

TESSCO TECHNOLOGIES INC
Form 10-Q
February 10, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 27, 2009

or

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

For the transition period from to

Commission File Number: 0-24746

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)

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

(410) 229-1000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

Table of Contents

TESSCO TECHNOLOGIES INCORPORATED

Index to Form 10-Q

Part I **FINANCIAL INFORMATION**

| | |
|----------------|---|
| <u>Item 1.</u> | <u>Financial Statements.</u> |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u> |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosure About Market Risk.</u> |
| <u>Item 4.</u> | <u>Controls and Procedures.</u> |

Part II **OTHER INFORMATION**

| | |
|-------------------|---|
| <u>Item 1.</u> | <u>Legal Proceedings.</u> |
| <u>Item 1A.</u> | <u>Risk Factors.</u> |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u> |
| <u>Item 3.</u> | <u>Defaults Upon Senior Securities.</u> |
| <u>Item 4.</u> | <u>Submission of Matters to a Vote of Security Holders.</u> |
| <u>Item 5.</u> | <u>Other Information.</u> |
| <u>Item 6.</u> | <u>Exhibits.</u> |
| <u>Signatures</u> | |

Table of Contents**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 |

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

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

See accompanying notes.

Table of Contents**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.

Table of Contents**TESSCO TECHNOLOGIES INCORPORATED****Unaudited Consolidated Statements of Cash Flows**

| | Nine Months Ended | |
|--|----------------------|----------------------|
| | December 27, 2009 | 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.

Table of Contents

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

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

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.

Table of Contents

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

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

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.

Table of Contents

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

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

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,

Table of Contents

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

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

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.

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

Table of Contents

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, except 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 |

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

| | | | | | | | | |
|--|---------|---------|---------|---------|---------|--|--|--|
| 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

Table of Contents

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.

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

Table of Contents

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 |
|--|---------------------------|-----------------------------------|---------------------------------------|------------|
| <u>Fiscal Quarter ended December 27, 2009</u> | | | | |
| 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 |
| <u>Fiscal Quarter ended December 28, 2008</u> | | | | |
| 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 | | | | 2,185 |
| Provision for income taxes | | | | 944 |
| Net income | | | | \$ 1,241 |

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

| | | | | | | | | |
|-------------------|----|--------|----|--------|----|-------|----|--------|
| Product inventory | \$ | 24,048 | \$ | 23,433 | \$ | 4,182 | \$ | 51,663 |
|-------------------|----|--------|----|--------|----|-------|----|--------|

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

Table of Contents

Segment activity for the first nine months of fiscal years 2010 and 2009 is as follows:

| (Amounts in thousands) | Network Infrastructure | Mobile Devices and Accessories | Installation, Test and Maintenance | Total |
|---|---------------------------|-----------------------------------|---------------------------------------|------------|
| <u>Nine Months ended December 27, 2009</u> | | | | |
| Commercial revenues: | | | | |
| Public carriers and network operators | \$ 38,261 | \$ 1,571 | \$ 7,902 | \$ 47,734 |
| Resellers | 54,684 | 188,625 | 5,520 | 248,829 |
| SMUs and governments | 42,984 | 10,347 | 30,820 | 84,151 |
| Total commercial revenues | 135,929 | 200,543 | 44,242 | 380,714 |
| Consumer revenues | | 10,762 | | 10,762 |
| Total revenues | \$ 135,929 | \$ 211,305 | \$ 44,242 | \$ 391,476 |
| Commercial gross profit: | | | | |
| Public carriers and network operators | \$ 9,224 | \$ 406 | \$ 1,934 | \$ 11,564 |
| Resellers | 15,054 | 40,912 | 1,304 | 57,270 |
| SMUs and governments | 11,704 | 3,060 | 6,475 | 21,239 |
| Total commercial gross profit | 35,982 | 44,378 | 9,713 | 90,073 |
| Consumer gross profit | | 3,344 | | 3,344 |
| Total gross profit | \$ 35,982 | \$ 47,722 | \$ 9,713 | \$ 93,417 |
| Selling, general and administrative expenses | | | | 81,023 |
| Income from operations | | | | 12,394 |
| Interest expense, net | | | | 276 |
| Income before provision for income taxes | | | | 12,118 |
| Provision for income taxes | | | | 4,706 |
| Net income | | | | \$ 7,412 |
| Product inventory | \$ 23,636 | \$ 30,693 | \$ 4,503 | \$ 58,832 |
| <u>Nine Months ended December 28, 2008</u> | | | | |
| Commercial revenues: | | | | |
| Public carriers and network operators | \$ 35,545 | \$ 1,655 | \$ 10,133 | \$ 47,333 |
| Resellers | 57,072 | 165,185 | 7,228 | 229,485 |
| SMUs and governments | 41,563 | 11,276 | 46,677 | 99,516 |
| Total commercial revenues | 134,180 | 178,116 | 64,038 | 376,334 |
| Consumer revenues | | 8,451 | | 8,451 |
| Total revenues | \$ 134,180 | \$ 186,567 | \$ 64,038 | \$ 384,785 |
| Commercial gross profit: | | | | |
| Public carriers and network operators | \$ 9,124 | \$ 468 | \$ 2,311 | \$ 11,903 |
| Resellers | 15,652 | 37,059 | 1,888 | 54,599 |
| SMUs and governments | 11,303 | 3,556 | 10,250 | 25,109 |
| Total commercial gross profit | 36,079 | 41,083 | 14,449 | 91,611 |
| Consumer gross profit | | 2,890 | | 2,890 |
| Total gross profit | \$ 36,079 | \$ 43,973 | \$ 14,449 | \$ 94,501 |
| Selling, general and administrative expenses | | | | 84,661 |
| Income from operations | | | | 9,840 |
| Interest expense, net | | | | 516 |
| Income before provision for income taxes | | | | 9,324 |
| Provision for income taxes | | | | 3,781 |
| Net income | | | | \$ 5,543 |

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

| | | | | | | | | |
|-------------------|----|--------|----|--------|----|-------|----|--------|
| Product inventory | \$ | 24,048 | \$ | 23,433 | \$ | 4,182 | \$ | 51,663 |
|-------------------|----|--------|----|--------|----|-------|----|--------|

Table of Contents**Note 8. Comprehensive Income**

The components of total comprehensive income were as follows:

| | Fiscal Quarter Ended | | Nine Months Ended | |
|---|----------------------|----------------------|----------------------|----------------------|
| | December 27, 2009 | December 28, 2008 | December 27, 2009 | December 28, 2008 |
| Net income | \$ 2,907,200 | \$ 1,241,400 | \$ 7,411,800 | \$ 5,542,800 |
| Change in value of interest rate swap, net of tax | 12,200 | (101,700) | 33,000 | (41,600) |
| Total comprehensive income | \$ 2,919,400 | \$ 1,139,700 | \$ 7,444,800 | \$ 5,501,200 |

Note 9. Borrowings Under Revolving Credit Facility and Long-Term Debt

On March 31, 2009, the Company entered into a term loan with the Baltimore County Economic Development Revolving Loan Fund for an aggregate principal amount of \$250,000. The term loan is payable in equal monthly installments of principal and interest of \$2,300, with the balance due at maturity on April 1, 2019. The term loan bears interest at 2.00% per annum and is secured by a subordinate position on Company-owned real property located in Hunt Valley, Maryland.

In addition, on July 23, 2009, the Company and its primary operating subsidiaries, as borrowers, executed and delivered a Third Modification Agreement (the Third Modification Agreement), dated as of July 22, 2009, with SunTrust Bank and Wachovia Bank, National Association, amending the Credit Agreement and related promissory note for the Company's existing unsecured revolving credit facility.

Pursuant to and in connection with the Third Modification Agreement, the maximum available principal amount under the unsecured revolving credit facility was reduced to \$35 million from \$50 million, and the term of the revolving credit facility, as so modified, was extended to May 31, 2012. The Third Modification Agreement also provides for the modification of certain financial covenants applicable to the borrowers on a going forward basis, including the tangible net worth and maximum funded debt to EBITDA covenants. In addition, the amount of allowable dividend payments under the Credit Facility was increased from \$2.0 million to \$2.5 million in any 12 month period, assuming continued compliance with the otherwise applicable terms.

Pursuant to the relevant documents, the financial covenants included in the Credit Agreement for the unsecured revolving credit facility are also applicable to the Company's existing Term Loan with the same lenders, having an original principal amount of \$5.5 million. Accordingly, the Third Modification Agreement also had the effect of amending the financial covenants applicable to the Term Loan.

The Company is also party to an existing note payable outstanding to the Maryland Economic Development Corporation, which is payable in equal quarterly installments of principal and interest of \$37,400, with the balance due at maturity on October 10, 2011. The note bears interest at 3.00% per annum and is secured by a subordinate position on Company-owned real property location in Hunt Valley, Maryland.

Note 10. Stock Buyback

On April 28, 2003, the Company's Board of Directors approved a stock buyback program. As of December 27, 2009, the Board of Directors had authorized the purchase of up to 2,395,567 shares of outstanding common stock under the stock buyback program. Shares may be purchased from time to time in the open market, by block purchase, or through negotiated transactions, or possibly other transactions managed by broker-dealers. No time limit has been set for completion or expiration of the program. As of December 27, 2009, the Company had purchased 2,335,258 shares under the stock buyback program for approximately \$30.7 million, or an average of \$13.14 per share. Of the total shares repurchased under the stock buyback program, 24,130 shares were repurchased in the first nine months of fiscal year 2010 for approximately \$0.4 million. As of December 27, 2009, 60,309 shares remained available for repurchase under this program.

Table of Contents

In addition to the shares repurchased in the stock buyback program discussed immediately above, on July 1, 2008 the Company repurchased all 470,000 shares of its common stock held by Brightpoint, Inc. (Brightpoint) in a privately negotiated transaction. Pursuant to an agreement entered into between the Company and Brightpoint, the Company purchased Brightpoint's share holdings, comprising approximately 9% of the Company's total then outstanding common stock, for \$13.64 per share, or a total of \$6,410,800. The price per share was determined based on the seven trading day trailing average closing price of the Company's common stock on the NASDAQ Global Market determined as of the close of trading on June 30, 2008. The purchase price per share approximated the price of the Company's common stock on the transaction date. The purchase was funded through available cash and borrowings under the Company's unsecured revolving line of credit facility. This transaction was not made under, nor does it affect the number of shares available for repurchase under, the Company's stock buyback program discussed above.

The Company also withholds shares from its employees and directors, at their request, equal to the minimum federal and state tax withholdings related to vested performance stock units, stock option exercises and restricted stock awards. For the nine months ended December 27, 2009 and December 28, 2008 the allocated value of the shares withheld totaled \$126,500 and \$230,200, respectively.

Note 11. Customer Concentration

The Company's future results could be negatively impacted by the loss of certain customer and/or vendor relationships. For the fiscal quarter and nine months ended December 27, 2009, sales of products to the Company's top customer relationship, AT&T Mobility, accounted for 34% and 29% of total revenues, respectively. For the fiscal quarter and nine months ended December 28, 2008, sales of products to the Company's top customer relationship, AT&T Mobility, accounted for 20% and 23% of total revenues, respectively.

Note 12. Subsequent Events

The Company has evaluated all subsequent events from the fiscal quarter ended December 27, 2009 through February 10, 2010, the date the financial statements were issued.

On January 13, 2010, the Company declared a quarterly cash dividend of ten cents (\$0.10) per share of common stock, par value \$0.01 per share, of the Company, payable on March 1, 2010, to shareholders of record as of February 15, 2010. 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.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This commentary should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations from the Company's Annual Report on Form 10-K for the fiscal year ended March 29, 2009.

Business Overview and Environment

TESSCO Technologies Incorporated (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. Although we sell products to customers in many countries, approximately 97% of our sales are made to customers in the United States. We have operations and office facilities in Hunt Valley, Maryland, Reno, Nevada and San Antonio, Texas.

Our third quarter revenues increased by 25.9% compared to the third quarter of last year. This increase was driven by growth in our network infrastructure and mobile devices and accessories commercial lines of business, partially offset by a decline in our installation, test and maintenance commercial line of business. Gross profits also increased in our network infrastructure and mobile devices and accessories commercial lines of business, and were partially offset by a decline in our installation, test and maintenance commercial line of business. This overall increase in gross profit, offset slightly by a modest increase in operating expenses to support our growth initiatives and increased order volume, resulted in a 134.2% increase in net income and a 124.0% increase in diluted earnings per share over the prior-year quarter.

The current global financial crisis which has included, among other things, significant reductions in available capital and liquidity from banks and other providers of credit, substantial reductions and/or fluctuations in equity and currency values worldwide, significant decreases in consumer confidence and consumer and business spending, rising unemployment and concerns that the worldwide economy may experience a prolonged recessionary period may materially adversely affect our customers' access to capital or willingness to spend capital on our products, and/or their levels of cash liquidity with which to pay for our products. Our strong third quarter performance led to a slight growth in the average number of monthly buying customers and in the average dollars purchased for each buying customer for the first nine months of fiscal year 2010 as compared to the same period of fiscal year 2009. Accordingly, we believe that the economy is beginning to show signs of improvement, but we still believe that our customers are continuing to experience difficulty in the current economic environment. In addition, the current global financial crisis may materially adversely affect our suppliers' access to capital and liquidity, which may in turn adversely impact their ability to maintain inventories, production levels, and/or product quality, or cause them to raise prices or lower production levels, or result in their ceasing operation. The impact of the crisis on our liquidity is further discussed below under the heading Liquidity and Capital Resources.

Nokia, Inc. (Nokia) has recently notified us of their intent to terminate our repair and replacement parts arrangement effective July 31, 2010 upon payment to us of a small early termination fee. Accordingly, revenues and gross profits from this relationship will cease on that date. In January 2009, we had extended our relationship with Nokia. As part of this extension, Nokia has played a larger, and we a smaller, role in servicing a group of larger customers. We have continued to earn fees from Nokia to fulfill product, but as a result of our reduced role in these transactions, we receive a smaller fee and account for these sales on a net basis. Because of the evolution of our relationship with Nokia, it has become less material to our consolidated financial statements. During the third quarter and first nine months of fiscal year 2010, sales of Nokia product pursuant to this relationship accounted for approximately 3% and 4% of total sales, respectively.

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

The wireless communications distribution industry is competitive and fragmented, and is comprised of several national distributors. In addition, many manufacturers sell direct. Barriers to entry for distributors are relatively low, particularly in the mobile devices and accessories market, and the risk of new competitors entering the market is high. Consolidation of larger wireless carriers has and will most likely continue to impact our current and potential customer base. In addition, the agreements or arrangements with our customers or vendors 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, and our large customer base and purchasing relationships with approximately 360 manufacturers, provide us with a significant competitive advantage over new entrants to the market.

Table of Contents**Results of Operations**

The following table summarizes the unaudited results of our operations for the fiscal quarter and nine months ended December 27, 2009 and December 28, 2008:

| (Amounts in thousands, except per share data) | Fiscal Quarters Ended | | | | Nine Months Ended | | | |
|---|-----------------------|----------------------|--------------|-------------|----------------------|----------------------|--------------|-------------|
| | December 27, 2009 | December 28, 2008 | \$ Change | % Change | December 27, 2009 | December 28, 2008 | \$ Change | % Change |
| Commercial revenues | | | | | | | | |
| Network infrastructure: | | | | | | | | |
| Public carriers and network operators | | | | | | | | |
| | \$ 13,710 | \$ 11,340 | \$ 2,370 | 20.9% | \$ 38,261 | \$ 35,545 | \$ 2,716 | 7.6% |
| Resellers | 18,297 | 17,981 | 316 | 1.8% | 54,684 | 57,072 | (2,388) | (4.2)% |
| SMUs and governments | 17,073 | 14,300 | 2,773 | 19.4% | 42,984 | 41,563 | 1,421 | 3.4% |
| Total network infrastructure | 49,080 | 43,621 | 5,459 | 12.5% | 135,929 | 134,180 | 1,749 | 1.3% |
| Mobile devices and accessories: | | | | | | | | |
| Public carriers and network operators | | | | | | | | |
| | 566 | 535 | 31 | 5.8% | 1,571 | 1,655 | (84) | (5.1)% |
| Resellers | 78,294 | 48,432 | 29,862 | 61.7% | 188,625 | 165,185 | 23,440 | 14.2% |
| SMUs and governments | 3,624 | 3,747 | (123) | (3.3)% | 10,347 | 11,276 | (929) | (8.2)% |
| Total mobile devices and accessories | 82,484 | 52,714 | 29,770 | 56.5% | 200,543 | 178,116 | 22,427 | 12.6% |
| Installation, test and maintenance: | | | | | | | | |
| Public carriers and network operators | | | | | | | | |
| | 2,884 | 3,073 | (189) | (6.2)% | 7,902 | 10,133 | (2,231) | (22.0)% |
| Resellers | 1,694 | 2,491 | (797) | (32.0)% | 5,520 | 7,228 | (1,708) | (23.6)% |
| SMUs and governments | 10,001 | 14,389 | (4,388) | (30.5)% | 30,820 | 46,677 | (15,857) | (34.0)% |
| Total installation, test and maintenance | 14,579 | 19,953 | (5,374) | (26.9)% | 44,242 | 64,038 | (19,796) | (30.9)% |
| Total commercial revenues | 146,143 | 116,288 | 29,855 | 25.7% | 380,714 | 376,334 | 4,380 | 1.2% |
| Consumer revenues - mobile devices and accessories | | | | | | | | |
| | 3,578 | 2,655 | 923 | 34.8% | 10,762 | 8,451 | 2,311 | 27.3% |
| Total revenues | \$ 149,721 | \$ 118,943 | \$ 30,778 | 25.9% | \$ 391,476 | \$ 384,785 | \$ 6,691 | 1.7% |
| Commercial gross profit | | | | | | | | |
| Network infrastructure: | | | | | | | | |
| Public carriers and network operators | | | | | | | | |
| | \$ 3,151 | \$ 2,814 | \$ 337 | 12.0% | \$ 9,224 | \$ 9,124 | \$ 100 | 1.1% |
| Resellers | 4,733 | 4,906 | (173) | (3.5)% | 15,054 | 15,652 | (598) | (3.8)% |
| SMUs and governments | 4,356 | 3,736 | 620 | 16.6% | 11,704 | 11,303 | 401 | 3.5% |
| Total network infrastructure | 12,240 | 11,456 | 784 | 6.8% | 35,982 | 36,079 | (97) | (0.3)% |
| Mobile devices and accessories: | | | | | | | | |
| Public carriers and network operators | | | | | | | | |
| | 142 | 139 | 3 | 2.2% | 406 | 468 | (62) | (13.2)% |
| Resellers | 15,185 | 10,973 | 4,212 | 38.4% | 40,912 | 37,059 | 3,853 | 10.4% |
| SMUs and governments | 1,024 | 1,076 | (52) | (4.8)% | 3,060 | 3,556 | (496) | (13.9)% |
| Total mobile devices and accessories | 16,351 | 12,188 | 4,163 | 34.2% | 44,378 | 41,083 | 3,295 | 8.0% |
| Installation, test and maintenance: | | | | | | | | |
| Public carriers and network operators | | | | | | | | |
| | 675 | 687 | (12) | (1.7)% | 1,934 | 2,311 | (377) | (16.3)% |
| Resellers | 385 | 656 | (271) | (41.3)% | 1,304 | 1,888 | (584) | (30.9)% |

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

| | | | | | | | | |
|--|----------|----------|----------|---------|----------|----------|----------|---------|
| SMUs and governments | 1,882 | 3,427 | (1,545) | (45.1)% | 6,475 | 10,250 | (3,775) | (36.8)% |
| Total installation, test and maintenance | 2,942 | 4,770 | (1,828) | (38.3)% | 9,713 | 14,449 | (4,736) | (32.8)% |
| Total commercial gross profit | 31,533 | 28,414 | 3,119 | 11.0% | 90,073 | 91,611 | (1,538) | (1.7)% |
| Consumer gross profit - mobile devices and accessories | 1,255 | 853 | 402 | 47.1% | 3,344 | 2,890 | 454 | 15.7% |
| Total gross profit | 32,788 | 29,267 | 3,521 | 12.0% | 93,417 | 94,501 | (1,084) | (1.1)% |
| Selling, general and administrative expenses | 27,939 | 26,868 | 1,071 | 4.0% | 81,023 | 84,661 | (3,638) | (4.3)% |
| Income from operations | 4,849 | 2,399 | 2,450 | 102.1% | 12,394 | 9,840 | 2,554 | 26.0% |
| Interest expense, net | 91 | 214 | (123) | (57.5)% | 276 | 516 | (240) | (46.5)% |
| Income before provision for income taxes | 4,758 | 2,185 | 2,573 | 117.8% | 12,118 | 9,324 | 2,794 | 30.0% |
| Provision for income taxes | 1,851 | 944 | 907 | 96.1% | 4,706 | 3,781 | 925 | 24.5% |
| Net income | \$ 2,907 | \$ 1,241 | \$ 1,666 | 134.2% | \$ 7,412 | \$ 5,543 | \$ 1,869 | 33.7% |
| Diluted earnings per share(1) | \$ 0.56 | \$ 0.25 | \$ 0.31 | 124.0% | \$ 1.45 | \$ 1.06 | \$ 0.39 | 36.8% |

(1) Effective March 30, 2009, we retrospectively adopted the FASB standard addressing accounting for participating securities under the two-class method. See Note 3 to the unaudited consolidated financial statements for a discussion of the impact of the change in accounting standards.

Table of Contents

Third Quarter of Fiscal Year 2010 Compared with Third Quarter of Fiscal Year 2009

Revenues. Revenues for the third quarter of fiscal year 2010 increased 25.9% as compared with the third quarter of fiscal year 2009, primarily due to a 25.7% increase in commercial revenues, and to a much lesser extent, a 34.8% increase in consumer revenues. Sales increased in our network infrastructure and mobile devices and accessories lines of business, but were partially offset by decreased sales in our installation, test and maintenance line of business.

Network infrastructure sales increased 12.5% as compared with the third quarter of fiscal year 2009, as a result of higher sales of broadband products across all of our market categories. Sales of radio frequency propagation and site support products increased to public carriers and network operators and self-maintained users, partially offset by decreased sales to resellers.

Sales in the mobile devices and accessories line of business increased 55.4% in the third quarter of fiscal year 2010, as compared with the same period last year. The increase was due to a 56.5% increase in commercial sales, and to a much lesser extent, a 34.8% increase in consumer sales. The increase in commercial revenues for mobile devices and accessories, which are sold primarily to resellers, was primarily due to increased sales to a large national tier-one carrier, AT&T Mobility, as well as smaller resellers and users. Sales of mobile devices and accessories to SMUs and governments decreased, but were partially offset by increased sales to public carriers and network operators.

Revenues from our installation, test and maintenance line of business decreased 26.9% from the corresponding prior-year quarter, primarily due to a decline in sales of repair parts related to our major repair components relationship with Nokia. Sales of test equipment products decreased to public carriers and network operators and resellers, but were partially offset by increased sales to self-maintained users. Sales of tools and supply products decreased to resellers and self-maintained users, but were partially offset by increased sales to public carriers and network operators. As previously discussed, as a result of the evolution of our relationship with Nokia, sales of Nokia product pursuant to this relationship have become less material to our consolidated financial statements. Nokia has recently notified us of their intent to terminate our arrangement effective July 31, 2010, upon payment to us of a small early termination fee. Accordingly, revenues and gross profits from this relationship will cease on that date.

Gross Profit. Gross profit for the third quarter of fiscal year 2010 increased 12.0% as compared with the third quarter of fiscal year 2009. Total commercial gross profit increased 11.0%, while consumer gross profit increased 47.1%. Gross profit margin decreased to 21.9% in the third quarter of fiscal year 2010 as compared to 24.6% the third quarter of fiscal year 2009. Gross profit margin in our network infrastructure segment decreased from 26.3% in the third quarter of fiscal year 2009 to 24.9% in the third quarter of fiscal year 2010. This decrease in gross profit margin was a result of changes in product mix as discussed above. Gross profit margin in our mobile devices and accessories segment decreased to 20.5% in the third quarter of this fiscal year from 23.6% in the third quarter of last fiscal year. This decrease was primarily attributable to the commercial gross profit margin for our mobile devices and accessories, which decreased to 19.8% in the third quarter of fiscal year 2010 from 23.1% for the third quarter of fiscal year 2009, principally due to product mix and a significant increase in sales to a large tier-one carrier, AT&T Mobility. Consumer gross profit margin for our mobile devices and accessories increased to 35.1% in the third quarter of this fiscal year from 32.1% for the third quarter of last fiscal year. Gross profit margin in our installation, test and maintenance line of business decreased from 23.9% in the third quarter of fiscal year 2009 to 20.2% in the third quarter of fiscal year 2010. Generally, our gross margins by product within these segments have been sustained, except as noted above, and these variations are related to sales mix within the segment product offerings. We account for inventory at the lower of cost or market, and as a result, write-offs/write-downs occur due to damage, deterioration, obsolescence, changes in prices and other causes.

Edgar Filing: TESCO TECHNOLOGIES INC - Form 10-Q

Our ongoing ability to earn revenues and gross profits from customers and vendors 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 vendor's business, the supply and demand for the product or service, including price stability, changing customer or vendor requirements, and our ability to support the customer or vendor and to continually demonstrate that we can improve the way they do business. In addition, the agreements or arrangements on which our customer and vendor relationships are based are typically of limited duration, and are terminable by either party upon several months or otherwise relatively short notice. Our customer relationships could also be affected by wireless carrier consolidation or the global financial crisis.

Table of Contents

As total revenues and gross profits from larger customer and vendor relationships, including AT&T Mobility, increase, we occasionally experience and expect to continue to experience pricing pressures that may adversely affect future results. In an effort to mitigate the overall effect of these pressures and to meet these consistent challenges, we are focused on our continuing efforts to grow revenues and gross profits from other customer and vendor relationships.

Selling, General and Administrative Expenses. Total selling, general and administrative expenses increased by 4.0% in the third quarter of fiscal year 2010 as compared with the third quarter of fiscal year 2009. Selling, general and administrative expenses as a percentage of revenues decreased to 18.7% in the third quarter of fiscal year 2010 from 22.6% in the third quarter of fiscal year 2009. The largest factors contributing to the increase in total selling, general and administrative expenses were increased compensation and marketing and sales promotion expenses, partially offset by decreased corporate support expenses during the third quarter of fiscal year 2010.

Compensation costs primarily increased due to higher quarterly and annual bonus expenses related to our cash and equity bonus programs as compared to last year's third quarter. During last year's third quarter, we began to be impacted by the downturn in the global economy, resulting in lower quarterly and annual bonus expense. Total compensation costs, including benefits and bonus expense, increased approximately \$2.2 million, or 14.9%, in the third quarter of fiscal year 2010 as compared to the third quarter of fiscal year 2009.

Marketing and sales promotion expenses increased by approximately \$347,000, or 15.6%, in the third quarter of fiscal year 2010 as compared with the third quarter of fiscal year 2009, primarily due to increased market development fund expense associated with our retail business, partially offset by decreased expenses incurred for trade shows, travel and entertainment.

Corporate support expenses decreased by approximately \$1.2 million, or 42.8%, primarily due to lower bad debt expenses in the third quarter of fiscal year 2010 as compared to the third quarter of fiscal year 2009, as discussed below. Professional fees and product development expenses also decreased from the third quarter of fiscal year 2009.

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 \$110,900 and \$756,800 for the third quarter ended December 27, 2009 and December 28, 2008, respectively. During the third quarter of fiscal year 2010, we experienced lower than normal bad debt expense in part to recoveries of amounts previously reserved or written off and lower reserves anticipated due to our current assessment of our customers' ability to pay their open balances. During last year's third quarter, bad expense was higher than normal due to additional reserves needed largely related to the downturn in the economy.

Interest Expense, Net. Net interest expense decreased from \$213,700 in the third quarter of fiscal year 2009 to \$90,600 in the third quarter of fiscal year 2010, primarily due to decreased average borrowings on our revolving line of credit facility.

Income Taxes, Net Income and Diluted Earnings per Share. The effective tax rate in the third quarter of fiscal year 2010 was 38.9% as compared with 43.2% in the third quarter of fiscal year 2009. The decrease in the tax rate is primarily attributable to changes in the relationship between non-deductible expenses and taxable income. These changes were primarily the result of lower projected annual taxable income in the third quarter of the prior year. As a result of the factors discussed above, net income for the third quarter of fiscal year 2010 increased 134.2%

and diluted earnings per share increased 124.0% compared to the corresponding prior-year quarter.

First Nine Months of Fiscal Year 2010 Compared with First Nine Months of Fiscal Year 2009

Revenues. Revenues for the first nine months of fiscal year 2010 increased 1.7% as compared with the first nine months of fiscal year 2009, primarily due to a 1.2% increase in commercial revenues, and to a much lesser extent, a 27.3% increase in consumer revenues. Sales increased in our network infrastructure and mobile devices and accessories commercial lines of business, but were partially offset by decreased sales in our installation, test and maintenance commercial line of business.

Table of Contents

Sales in the network infrastructure line of business increased 1.3% in the first nine months of fiscal year 2010, as compared with the prior-year period. The increase was primarily the result of higher sales of broadband products across all of our market categories. Sales of radio frequency propagation and site support products decreased in our resellers market, partially offset by higher sales to public carriers and network operators and SMUs and governments. Our overall increase in sales of network infrastructure products was in sales to public carriers and network operators and SMUs and governments, partially offset by a decrease in sales to resellers.

Mobile devices and accessories sales increased as compared with the first nine months of fiscal year 2009, primarily due to a 12.6% increase in commercial sales, and to a much lesser extent, a 27.3% increase in consumer sales. Sales in the commercial mobile devices and accessories line of business increased in our resellers market, but were partially offset by decreased sales in our public carriers and network operators and SMUs and governments markets.

Revenues from our installation, test and maintenance line of business had a 30.9% decrease from the prior year, primarily due to a decline in sales of repair parts related to our major repair components relationship with Nokia, as well as decreased sales of test equipment, tools and supply products across all of our market categories. As previously discussed, as a result of the evolution of our relationship with Nokia, sales of Nokia product pursuant to this relationship have become less material to our consolidated financial statements. Nokia has recently notified us of their intent to terminate our arrangement effective July 31, 2010, upon payment to us of a small early termination fee. Accordingly, revenues and gross profits from this relationship will cease on that date.

Gross Profit. Gross profit for the first nine months of fiscal year 2010 decreased 1.1% as compared with the first nine months of fiscal year 2009. Total commercial gross profit decreased 1.7%, while consumer gross profit increased 15.7% over the prior year. Gross profit margin decreased to 23.9% in the first nine months of fiscal year 2010 from 24.6% in the first nine months of fiscal year 2009. Gross profit margin in our network infrastructure segment decreased from 26.9% in the first nine months of fiscal year 2009 to 26.5% in the first nine months of 2010. Gross profit margin in our mobile devices and accessories segment decreased to 22.6% in the first nine months of this fiscal year from 23.6% in the first nine months of last fiscal year primarily due to product mix and an increase in sales to a large tier-one carrier, AT&T Mobility. Commercial gross profit margin for our mobile devices and accessories decreased to 22.1% in the first nine months of this fiscal year from 23.1% for the first nine months of last fiscal year. Consumer gross profit margin for our mobile devices and accessories decreased to 31.1% in the first nine months of this fiscal year from 34.2% for the first nine months of last fiscal year. In our installation, test and maintenance segment, gross profit margin decreased to 22.0% in the first nine months of fiscal year 2010 from 22.6% in the first nine months of fiscal year 2009. Generally, our gross margins by product within these segments have been sustained, except as noted above, and these variations are related to sales mix within the segment product offerings. We account for inventory at the lower of cost or market, and as a result, write-offs/write-downs occur due to damage, deterioration, obsolescence, changes in prices and other causes.

Selling, General and Administrative Expenses. Total selling, general and administrative expenses decreased by 4.3% in the first nine months of fiscal year 2010 as compared with the first nine months of fiscal year 2009. Selling, general and administrative expenses as a percentage of revenues decreased to 20.7% in the first nine months of fiscal year 2010 from 22.0% in the first nine months of fiscal year 2009. The largest factors contributing to the decrease in total selling, general and administrative expenses were decreased freight out, marketing and sales promotion and corporate support expenses during the first nine months of fiscal year 2010.

Freight expense decreased by approximately \$1.5 million, or 14.0%, due to increased efficiencies in our distribution operations and reduced rates in the first nine months of fiscal year 2010 as compared to the first nine months of fiscal year 2009.

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

Marketing and sales promotion expenses decreased by approximately \$287,600, or 4.0%, in the first nine months of fiscal year 2010 as compared with the first nine months of fiscal year 2009, primarily due to decreased racks and graphics expense associated with our retail business, decreased print and online advertising as well as decreased expenses incurred for travel and entertainment.

Corporate support expenses decreased approximately \$1.4 million, or 20.1%, over the first nine months of the prior year, primarily due to lower recruiting, professional fees and bad debt expenses as well as lower estimated sales tax audit exposure, partially offset by increased consulting services expenses. The decrease in bad debt expense is discussed in more detail below.

Table of Contents

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 \$966,800 and \$1,250,100 for first nine months of fiscal year 2010 and fiscal year 2009, respectively. During the first nine months of fiscal year 2010, we experienced lower than normal bad debt expense in part to recoveries of amounts previously reserved or written off and lower reserves anticipated due to our current assessment of our customers' ability to pay their open balances. During the first nine months of fiscal year 2009, bad expense was higher than normal due to additional reserves needed largely related to the downturn in the economy.

Interest Expense, Net. Net interest expense decreased from \$516,400 in the first nine months of fiscal year 2009 to \$276,200 in the first nine months of fiscal year 2010, primarily due to decreased average borrowings on our revolving line of credit facility.

Income Taxes, Net Income and Diluted Earnings per Share. The effective tax rate in the first nine months of fiscal year 2010 was 38.8% as compared with 40.6% in the first nine months of fiscal year 2009. The decrease in the tax rate is primarily attributable to changes in the relationship between non-deductible expenses and taxable income as well as changes in our state tax effective rate. As a result of the factors discussed above, net income and diluted earnings per share for the first nine months of fiscal year 2010 increased 33.7% and 36.8%, respectively, compared to the prior year.

Liquidity and Capital Resources

| | Nine Months Ended | |
|--|----------------------|----------------------|
| | December 27, 2009 | December 28, 2008 |
| Cash flows provided by operating activities | \$ 11,422,000 | \$ 8,540,500 |
| Cash flows used in investing activities | (4,700,400) | (3,580,100) |
| Cash flows used in financing activities | (1,811,000) | (5,613,400) |
| Net increase (decrease) in cash and cash equivalents | \$ 4,910,600 | \$ (653,000) |

We generated \$11.4 million of net cash from operating activities in the first nine months of fiscal year 2010 compared with \$8.5 million in the first nine months of fiscal year 2009. In the first nine months of fiscal year 2010, our cash inflow from operating activities was primarily driven by net income, net of depreciation and amortization and non-cash stock compensation expense, as well as by a significant increase in accounts payable, partially offset by an increase in trade accounts receivable and an increase in product inventory. The increase in accounts payable is largely due to the timing and credit terms of inventory receipts. The increase in trade accounts receivable is primarily due to the timing of sales and collections largely related to our large tier-one carrier. The increased inventory levels are to improve our inventory availability for our customers.

Capital expenditures of \$2.3 million in the first nine months of fiscal year 2010 were down from expenditures of \$2.5 million in the first nine months of fiscal year 2009. In both periods, capital expenditures primarily consisted of investments in information technology.

On April 21, 2006, we acquired substantially all the non-cash net assets of TerraWave Solutions, Ltd. and its commonly owned affiliate, GigaWave Technologies, Ltd. for an initial cash payment of approximately \$3.9 million, and potential additional cash earn-out payment

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

obligations of up to \$15.5 million accruing over a four-year period, contingent on the achievement by the TerraWave/GigaWave business unit post acquisition of certain minimum earnings thresholds. Of the \$3.9 million cash amount paid at closing, \$1.5 million was a non-refundable prepayment against future earn-out obligations, amortizable over the four-year period. To the extent that the minimum earnings thresholds are not achieved over the remainder of the four-year period, we will not be able to apply the remainder of this prepayment (\$375,000 as of December 27, 2009). The large majority of the earn-out is calculated and accrued for at the end of each of four 12 month periods that end in April of each year through 2010. To date, we have paid \$5.9 million in earn-out payments, thus the maximum amount of contingent future earn-out payments that could be earned through April 2010 is \$9.6 million. Contingent payments made under the terms of the acquisition agreement are treated as an additional cost of the acquired businesses and additional goodwill has been and will continue to be recorded through April 2010, if earnings targets are achieved. During the nine month period ended December 27, 2009, approximately \$2.4 million in earn-out

Table of Contents

payments were made, based on achievement of certain earnings thresholds in accordance with the terms of the purchase agreement. As of December 27, 2009, an additional earn-out obligation of \$185,000 has been accrued and is anticipated to be paid, along with any additional amounts earned over the remaining three months of fiscal year 2010, in the first quarter of fiscal year 2011.

Net cash used in financing activities was \$1.8 million in the first nine months of fiscal year 2010 compared with a net cash outflow from financing activities of \$5.6 million for the first nine months of fiscal year 2009. For the first nine months of fiscal year 2010, our cash outflow from financing activities was primarily due to cash dividends paid to shareholders as well as treasury stock purchases and payments on long-term debt, partially offset by the proceeds from our term loan with Baltimore County Economic Development Fund. For the first nine months of fiscal year 2009, our cash outflow from financing activities was primarily driven by treasury stock purchases, partially offset by net borrowings on our revolving line of credit. During the first nine months of fiscal year 2010, we repurchased 24,130 shares of our outstanding common stock for approximately \$0.4 million pursuant to our stock buyback program, compared with 140,523 shares purchased during the first nine months of fiscal year 2009 for approximately \$1.8 million. From the beginning of our stock buyback program (the first quarter of fiscal year 2004), through the end of the third quarter of fiscal year 2010, a total of 2,335,258 shares have been purchased under this program for approximately \$30.7 million, or an average price of \$13.14 per share. The Board of Directors has authorized the purchase of up to 2,395,567 shares in the aggregate pursuant to this program, and therefore, 60,309 shares remained available to be purchased as of the end of the third quarter of fiscal year 2010. We expect to fund future purchases, if any, from working capital and/or our revolving credit facility. No timetable has been set for the completion or expiration of this program. On July 1, 2008, separate from, and in addition to, our stock buyback program, we repurchased all 470,000 shares of our common stock then held by Brightpoint, Inc. (Brightpoint) in a privately negotiated transaction for a cost of approximately \$6.4 million. See Note 10 to the unaudited consolidated financial statements for additional discussion of the Brightpoint transaction.

We are party to an unsecured revolving credit facility with SunTrust Bank and Wachovia Bank, National Association, with interest payable monthly at the LIBOR rate plus an applicable margin. Pursuant to a recent Third Modification Agreement, the term of the facility was extended (from May 2010) to May 31, 2012; and the amount of allowable dividend payments was increased from \$2.0 million (the previous stated amount) to \$2.5 million in any 12 month period, assuming continued compliance with the otherwise applicable terms. Also in connection with the modification, we paid a \$175,000 modification fee, and agreed to increases in the applicable margins (from a range of 1.25% to 2.75% to a range of 2.25% to 3.25%) and unused facility fee, both of which are not unusual in the current lending environment. In an effort to offset the impact of the increase in the unused facility fee, we considered our track record of positive cash flows and relatively small historical borrowings under the facility, and in connection with the modification requested and obtained a reduction in the maximum available principal amount to \$35 million, from \$50 million. Borrowing availability under this facility is determined in accordance with a borrowing base and the applicable credit agreement includes financial covenants, including a minimum tangible net worth covenant, a minimum cash flow to debt service ratio, and a maximum funded debt to EBITDA ratio. Certain of these covenants were modified pursuant to the recent Third Modification Agreement, on a going forward basis. The applicable terms also limit our ability to engage in certain transactions or activities, including (but not limited to) investments and acquisitions, sales of assets, issuance of additional debt and other matters. As of December 27, 2009, we had a zero balance outstanding on our revolving credit facility; therefore, we had the full committed amount (\$35 million) available, subject to the limitations imposed by the borrowing base and continued compliance with the other applicable terms, including the covenants discussed above. Pursuant to the terms of this facility, we are permitted to repurchase up to \$25 million of common stock from May 31, 2007 forward. As of December 27, 2009, we had repurchased an aggregate of \$13.7 million of common stock since May 31, 2007, leaving \$11.3 million available for future repurchases, without the consent of our lenders or a further amendment to the terms of the facility.

Pursuant to the relevant documents, the financial covenants included in the Credit Agreement for the unsecured revolving credit facility are also applicable to our existing Term Loan with the same lenders, having an original principal amount of \$5.5 million and secured by our Hunt Valley, Maryland facility. Accordingly, the Third Modification Agreement also has the effect of amending the financial covenants applicable to the Term Loan. At December 27, 2009, the principal balance of this term loan was \$3.3 million.

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

On March 31, 2009, we entered into a term loan with the Baltimore County Economic Development Revolving Loan Fund for an aggregate principal amount of \$250,000. The term loan is payable in equal monthly installments of principal and interest of \$2,300, with the balance due at maturity on April 1, 2019. The term loan bears interest at 2.00% per annum

Table of Contents

and is secured by a subordinate position on our Hunt Valley, Maryland facility. At December 27, 2009, the principal balance of this term loan was approximately \$234,800.

We are also party to an existing note payable outstanding to the Maryland Economic Development Corporation, which is payable in equal quarterly installments of principal and interest of \$37,400, with the balance due at maturity on October 10, 2011. The note bears interest at 3.00% per annum and is secured by a subordinate position on Company-owned real property location in Hunt Valley, Maryland. At December 27, 2009, the principal balance of this note was approximately \$298,100.

On July 28, 2009, we announced that our Board of Directors determined to commence a dividend program and declared an initial quarterly cash dividend of ten cents (\$0.10) per share of common stock, par value \$0.01 per share, of the Company, paid on August 26, 2009, to shareholders of record as of August 12, 2009. On October 20, 2009, we announced a cash dividend of ten cents (\$0.10) per share of common stock, par value \$0.01 per share, of the Company, paid on November 25, 2009 to shareholders of record as of November 11, 2009. On January 13, 2010, we announced a cash dividend of ten cents (\$0.10) per share of common stock, par value \$0.01 per share, of the Company, payable on March 1, 2010 to shareholders of record as of February 15, 2010. Any future declaration of dividends and the establishment of any corresponding record and payment dates remains subject to further determination from time to time by the Board of Directors.

We believe that our existing cash, payments from customers, and availability under our revolving credit facility will be sufficient to support our operations for at least the next twelve months. To minimize interest expense, our policy is to use excess available cash to pay down any balance on our revolving credit facility. We expect to meet short-term and long-term liquidity needs through operating cash flow, supplemented by our revolving credit facility. In doing so, the balance on our revolving credit facility could increase depending on our working capital and other cash needs. If we were to undertake an acquisition or other major capital purchases that require funds in excess of existing sources of liquidity, we would look to sources of funding from additional credit facilities, debt and/or equity issuances. There can be no assurances that such additional future sources of funding would be available on terms acceptable to us, if at all. As of December 27, 2009, we do not have any material capital expenditure commitments.

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

Recent 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 our case, the fiscal year beginning March 30, 2009. We adopted this standard for our 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 our consolidated financial statements. See Note 5 to the unaudited consolidated financial statements 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. We adopted this standard effective March 30, 2009 for any acquisitions made subsequent to that date. The

Table of Contents

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 our consolidated financial statements.

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 our interim consolidated financial statements. See Note 5 to the unaudited consolidated financial statements 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 our consolidated financial statements. See Note 12 to the unaudited consolidated financial statements 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 our consolidated financial statements.

Critical Accounting Policies and Estimates

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

For a detailed discussion on our critical accounting policies, please refer to our Annual Report on Form 10-K for the fiscal year ended March 29, 2009.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

Forward-Looking Statements

This Report may contain forward-looking statements. These forward-looking statements may generally be identified by the use of the words may, will, expects, anticipates, believes, estimates, and similar expressions, but the absence of these words or phrases does not necessarily mean that a statement is not forward looking. Forward looking statements involve a number of risks and uncertainties. Our actual results may differ materially from those described in or

Table of Contents

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, under the heading "Risk Factors" and otherwise. Consequently, the reader is cautioned to consider all forward-looking statements in light of the risks to which they are subject.

We are not able to identify or control all circumstances that could occur in the future that may adversely affect our business and operating results. Without limiting the risks that we describe in our periodic reports and elsewhere, among the risks that could lead to a materially adverse impact on our business or operating results are the following: termination or non-renewal of limited duration agreements or arrangements with our vendors and affinity partners which are typically terminable by either party upon several months notice; loss of significant customers or relationships, including affinity relationships; loss of customers either directly or indirectly as a result of consolidation among large wireless service carriers and others within the wireless communications industry; the strength of our customers', vendors' and affinity partners' businesses; increasingly negative or prolonged adverse economic conditions, including those adversely affecting consumer confidence or consumer or business spending, or otherwise adversely affecting our vendors or customers, including their access to capital or liquidity or our customers' 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 and vendors, which could hamper our ability to maintain appropriate inventory levels and meet customer demand; failure of our information technology system or distribution system; technology changes in the wireless communications industry, which could lead to significant inventory obsolescence and/or our inability to offer key products that our customers demand; third-party freight carrier interruption; increased competition 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 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; the possibility that, for unforeseen reasons, we may be delayed in entering into or performing, or may fail to enter into or perform, anticipated contracts or may otherwise be delayed in realizing or fail to realize anticipated revenues or anticipated savings; our inability to protect certain intellectual property, including systems and technologies on which we rely; and our inability to hire or retain for any reason our key professionals, management and staff.

Available Information

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not Applicable.

Item 4. Controls and Procedures.

The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

(Exchange Act)) as of the end of the period covered by this quarterly report. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Based on the evaluation of these controls and procedures required by Rules 13a-15(b) or 15d-15(b) of the Exchange Act, the Company's management, including the CEO and CFO, have concluded that, as of the end of the period covered by this quarterly report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. During the period covered by this quarterly report, there have been no changes to the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****Item 1. Legal Proceedings.**

Lawsuits and claims are filed against us from time to time in the ordinary course of business. We do not believe that any lawsuits or claims currently pending against the Company, individually or in the aggregate, are material, or will have a material adverse affect 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. No federal, state and local income tax returns are currently under examination.

Item 1A. Risk Factors.

There have been no material changes from the risk factors as previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended March 29, 2009. Nevertheless, information that we have disclosed or will disclose from time to time in our public filings (including this Quarterly Report on Form 10-Q and other periodic reports filed under the Exchange Act) may provide additional data or information relative to our previously disclosed risk factors.

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

| Period (1) | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2) |
|---|---|---------------------------------------|--|--|
| September 28, 2009 through October 25, 2009 | | \$ N/A | | 84,439 |
| October 26, 2009 through November 29, 2009(3) | 22,699 | 15.91 | 10,539 | 73,900 |
| November 30, 2009 through December 27, 2009 | 13,591 | 14.77 | 13,591 | 60,309 |
| Total | 36,290 | \$ 15.49 | 24,130 | 60,309 |

(1) Periods indicated are fiscal accounting months for the third quarter of fiscal year 2010.

(2) Amounts are as of the end of the fiscal accounting month or quarter, as applicable.

(3) Shares not repurchased as part of the Company's publicly announced repurchase plan represents shares either withheld from or delivered to the Company by employees or directors upon stock option exercises or in connection with PSU and restricted stock awards, in order to pay related minimum tax liabilities.

Edgar Filing: TESSCO TECHNOLOGIES INC - Form 10-Q

On April 28, 2003, our Board of Directors announced a stock buyback program. As of December 27, 2009, the Board of Directors has authorized the purchase of up to 2,395,567 shares of outstanding common stock under the stock buyback program. During the third quarter of fiscal year 2010, the Company repurchased 24,130 shares of its common stock for approximately \$0.4 million pursuant to this program. As of December 27, 2009, we had purchased an aggregate of 2,335,258 shares of our outstanding common stock pursuant to this program for approximately \$30.7 million, or an average price of \$13.14 per share. Accordingly, as of December 27, 2009, 60,309 shares remained available for repurchase under this program. Shares may be purchased from time to time under this program in the open market, by block purchase, or through negotiated transactions, or possibly other transactions managed by broker-dealers. No timetable has been set for completion or expiration of the program. On July 1, 2008, separate from, and in addition to, the stock buyback program, we repurchased all 470,000 shares of our common stock then held by Brightpoint, Inc. (Brightpoint) in a privately negotiated transaction. See Note 10 to the unaudited consolidated financial statements for additional discussion of the Brightpoint transaction. Our revolving credit facility and term loan with SunTrust Bank and Wachovia Bank, National Association, limit to \$25 million the aggregate dollar value of shares that may be repurchased from May 31, 2007 forward. As of December 27, 2009, we had the ability to purchase approximately \$11.3 million in additional shares of common stock without violating this covenant.

Pursuant to the Third Modification Agreement, related to our unsecured revolving credit facility with SunTrust Bank and Wachovia Bank, National Association, we are permitted to make dividend payments of up to \$2.5 million in any 12-month period (an increase from the \$2.0 million limit previously in effect), assuming continued compliance with the otherwise applicable terms.

Table of Contents

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

(a) EXHIBITS:

- 31.1.1 Rule 15d-14(a) Certification of Robert B. Barnhill, Jr., Chief Executive Officer.
- 31.2.1 Rule 15d-14(a) Certification of David M. Young, Chief Financial Officer.
- 32.1.1 Section 1350 Certification of Robert B. Barnhill, Jr., Chief Executive Officer.
- 32.2.1 Section 1350 Certification of David M. Young, Chief Financial Officer.

Table of Contents

Signature

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

TESSCO TECHNOLOGIES INCORPORATED

Date: February 10, 2010

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