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TESS - Q4 2016 TESSCO Technologies Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. And welcome to the TESSCO Technologies Incorporated Fourth Quarter 2016 Earnings Conference Call. At this time, all participant lines are in a listen-only mode to reduce background noise, but later, we will be holding a question-and-answer session after the prepared remarks and instructions will follow at that time.

(Operator Instructions)

As a reminder, today's conference call is being recorded.

I would now like to introduce your first speaker for today Andrew Blazier with Sharon Merrill. You have the floor, sir.

Andrew Blazier - Sharon Merrill - Investor Relations

Good morning everyone and thank you for joining TESSCO's conference call. Joining me today are Robert Barnhill, TESSCO's Chairman and Chief Executive Officer, and Aric Spitulnik, Chief Financial Officer. Please note that management's discussions today will contain forward-looking statements about anticipated results and future prospects.

Forward-looking statements involve a number of risks and uncertainties, and TESSCO's results may differ materially from those discussed today. Information concerning factors that may cause such a difference can be found in TESSCO's public disclosures, including the company's most recent Form 10-K and other periodic reports filed with the Securities and Exchange Commission.

With that introduction, I'd like to turn the call over to Bob Barnhill, TESSCO's Chairman and CEO. Bob?

Robert Barnhill - TESSCO - Chairman and Chief Executive Officer

Thank you, and good morning. Today I'd like to give you an overview of the performance and then provide insight into our opportunities, challenges, successes and plan for the New Year. Aric, will then give you the details of our performance and I'll return for your questions.

Last year presented TESSCO with significant revenue challenges due to the continued decline in our carrier purchases, which was down 30% year-over-year. With the exception of strong results in our retail market, we did not achieve the revenue growth we had anticipated from the rest of the business. We made progress on many of our strategic transformations which are required to respond to the new realities in wireless customer behavior and expectations.



We ended the year with a strong balance sheet, lower inventories, increased cash position and no operating debt. We continued the \$0.20 per share dividend, and we have a deep commitment to regain profitable growth. Our fourth quarter performance was disappointing. While the fourth quarter is seasonally our weakest, we were impacted by customer uncertainty in a difficult macro environment, and we experienced a continued 29% year-over-year decline in the carrier markets and small declines in other markets.

Our earnings were impacted by an unanticipated nonrecurring charge resulting from a multiyear license usage compliance audit by one of our major software providers. After negotiation, we were successful in reaching an agreement to resolve the matter. Aric will give you more details on this shortly. As we enter the new year, we're beginning to see new opportunities in sales in all of our markets. We're focused on market share growth, expansion in non-carrier markets, new customer development, offer expansion, margin improvement and expense management.

In addition, we launched the CEO succession plan and are now engaged in the search for a new CEO with experience in achieving superior profitable growth through innovative marketing, sales and productive operations. We expect the new CEO to be hired sometime during fiscal year 2017. In the meantime I remain the CEO, firmly dedicated to driving performance. Once the CEO is in place I will become the Executive Chairman committed to working with the new CEO to take TESSCO to a new level of success in the exploding world of wireless connectivity.

With that overview, let me provide insight into the status of the carrier market, and then we'll go into our opportunities, goals, successes and plan for fiscal year 2017. Although we're seeing increased activity, the carrier market remains very soft for us, as carriers continue to delay major spending on the network expansions and upgrades and continue to consume their existing inventory, the inventory that they purchased during the 4G and DAS build-outs two years ago. Their lower spend affects not only the carriers but also our contractors, program managers, tower owners and commercial reseller customers.

We've created many opportunities and won some business. We continue to work very closely with all of our carriers and contractors and believe we are very well positioned when the market re-bounce. In the new year, we're accelerating our transformations to drive the evolution from a wireless carrier transaction centric supplier to a consultative end-to-end solution provider that enables the deployment of wireless voice data, video connectivity and control systems for industrial, enterprise, private as well as public network operators.

Our transformation strategy is built around addressing three realities that are creating both opportunities and challenges for TESSCO to make the enduring trusted difference in our customers and shareowner's success. The three are, first, what we have been talking about over the months, is the convergence of wireless in the internet, which is revolutionizing the way we live, work and play. The new technologies, connectivity systems and applications are expanding in an unprecedented rate creating both opportunity and challenge. The second is the customer's behaviors and expectations, have and are continuing to change dramatically. And the third is the reality that transformation itself is a challenge.

I will highlight the goals, successes and plan for each of the five critical areas to address these new realities. First, the offer, then the consultative relationship team selling, third is the digital and internet marketing in commerce and intelligence. Four is consumer experience touch points, and then five, I want to comment about achieving transformation itself.

The first is the offer. Our goal is to leverage our value proposition, which is TESSCO is your total source, providing everything to build, maintain and resell wireless, voice data, video connectivity and control systems solutions, delivering the end-to-end solution, which includes knowledge, design, product, services, training and supply chain, delivering it complete and on-time with productivity and control at the lowest total cost.

We've made great progress. We've reorganized to better design system solutions to offer, and the products and services required to build or maintain the solutions. We have created a team of solution architects to work with sales to build and close opportunities. We have expanded the required manufacturers and product, we are supporting the DAS, Wi-Fi, wireless backhaul, remote monitoring and control, machine to machine and Internet of Things system solutions. We began to see traction in our fleet management and asset tracking offer. Just one example is that we signed a multi-year contract with a major carrier to enable their Internet of Things deployments for the new asset tracking system.

We developed a nationwide depot capability to forward deploy the configured kitted product solutions for pickup when required. We transported our training program, GigaWave and TESSCO University. We even signed an exclusive agreement with the industry trade association to be their training platform. We have achieved lower inventories with higher order completion, developed inventory management system for a customer,

developed a new pricing strategy to encourage customers to consolidate purchases with TESSCO, launched two retail sell-through programs, one that creates and executes marketing strategy and tactics for retailers and the other that extends to the retailer's offer beyond its store walls with consumer direct fulfillment program. And then finally, we've enhanced our supplier diversity purchase program, a major requirement for the carriers and the Federal Government.

Our plans for fiscal year 2017 are to continue to expand the product offerings, leverage our manufacturer relationships, ensure optimized competitive pricing and procurement pricing plans, enhance the ability to be local nationwide without multiple distribution centers, leverage our technical and solutions expertise to gain deeper relationships with our customers and enhance our product factory fulfillment kitting and pick-up capabilities.

Second area is the consultative relationship team selling. Again, as you have heard us talk about it, it is the transition from reactive selling to proactive consulting relationship solution selling, in order to improve the customer experience and grow long-term relationships with TESSCO's results and productivity.

Successes are a lot. We made progress in building and developing the sales force. We have organized around our submarkets, we have introduced a new compensation plan to encourage consultative team relationship selling, and achieve consolidated purchases and growth from each customer. We are rebuilding the new customer acquisition strategy and team. We added strategic talent to accelerate our revenue growth. David Strauss joined us in March as Vice President of national carrier sales. David will leverage his 25 years in wireless and the past 14 years at CommScope selling to tier one carriers. Harold Hoagland joined as a development executive with more than 30 years' wireless experience at CommScope and Sprint.

Charlie Stone joins us as Vice President and will lead our value added reseller market sales. He previously worked at Tellabs, following successful tenures at Level3 and Black Box. We continue to move beyond our carrier concentration, focusing on the industrial and enterprise private network operators in the commercial reseller markets.

Just two examples. We recently worked very closely with a nuclear power plant and supported their complete solution for their DAS upgrade project. After several months of discovery and design with a major large venue property owner, we are partnering with an integrator to build for them both the Wi-Fi and DAS systems in their new properties. Our plans going forward are to continue to develop training programs for consultative selling, continue to recruit new customer development and account management, develop a new digital proposal and order entry system, and stronger rationalization focus to be "local nationwide," provide for our remote sales team members, control account establishment and pricing and track our key performance indicator guidance.

Third area is the digital and internet marketing, e-commerce and intelligent platform. Our goal is to make Tessco.com the definitive source for knowledge and the digital hub for doing business with TESSCO, employing predictive analytics to achieve insight and a deep understanding of buyer behaviors that drive decisions and create opportunities, sales and customer satisfaction and to communicate one-to-one contextual, relevant information to create sales and give our team members guidance.

The successes are: We have developed a new Tessco.com with enhanced search functionality and new product hierarchy, giving our customers greater visibility of our products and knowledge to define, configure and procure products and their systems. We launched a major marketing and sales campaign to educate customers and develop opportunity. Following the beta in our retail market that we talked about, we are now rolling out the capability across all markets.

Throughout the month of April, we trained our sales force on insights and analytics that will automatically be generated as opportunities in the sales management dashboards. Short-term results have been encouraging, the system identifies those that are preparing to make a purchase. The system identifies this and develops an opportunity for the account manager to pursue. Fifty percent of these opportunities have resulted in sales.

Our plans going forward is to launch the new Tessco.com. We are load testing right now and we should be able to launch the new Tessco.com this week. We are putting great enhancements in to our new tessco.com account control center. We will continue to enhance our online service capabilities, giving our customer's great control over their entire supply chain. We will expand and enhance the predictive analytics, provide sales with more opportunities to pursue, and we'll expand and develop aggressive aligned system solution, product manufacturer campaigns, with training to develop the customer opportunities.



Fourth is the customer experience touch points. Our goal is to respond to the customers' expectation to make it very easy for them to do business with TESSCO, while making TESSCO more streamlined and productive, and understanding the customer's journey points, from deciding on their needs, to placing an order, to payment, the problem, the resolution, all to make the customers' experience simple, efficient and extraordinary.

Our success is that we have taken every TESSCO policy and procedure, we have identified it, and we are reengineering for customer delight and TESSCO productivity. The plans for execution of the changes have been developed for the customer and TESSCO's supply chain control, all the way from the requirement development to the total purchase history. So our plan is to gain cross-functional collaboration of the TESSCO teams to work together to simplify, define, communicate and digitize our policies and procedures that will improve the customer's experience and TESSCO's productivity and ability to scale. The plan is to develop the digital capabilities to deliver the best possible experience across all parts of the business.

So then the last area that we are focusing on is achieving transformation itself. Our goal is to make the transformation to make the enduring trust - the difference in our customers and shareowners success, to ensure the leadership and team member engagement, alignment and accountability and cross functional collaboration without consensus thinking, and achieve a major change in the TESSCO team members' holistic business thinking and behavior.

We've had successes. The focus is how our business must change holistically and not just focused on the individual initiatives. We are well underway with what we need to do, all of the things that I just outlined. We are now making progress in how we execute the plans. So our plan going forward is to strengthen how to do it with a change management mindset and structure. We need to develop a faster transformation process, implementing the weekly cadence of initiative and project achievement and then to hold people accountable.

I hope we have provided you with the insight in the changes we are making in response to the new realities, with a bottom-line goal of developing sustainable, profitable growth in shareowner value.

Aric, do you want to give us our performance details?

Aric Spitulnik - TESSCO - Chief Financial Officer

Sure, thanks, Bob. For the fourth quarter of fiscal 2016, revenues were \$114 million, compared with \$113 million in the fourth quarter a year ago, and \$140 million in the sequential third quarter. While many markets softened in the second half of the year, the carrier market continues to remain the slowest declining 29% year-over-year.

Gross profit was \$23 million in Q4, compared with \$24.3 million in last year's fourth quarter and \$29.5 million in Q3 this year. Overall gross margin declined to 20.2% of revenue from 21.5% of revenue in Q4 of the prior year. The lower gross margin was primarily due to lower margins in the retail and commercial reseller markets.

As Bob mentioned, during the quarter we recorded a non-recurring charge related to software licensing fees. During the quarter, TESSCO received the results of the license audit conducted by a major software provider. After significant negotiations, we settled the audit for \$1.5 million, which was accrued in the fourth quarter and will be paid in the first quarter of fiscal 2017.

Going forward, the audit will have no impact on our day-to-day operations, and we expect only a minimal incremental cost going forward about \$50,000 a year. Excluding the non-recurring fees, SG&A expense is \$24.7 million, up from \$24 million in the fourth quarter of fiscal 2015, excluding last year's restructuring charge.

Operating margin was negative 2.8% versus negative 0.2% a year ago, and a positive 3.4% in the third quarter. Excluding the impact of the software licensing charge this year and last year's restructuring charge, net loss for the quarter was \$1.1 million, or \$0.13 per share, compared to net income of \$0.1 million, or \$0.01 per share, in the same quarter a year ago. The \$0.13 loss matches the low end of our earnings guidance for Q4.

Now turning to the markets. In the public carrier market revenues were down 29% year-over-year and gross profit was down 32%. Carrier spending remains very soft, as the carriers continue to delay significant network deployment. However, we are seeing signs of recovery, including increasing

carrier activities and indications that some of our customer projects are about to begin. We are also winning some market share with some of these customers.

In the government markets, sales and gross profit declined 14% and 10%, respectively, from a year ago. While we have made some significant investments in this space over the last two years, the expected revenue growth hasn't developed as quickly as we had hoped. However, we believe we are very close to seeing solid growth, because we are now part of many new contracts and are developing deeper relationships at many of the agencies.

In the commercial dealer and reseller market, revenues increased 5% and gross profit 1% from a year ago. The reduction in margin is primarily due to product mix, as we have increased the amount of active lower-margin products in this market. As Bob mentioned, we have also enhanced our sales talent, and reallocated some internal resources to build a more robust new customer acquisition team.

In the private system operator market, revenues declined 1% and gross profit was down 5% year over year. As we mentioned last quarter, an enterprise customer has made changes in their supply chain related to our Ventev products, and these effects have lingered into the fourth quarter.

Looking at our retail market, sales are up 21% year over year, and gross profit grew 4%. Although our Q4 is seasonally our weakest in retail, this continues to be a strong market for us. However, the growth in our sales of Otterbox product and store consolidation that has occurred in this channel have had a negative impact on our margins. Total Ventev sales, which includes both mobile device accessories and infrastructure offerings, decreased 17% and totaled 13% of overall revenues. This decrease was primarily in the device accessories related to the same customer as discussed in the private system market.

Looking at the balance sheet, we reduced inventory by about \$12 million in the sequential third quarter, as we remain very focused on reducing the overall levels of inventory, while maintain very strong service levels. As a result, cash flow from operations was \$12.4 million during the fourth quarter and \$20.1 million for the fiscal year. Our overall cash on the balance sheet was \$16.9 million, and we had no balance on our \$35 million line of credit. While we remain very focused on managing inventory levels, we anticipate an increase in inventory as sales and bookings are up sequentially so far this quarter.

We remain committed to our dividend program, and we have set our dividend of \$0.20 per share with a record date of May 25 and payment date of June 8.

Now turning to our outlook, we remain intensely focused on improving productivity in the organization to reduce cost. This comes from automation, reengineering of processes, and reorganizations of our teams. At the same time, we continue to invest in key business generation talent that we believe will ultimately drive solid revenue growth. We are seeing these new resources uncovering potentially significant opportunities.

However, due to the uncertainty that persists in the carrier market, we are not providing earnings guidance for fiscal 2017 at this time. While we do expect both revenues and earnings for the first quarter to increase sequentially from the fourth quarter, results are expected to be lower than in the first quarter of fiscal 2016. This is primarily due to continued carrier market pressure, pricing pressure in the retail market, and the impact of recent talent investments. As our visibility improves, we may provide earnings guidance later in the fiscal year.

With that we will now open our call for any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And we have a question from the line of Bill Dezelle from Tieton Capital Management. Your line is open.



Bill Dezellem - *Tieton Capital Management - Analyst*

Good morning and thank you. A couple of questions. First of all, relative to your comments about Ventev and the customer change there, would you go into a bit more detail? And then secondarily, as you look at the carriers and compare going forward to the history of a little bit of the boom-bust, are you getting any sense of what you are experiencing now is more of the new normal, in the sense that there is not going to be that big boom, big bust, but more of a constant level of business and as a result that whole market share push becomes even more important than it ever has?

Aric Spitulnik - *TESSCO - Chief Financial Officer*

Sure. Hi Bill, it's Aric. So on the first question on the Ventev fees. That customer is a repair center that works with the retail stores to do warranty claims for them. We've sold them the Ventev products for many years. Over the course of the last couple months, they were looking at some lower cost alternatives using some more international supply chain resources. They have reduced the amount of purchases and for a short time period had really almost stopped purchasing for a little while. That started to pick up as we have gotten into Q1 and a little bit more so, probably later in this fiscal year, but there was a bit of trough where we weren't selling them too many of the Ventev products into that one repair center customer. And it's a fairly larger customer for us, so that did have a significant effect, both in the private systems and in the Ventev.

As far as your second question, from the public networks, I think in general you are right that it's not going to be as big of a boom and a bust, it's going to be more of a steady growth. But we do think - we certainly don't think that what they're doing now is all that they will be doing. We think it will definitely be growing as we get further along, but it's not going to be the 4G build that was two years ago, or hopefully not the quiet period that we've seen for the last year-and-a-half. Bob, do you have anything?

Robert Barnhill - *TESSCO - Chairman and Chief Executive Officer*

Yes. Hey, Bill, how are you? Good morning. Thanks for being here. One of the things that is really - the activity and the construction has started, but as we talked about over the last couple of quarters, they've had such huge inventory that they need to work off. And so we're getting the fill-in business today, which is - but it's still not making up for the hole that we've had. So we're very encouraged in terms of where we're going. I mentioned the two key people that we brought in really know, have great contacts with all of the carriers. Our team that we have in place both with the tier 2s, tier 3s, tier 4s are making just great relationships. We've got a real collaborative environment where we're working both on the carrier side that then goes into the contractor side, to the product managers that are all a part of that ecosystem. So we hate to give guidance, so we're not giving guidance, but we see just a lot of things so much more than when we talked last quarter that's in the channel, what the opportunities are. But it's got to work off this inventory and then move into these new areas. Does that give you some flavor in terms of where we are?

Bill Dezellem - *Tieton Capital Management - Analyst*

It does. And I actually have a follow-up questions on both of them. So relative to the Ventev situation, did that depot decide, or repair center decide, that that the foreign outsourcing did not work and that's why your orders have ticked back up? Or is there some other dynamic there that you could explain? And then, secondarily, coming back to the carriers, given that their activity level has picked up, that they are burning through inventory, what would you guesstimate that your increase in revenue would be if they simply went to purchasing inventory or purchasing product at the rate of consumption rather than consuming out of their own inventory?

Aric Spitulnik - *TESSCO - Chief Financial Officer*

On the first question for the Ventev piece, not that it didn't work, they had some extra some inventory in their channel from other sources that they were using in the short term. Going forward, it will be a little bit more of a mix between some of their own supply chain channels overseas and some of our Ventev channel. So I don't expect it to quite pick up to where it was, but we do expect it to start to increase as we get later on into the year to get back almost to where we were before. Bob, do you want to talk about it?

Robert Barnhill - TESSCO - Chairman and Chief Executive Officer

Yeah, the carriers - yeah, I think we really can't comment in terms of what we see the percentage growth, but I mean it's - they're going to be working off the inventories and we're going to start to see the repurchase of product that they need. And as I mentioned, we're getting the fill-in product orders now that they didn't have in inventory. But we still have inventory of that product, the DAS equipment that we had for one of the tower owners - they paid for, but we haven't gotten revenue recognition on that. So what is that, Aric?

Aric Spitulnik - TESSCO - Chief Financial Officer

That's another \$2 million or so right now.

Robert Barnhill - TESSCO - Chairman and Chief Executive Officer

So we worked off a lot of it, but we still have some that is still there.

Bill Dezellem - Tieton Capital Management - Analyst

And then one more follow-up and then I'll step out. And that is, do you have some perspective as to when that inventory will be burned off? I mean, is that a phenomenon that takes the rest of this calendar year or more or is that a near-term phenomenon? What's your speculation there?

Robert Barnhill - TESSCO - Chairman and Chief Executive Officer

I think once they start building, there is a pace and a cadence that we expect them to do, they're going to burn it off pretty quickly. I think the other important thing to look at is where we're going after the new opportunities. The carriers have decided that they're not going to do a lot of the direct specialty - what I call specialty builds like DAS. So when things were really great in terms of the carriers were making the commitment to do the DAS systems in the large venues of the casinos, the stadiums, that was the business that the tower contractors were doing on behalf of the carriers.

Well, today they're saying, you know what, we're not going to do that, we're going to provide the grid to allow that to happen. Thus, what we saw with the opportunity we had with the nuclear power plant, putting in the DAS systems where probably two, three years ago, the carrier would have done that, now they're doing it on their own. And that's where we're going after that type of business.

Bill Dezellem - Tieton Capital Management - Analyst

Great, thank you both.

Robert Barnhill - TESSCO - Chairman and Chief Executive Officer

Thank you, Bill.

Operator

(Operator Instructions)



Aric Spitulnik - TESSCO - Chief Financial Officer

Operator, this is Aric. I have got an email from Anil Doradla, and he's saying he is in the queue, but he's not showing up here.

Operator

Stand by just one moment. I'm going to go ahead and temporarily moderate his line for the question. Just stand by for one second. Anil, your line is open, sir.

Anil Doradla - William & Blair - Analyst

Yes, hi, sorry about that. I don't know, I was pressing star-one.

Robert Barnhill - TESSCO - Chairman and Chief Executive Officer

No problem.

Anil Doradla - William & Blair - Analyst

Okay, guys. A couple of questions, Bob, you talked about some interesting commentary about how the public carrier market is behaving, how the service operators are perhaps offloading some of their spending to, as you pointed out, the nuclear plant companies and so forth. So I think the question is around this transition that we're seeing. Is this a very fundamental transition that will kind of reshape the landscape? And given that your sales force and channels are more focused and attuned to deal with this handful of service providers, suddenly you'll have to change your whole sales force composition to go after each of these smaller customers. So help me understand, how should we be looking at the public carrier market, call it, three to five years from now, if this trend which has started off, seems to be the new norm in the business?

Robert Barnhill - TESSCO - Chairman and Chief Executive Officer

First of all, I said, we're excited by it. I mean, we're building the team that goes after these private network operators. I mean, we're obviously with the utilities, with the railroads, and this is all about this convergence of wireless and the Internet. It's no longer just a cellular play, it's the Wi-Fi, the wireless backhaul, the things that we're seeing that the private systems are making the decision on. So I think it's going to be for us very promising. Now that's not to say that the carriers are not going to still be a major part in terms of the growth, but the growth is going to spill over to other markets and other customers, which to us is that we're already there, we just need to expand that. I mean, just as we said, that we're doing on this property owner, it's going to be a Wi-Fi and a DAS system. And we're going to be - you have to work with the carriers to get the approval to put in the DAS system. But again, that's where we're good in terms of doing that setup that the private network operators need to be able to build that system.

Anil Doradla - William & Blair - Analyst

So, Bob, let me kind of rephrase the question. Do you feel your existing sales force is good enough to handle this transition, or would you have to build up a new sales force to go after these new fragmented markets?

Robert Barnhill - TESSCO - Chairman and Chief Executive Officer

We've been building it over the last couple of years, because we saw the transformations. I mean, so we've got a good team, a focused team, experienced, but at the same time, what we keep saying is that we need to expand it with more people to go after. And that's where we've got this regional focus, what we call local nationwide, how we can be into the various opportunities. You just take the nuclear power plant that I hate to



even say on this call from a competitor point of view. But there is 50 of these, that all need a DAS system to improve their cellular coverage throughout, and that's a very challenging application that we were very successful in providing. So, again, the answer to your question is, we have a core group and we have to continue to expand the group, very much like we did in the carrier market, when we brought in David Strauss to really enhance the carrier market.

I think it's also very interesting in terms of what's happening in terms of how business is generated. And this goes back to your sales team. You take the property owner, okay? We develop the opportunity, but then we have to bring in an integrator to implement it. The same thing with the carrier is the carrier makes the decision, but the pretty soon the purchase of that product is in with the contractors. So it's a real art, and it takes our sales team to be very collaborative, to make sure that if I build an opportunity, so I'm the sales person who is responsible for property owners, then I've got to hand that business off. So, it's got to be a very collaborative sport, so to speak, and making sure that we just don't run away from opportunity because they can't install it. Does that make sense?

Anil Doradla - *William & Blair - Analyst*

Yes, yes. It does make sense. And again back on the public carrier. If this trend persists, why should I not think about the public carrier markets, kind of either in secular decline or low single digit growth over the next three to four years? If I were to be a skeptic on this fundamental change that you're talking about, shouldn't the trajectory continue on in a downward trend, although may be not as severe as we've seen over the past couple of quarters?

Robert Barnhill - *TESSCO - Chairman and Chief Executive Officer*

Well, first of all we got to recognize that they have got huge pent-up need. We all know that our cellular coverage needs to be improved. They have been focusing on the urban areas with the densification, and the rural areas have still not - I mean, we still need to build in the rural areas. So, I think, once things are totally pulled together by the carriers, I think it's going to be a very robust market. But the way they do business and how they're doing business is really changing, and that was one of our new realities in general, as far as what the customers' behavior and what their expectations really are. So I don't think we are going to - with all the spectrum that they've purchased, there is another auction coming up, they have to deploy this. And they're going to be expanding in the small cells using Wi-Fi as part of the network. So I think that we are going to continue to see great things form the carriers and a robust market. But I'm seeing a lot of the business, what we're talking about, it's going to spill over, but it still is a huge, huge market.

Anil Doradla - *William & Blair - Analyst*

Okay, great. And on the license audit, can you guys give a little bit more color? What kind of software was this and why did this happen? What was the genesis for this audit? A little bit more color?

Aric Spitulnik - *TESSCO - Chief Financial Officer*

Yeah, we can't get into exactly what it was, but it's one of the major players in software. There is a few things that it involved, above half of which had to do with running the software on what's called a virtual machine. And there is a bit of a gray area with the licensing. We really didn't feel like it was appropriate for them to be charging us for that, but they saw it in a different way. We negotiated that down as best as we could and decided in the long run it was better to work to an equitable settlement and move on, as opposed to trying to litigate that and have it be a major distraction from the next several months. So that was about half of it, the other half is just some licensing that - while unintentional - was not quite where it needed to be in accordance with some of the agreements that we've signed over many, many years. This is pretty complicated stuff. It goes back to probably about 15, 20 years now, where we had the initial contract signed with this provider.



Anil Doradla - *William & Blair - Analyst*

So, Aric, this was a software that was being used at TESSCO's IT systems or software which you were reselling to your customers?

Aric Spitulnik - *TESSCO - Chief Financial Officer*

No, no. This is all internal.

Robert Barnhill - *TESSCO - Chairman and Chief Executive Officer*

It's all database.

Anil Doradla - *William & Blair - Analyst*

Okay. Alright. And Bob, coming to the new CEO, what is the state of affairs there, have you shortlisted candidates? How far are you into this process and potentially, are we talking in the next six months, next nine months to get a new person?

Robert Barnhill - *TESSCO - Chairman and Chief Executive Officer*

Well, right now it that we've got a really good pipeline of candidates. I've got another interview tomorrow. Just some great people. Again, what I said earlier is that we really want to find a builder. Somebody that has had the experience of building success, building a rapid growth coming with a very strong marketing and sales background that generally take us to the next level. And as I said, I'm not going anywhere and am going to operate as the CEO, bring the new person in, get him established. I'll be his wing man, in terms of making sure and maybe be their Chief Transformation Officer and making sure that we get these things done that we have been talking about. But, I think, at 72 years, I think it makes a lot of sense what we're doing in terms of succession. But at the same time we've got to make sure that we regain our growth that we all expect.

Anil Doradla - *William & Blair - Analyst*

Very good, congrats. And Bob, who said that you're 72? You're a young man of 36. So forget that.

Robert Barnhill - *TESSCO - Chairman and Chief Executive Officer*

Absolutely, that's correct.

Anil Doradla - *William & Blair - Analyst*

Thank you.

Robert Barnhill - *TESSCO - Chairman and Chief Executive Officer*

Thanks, Anil.

Operator

Thank you. [Operator Instructions] And I'm seeing no other questioners in the queue at this time. So, I'd like to turn the call back over to management for closing remarks.



Robert Barnhill - TESSCO - Chairman and Chief Executive Officer

Thank you, thank you all for being here. Just to close, just to reiterate, we are accelerating our transformations to drive our evolution which we're in, from a wireless carrier transaction centric supplier to the consultative end-to-end solution provider that enables the deployment of wireless. All of us at TESSCO are energized and accountable to make the right things happen to achieve the level of success and growth of shareowner value that we all expect.

Thank you for your support. And we look forward to realizing our opportunities in the days and months to come, and look forward to a totally different tone in the next quarter. So again, thank you.

Operator

Ladies and gentlemen, thank you again for your participation in today's conference call. This now concludes the program, and you may all disconnect yourself from the line at this time. Everyone have a great day.

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