and its effects. The standard requires that the acquisition method of accounting be used for all business combinations and that an acquirer be identified for each business combination. The standard requires the assets, liabilities, noncontrolling interests, certain acquired contingencies and contingent consideration during a business combination to be measured at their fair value as of the acquisition date. The standard is effective for fiscal years beginning on or after December 15, 2008. In April 2009, the FASB issued an amendment to this standard to clarify the initial and subsequent accounting disclosures of contingencies in a business combination. The Company adopted this standard effective March 30, 2009 for any acquisitions made subsequent to that date. The adoption of the standard did not impact the accounting for acquisitions made by the Company prior to March 30, 2009, however it will impact the accounting treatment of all acquisitions made after such date.

In March 2008, the FASB issued a new standard requiring entities to provide enhanced disclosure of derivative instruments. Under the accounting standard, entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under other accounting standards and the related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The provisions of this standard are effective for periods beginning after November 15, 2008. The adoption of this standard did not have a material impact on the Company s consolidated financial statements.

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In April 2009, the FASB issued a new standard requiring disclosures about the fair value of financial instruments for interim financial statements in addition to annual financial statements. The standard is effective for interim reporting periods ending after June 15, 2009. The Company adopted the standard effective June 28, 2009. The adoption of the standard did not have a material impact on the Company s interim consolidated financial statements. See Note 5 for additional disclosures.

In May 2009, the FASB issued a new standard establishing general standards of accounting for and disclosures of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The standard requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The standard is effective for interim or annual financial periods ending after June 15, 2009. The adoption of the standard did not have a material impact on the Company s consolidated financial statements. See Note 12 for additional disclosures.

In July 2009, the FASB established The FASB Accounting Standards Codification (the Codification). The Codification replaced the United States Generally Accepted Accounting Principles (GAAP) and became the single source of authoritative nongovernmental U.S. GAAP. All guidance included in the Codification is authoritative, even guidance that comes from what used to be deemed a non-authoritative section of a standard. All non-grandfathered, non-SEC accounting literature not included in the Codification is non-authoritative. Other than resolving certain minor inconsistencies in current GAAP, the Codification does not change GAAP, but is intended to make it easier to find and research GAAP applicable to particular transactions or specific accounting issues. The Codification is a new structure which takes accounting pronouncements and organizes them by approximately ninety accounting topics. The Codification is effective for interim and annual periods ending after September 15, 2009. The adoption of the Codification did not have a material impact on the Company s consolidated financial statements.

Note 3. Accounting Changes

In June 2008, the FASB issued a new standard addressing how entities account for participating securities. The standard provides that unvested share-based payment awards that contain non-forfeitable rights to dividends are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method under the accounting standards and related interpretations. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Restricted stock of the Company of 105,000 shares as of December 27, 2009 are considered participating securities since the award contains a non-forfeitable right to dividends irrespective of whether the stock ultimately vests. This standard is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. Upon adoption, the Company retrospectively adjusted earnings per share data to conform to the provisions of the standard. Accordingly, the Company adopted the standard effective March 30, 2009 and computed earnings per share using the two-class method for all periods presented. The standard reduced full fiscal year 2009, 2008 and 2007 diluted earnings per common share by $0.03, $0.02 and $0.01, respectively, and reduced third quarter and first nine months of fiscal year 2009 diluted earnings per common share by less than $0.01 and $0.03, respectively. See Note 6 for additional disclosures.

Note 4. Stock Compensation

The Company s selling, general and administrative expenses for the fiscal quarter and nine months ended December 27, 2009 includes $598,800 and $1,750,600, respectively, of non-cash stock compensation expense. The Company s selling, general and administrative expenses for the fiscal quarter and nine months ended December 28, 2008 includes $268,600 and $1,350,500, respectively, of non-cash stock compensation expense. Stock compensation expense is primarily related to our Performance Stock Unit (PSU) Program. In addition, the Company recorded an excess tax (loss) benefit directly to shareholders equity of ($194,500) and $187,900, primarily related to the PSUs which vested during the nine months ended December 27, 2009 and December 28, 2008, respectively.

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Performance Stock Units: The following table summarizes the activity under the Company s PSU program for the first nine months of fiscal year 2010:

	Nine Months Ended December 27, 2009		Weighted Average Fair Value at Grant Date
Shares available for issue under outstanding PSUs, non-vested beginning of period	359,494	$	12.10
Granted	264,000		8.77
Vested	(94,529)		12.29
Forfeited/cancelled	(75,880)		11.71
Shares available for issue under outstanding PSUs, non-vested end of period	453,085	$	10.12

Of the 453,085 shares available for issuance under outstanding PSUs, but not yet vested as of December 27, 2009, 189,085 shares have been earned, and assuming the respective participants remain employed by or associated with the Company on these dates, these shares will vest and be issued ratably on or about May 1 of 2010, 2011 and 2012.

The PSUs cancelled during fiscal year 2010 related to the fiscal year 2009 grant of PSUs, which had a 1-year measurement period (fiscal year 2009). During that period, actual earnings per share exceeded the minimum threshold level, but did not reach the goal level (which would have equated to a maximum payout), and thus, the underlying shares not earned from those PSUs were cancelled. Per the provisions of the Second Amended and Restated 1994 Stock and Incentive Plan (the 1994 Plan), the shares related to these PSUs were added back to the 1994 Plan and became available for future issuance.

During fiscal year 2010, the Compensation Committee of the Board of Directors, with the concurrence of the full Board of Directors, granted additional PSUs to select key individuals and directors, providing them with the opportunity to earn up to 264,000 additional shares of the Company s common stock in the aggregate, depending upon whether certain threshold or goal earnings per share targets are met, subject to individual performance for employees (independent directors are not subject to individual performance factors). These PSUs have only one measurement year (fiscal year 2010), with any shares earned at the end of fiscal year 2010 to vest and be issued 25% on or about May 1 of each of 2010, 2011, 2012 and 2013, provided that the respective participants remain employed by or associated with the Company on each such date.

If the maximum target of PSUs granted in fiscal year 2010 is assumed to be earned, total unrecognized compensation costs on these and all other earned but unvested PSU s would be approximately $1.9 million as of December 27, 2009 and would be expensed through fiscal year 2013.

Stock Options: In accordance with the FASB standard regarding stock compensation and share-based payments, the fair value of the Company s stock options has been determined using the Black-Scholes-Merton option pricing model, based upon facts and assumptions existing at the date of grant. Outstanding stock options have exercise prices equal to the market price of the Company s common stock on the grant date.

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

December 27, 2009, all outstanding stock options are fully vested. The following table summarizes the pertinent option information for outstanding options for the nine months ended December 27, 2009:

	Shares	**Weighted Average Exercise Price**
Outstanding, beginning of period	135,000	$ 8.35
Granted		
Exercised	(15,000)	11.92
Cancelled		
Outstanding and exercisable, end of period	120,000	7.89

Restricted Stock: In fiscal year 2007, the Company granted 150,000 shares of the Company s common stock to its Chairman and Chief Executive Officer as a restricted stock award under the 1994 Plan. These shares vest ratably over ten fiscal years based on service, beginning on the last day of fiscal year 2007 and ending on the last day of fiscal year 2016,

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subject, however, to the terms applicable to the award, including terms providing for possible acceleration of vesting upon death, disability, change in control or certain other events. The weighted average fair value for these shares at the grant date was $15.84. No other shares of restricted stock are currently issued as awards under the 1994 Plan. As of December 27, 2009, 105,000 shares remain unvested and there was no activity related to these restricted shares during the first nine months of fiscal year 2010. As of December 27, 2009, there was approximately $1.5 million of total unrecognized compensation costs related to restricted stock. Unrecognized compensation costs are expected to be recognized ratably over a period of approximately six years.

Note 5. Fair Value of Financial Instruments

The Company complies with the FASB standard regarding fair value measurement and disclosure requirements for assets and liabilities carried at fair value. Accordingly, assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

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

The following table presents information about assets and liabilities recorded at fair value on the accompanying Consolidated Balance Sheet:

	Balance at December 27, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Interest rate swap agreement, net of tax	$ (109,800)	$	$ (109,800)	$
Total assets at fair value	$ (109,800)	$	$ (109,800)	$

On October 1, 2005, the Company entered into a receive variable/pay fixed interest rate swap on a total notional amount of $4.2 million with Wachovia Bank, National Association to avoid the risks associated with fluctuating interest rates on the Company s existing term loan, which bears interest at a floating rate of LIBOR plus 1.75%, and to eliminate the variability in the cash outflow for interest payments. The interest rate swap agreement locks the interest rate for the outstanding principal balance of the loan at 6.38% through June 30, 2011. The Company anticipates retaining at least some portion of the interest rate swap agreement throughout the period of the term loan. As such, no amount of the loss on the agreement, currently recorded in other comprehensive income (loss), has been, or is anticipated to be reclassified into earnings. There was no payment due or received at inception of the swap. No hedge ineffectiveness will be recognized as the interest rate swap s provisions match the applicable provisions of the term bank loan. This cash flow hedge qualified for hedge accounting using the short-cut method since the swap terms match the critical terms of the hedged debt. The Company s fair value of its interest rate swap is derived from valuation models commonly used for derivatives. Valuation models require a variety of inputs, including contractual terms, market fixed prices, inputs from forward price yield curves, notional quantities, measures of volatility and correlations of such inputs. The Company s derivatives trade in liquid markets, and as such, model inputs can generally be verified and do not involve significant management judgment.

The carrying amounts of cash and cash equivalents, trade accounts receivable, product inventory, trade accounts payable, accrued expenses and other current liabilities approximate their fair values as of December 27, 2009 and March 29, 2009 due to their short term nature.

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Fair value of long-term debt, calculated using current interest rates and future principal payments, as of December 27, 2009 and March 29, 2009 is estimated as follows:

	December 27, 2009				March 29, 2009			
		Carrying Amount		Fair Value		Carrying Amount		Fair Value
Note payable to a Bank	$	3,281,300	$	3,113,200	$	3,450,000	$	3,228,500
Note payable to the Maryland Economic Development Corporation	$	298,100	$	285,400	$	393,100	$	391,100
Note payable to Baltimore County	$	234,800	$	202,100	$		$	

Note 6. Earnings Per Share

Effective March 30, 2009, the Company complied with the FASB standard regarding the accounting for participating securities. The standard requires the Company to use the two-class method to calculate earnings per share. Under the two-class method, earnings per common share are computed by dividing the sum of the distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the weighted average shares outstanding during the period.

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

	Amounts in thousands, expect per share amounts							
	Fiscal Quarter Ended				Nine Months Ended			
	December 27, 2009		December 28, 2008		December 27, 2009		December 28, 2008	
Earnings per share Basic:								
Net earnings	$	2,907	$	1,241	$	7,412	$	5,543
Less: Distributed and undistributed earnings allocated to nonvested stock		(62)		(31)		(159)		(131)
Earnings available to common shareholders Basic	$	2,845	$	1,210	$	7,253	$	5,412
Weighted average common shares outstanding Basic		4,812		4,743		4,799		4,945
Earnings per common share Basic	$	0.59	$	0.26	$	1.51	$	1.09
Earnings per share Diluted:								
Net earnings	$	2,907	$	1,241	$	7,412	$	5,543
Less: Distributed and undistributed earnings allocated to nonvested stock		(59)		(29)		(154)		(128)
Earnings available to common shareholders Diluted	$	2,848	$	1,212	$	7,258	$	5,415
Weighted average common shares outstanding Basic		4,812		4,743		4,799		4,945
Effect of dilutive options		298		129		196		140

Weighted average common shares outstanding Diluted		5,110		4,872		4,995		5,085
Earnings per common share Diluted	$	0.56	$	0.25	$	1.45	$	1.06
Anti-dilutive equity awards not included above				30,000				

Note 7. Business Segments

The Company evaluates revenue, gross profit and inventory in three business segments: (1) Network infrastructure products are used to build, repair and upgrade wireless telecommunications, computing and Internet networks. Products include base station antennas, cable and transmission lines, fixed and mobile broadband equipment, wireless local area network (WLAN) products, wireless networking, filtering systems, small towers, lightning protection devices, connectors, security and surveillance products, power systems and miscellaneous hardware. Our network infrastructure service offering includes connector installation, custom jumper assembly, filter product tuning, site kitting, logistics integration

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and wireless network training. (2) Mobile devices and accessory products include cellular phone and data device accessories such as replacement batteries, cases, speakers, mobile amplifiers, power supplies, headsets, mounts, car antennas, music accessories and data and memory cards as well as two-way radios and related accessories. Retail merchandising displays, promotional programs, customized order fulfillment services and affinity-marketing programs, including providing outsourced call centers and private label Internet sites, complement our mobile devices and accessory product offering. (3) Installation, test and maintenance products are used to install, tune, maintain and repair wireless communications equipment. Products include sophisticated analysis equipment and various frequency-, voltage- and power-measuring devices, as well as an assortment of tools, hardware, GPS, safety and replacement and component parts and supplies required by service technicians. Within the mobile devices and accessories line of business, the Company sells to both commercial and consumer markets. The network infrastructure and installation, test and maintenance lines of business sell primarily to commercial markets. The Company also regularly reviews its results of operations in three commercial customer categories and the consumer customer category, as described further below:

- Commercial Public Carriers and Network Operators. Public carriers and network operators include systems operators that are generally responsible for building and maintaining the infrastructure system and provide airtime service to individual subscribers.

- Commercial Resellers. Resellers include dealers and resellers that sell, install and/or service cellular telephone, wireless networking, broadband and two-way radio communications equipment primarily for the enterprise market, and to a lesser extent, the consumer market. These resellers include local and national value-added resellers and retailers, as well as sales and installation centers operated by cellular and paging carriers.

- Commercial Self-Maintained Users and Governments. Self-maintained user (SMU) and government customers include commercial entities such as major utilities and transportation companies, federal agencies and state and local governments.

- Consumers. Consumers include customers that buy through any of our affinity partner relationships or directly from our consumer website, YourWirelessSource.comTM.

The Company measures segment performance based on segment gross profit. The segment operations develop their product offering, pricing and strategies, which are collaborative with one another and the centralized sales and marketing function. Therefore, the Company does not segregate assets, other than inventory, for internal reporting, evaluating performance or allocating capital. In addition, the Company has allocated all goodwill and indefinite lived intangible assets to the applicable segments (and reporting units within segments, where applicable) for purposes of its annual impairment tests. The Company s goodwill at December 27, 2009 relates to acquisitions within its Network Infrastructure line of business. Product delivery revenue and certain cost of sales expenses have been allocated to each segment based on a percentage of revenues and/or gross profit, as applicable.

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Segment activity for the third quarter of fiscal years 2010 and 2009 is as follows:

(Amounts in thousands)	Network Infrastructure	Mobile Devices and Accessories	Installation, Test and Maintenance	Total
Fiscal Quarter ended December 27, 2009				
Commercial revenues:				
Public carriers and network operators	$ 13,710	$ 566	$ 2,884	$ 17,160
Resellers	18,297	78,294	1,694	98,285
SMUs and governments	17,073	3,624	10,001	30,698
Total commercial revenues	49,080	82,484	14,579	146,143
Consumer revenues		3,578		3,578
Total revenues	$ 49,080	$ 86,062	$ 14,579	$ 149,721
Commercial gross profit:				
Public carriers and network operators	$ 3,151	$ 142	$ 675	$ 3,968
Resellers	4,733	15,185	385	20,303
SMUs and governments	4,356	1,024	1,882	7,262
Total commercial gross profit	12,240	16,351	2,942	31,533
Consumer gross profit		1,255		1,255
Total gross profit	$ 12,240	$ 17,606	$ 2,942	$ 32,788
Selling, general and administrative expenses				27,939
Income from operations				4,849
Interest expense, net				91
Income before provision for income taxes				4,758
Provision for income taxes				1,851
Net income				$ 2,907
Product inventory	$ 23,636	$ 30,693	$ 4,503	$ 58,832
Fiscal Quarter ended December 28, 2008				
Commercial revenues:				
Public carriers and network operators	$ 11,340	$ 535	$ 3,073	$ 14,948
Resellers	17,981	48,432	2,491	68,904
SMUs and governments	14,300	3,747	14,389	32,436
Total commercial revenues	43,621	52,714	19,953	116,288
Consumer revenues		2,655		2,655
Total revenues	$ 43,621	$ 55,369	$ 19,953	$ 118,943
Commercial gross profit:				
Public carriers and network operators	$ 2,814	$ 139	$ 687	$ 3,640
Resellers	4,906	10,973	656	16,535
SMUs and governments	3,736	1,076	3,427	8,239
Total commercial gross profit	11,456	12,188	4,770	28,414
Consumer gross profit		853		853
Total gross profit	$ 11,456	$ 13,041	$ 4,770	$ 29,267
Selling, general and administrative expenses				26,868
Income from operations				2,399
Interest expense, net				214
Income before provision for income taxes				