TESSCO TECHNOLOGIES INC
Form 10-Q
February 13, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 30, 2007

OR

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

For the transition period from to

Commission File Number: 0-24746

TESSCO TECHNOLOGIES INCORPORATED

(Exact name of registrant as specified in charter)

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

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

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 filing requirements for the past 90 days. Yes x No o

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer ¨ Accelerated filer ¨ Non-Accelerated Filer x

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

The number of shares of the registrant s Common Stock, $.01 par value per share, outstanding as of February 1, 2008, was 5,154,973.

TESSCO TECHNOLOGIES INCORPORATED

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

TESSCO TECHNOLOGIES INCORPORATED

Consolidated Balance Sheets

	December 30, 2007 (unaudited)	April 1, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,288,200	$ 4,176,300
Trade accounts receivable, net	52,242,800	44,859,600
Product inventory, net	54,470,500	37,448,800
Deferred tax asset	3,460,100	3,460,100
Prepaid expenses and other current assets	3,412,800	1,959,500
Total current assets	114,874,400	91,904,300
Property and equipment, net	23,165,200	24,256,300
Goodwill, net	5,867,200	5,008,300
Other long-term assets	2,683,000	2,513,800
Total assets	$ 146,589,800	$ 123,682,700
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	$ 66,523,100	$ 47,257,700
Payroll, benefits and taxes	3,471,200	6,658,500
Income and sales taxes	3,571,200	2,960,800
Accrued expenses and other current liabilities	1,258,900	1,143,800
Revolving line of credit	6,059,000	
Current portion of long-term debt	359,300	356,200
Total current liabilities	81,242,700	58,377,000
Deferred tax liability	2,700,400	2,700,400
Long-term debt, net of current portion	3,933,300	4,203,200
Other long-term liabilities	1,608,100	1,250,800
Total liabilities	89,484,500	66,531,400
Commitments and contingencies		
Shareholders equity:		
Preferred stock		
Common stock	78,100	75,800
Additional paid-in capital	30,673,700	27,463,700
Treasury stock	(33,454,300)	(27,216,200)
Retained earnings	59,850,900	56,806,300
Accumulated other comprehensive income, net of tax	(43,100)	21,700

Total shareholders equity		57,105,300		57,151,300
Total liabilities and shareholders equity	$	146,589,800	$	123,682,700

See accompanying notes.

TESSCO TECHNOLOGIES INCORPORATED

Consolidated Statements of Income

	Fiscal Quarters Ended		Nine Months Ended	
	December 30, 2007 (unaudited)	December 24, 2006 (unaudited)	December 30, 2007 (unaudited)	December 24, 2006 (unaudited)
Revenues	$ 135,732,000	$ 134,716,700	$ 392,680,400	$ 365,312,700
Cost of goods sold	105,329,600	101,838,200	305,436,400	274,319,200
Gross profit	30,402,400	32,878,500	87,244,000	90,993,500
Selling, general and administrative expenses	27,729,000	29,730,700	81,737,800	81,554,600
Income from operations	2,673,400	3,147,800	5,506,200	9,438,900
Interest, net	161,000	323,800	337,800	659,600
Income before provision for income taxes	2,512,400	2,824,000	5,168,400	8,779,300
Provision for income taxes	978,100	1,059,100	2,051,700	3,305,000
Net income	$ 1,534,300	$ 1,764,900	$ 3,116,700	$ 5,474,300
Basic earnings per share	$ 0.30	$ 0.33	$ 0.59	$ 0.93
Diluted earnings per share	$ 0.29	$ 0.31	$ 0.56	$ 0.89
Basic weighted average shares outstanding	5,151,800	5,320,600	5,299,400	5,915,500
Diluted weighted average shares outstanding	5,374,400	5,629,300	5,535,800	6,127,000

See accompanying notes.

TESSCO TECHNOLOGIES INCORPORATED

Consolidated Statements of Cash Flows

	Nine Months Ended December 30, 2007 (unaudited)	Nine Months Ended December 24, 2006 (unaudited)
Cash flows from operating activities:		
Net income	$ 3,116,700	$ 5,474,300
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,637,400	3,525,000
Non-cash stock compensation expense	1,514,400	1,571,900
Deferred taxes and other non-cash items	68,700	113,500
Change in trade accounts receivable	(7,085,200)	(8,372,900)
Change in product inventory	(17,021,700)	(11,371,400)
Change in prepaid expenses and other current assets	(302,200)	(1,193,100)
Change in trade accounts payable	19,982,700	22,439,300
Change in payroll, benefits and taxes	(3,199,500)	2,135,400
Change in income and sales tax	(353,600)	628,200
Change in accrued expenses and other current liabilities	115,100	(11,600)
Net cash provided by operating activities	472,800	14,938,600
Cash flows from investing activities:		
Purchases of property and equipment	(2,282,900)	(2,944,800)
Acquisition of business in purchase transaction and additional earn-out payments on acquired businesses	(2,330,000)	(4,533,300)
Net cash used in investing activities	(4,612,900)	(7,478,100)
Cash flows from financing activities:		
Net borrowings from revolving line of credit	6,059,000	5,629,400
Payments on long-term debt	(266,800)	(354,100)
Proceeds from issuance of stock	563,900	338,400
Purchase of treasury stock	(6,238,100)	(17,695,100)
Excess tax benefit from stock-based compensation	1,134,000	229,500
Bank overdraft		2,104,500
Net cash provided by (used in) financing activities	1,252,000	(9,747,400)
Net decrease in cash and cash equivalents	(2,888,100)	(2,286,900)
Cash and cash equivalents, beginning of period	4,176,300	2,286,900
Cash and cash equivalents, end of period	$ 1,288,200	$

See accompanying notes.

TESSCO Technologies Incorporated

Notes to Consolidated Financial Statements

December 30, 2007

(Unaudited)

Note 1. Description of Business and Basis of Presentation

TESSCO Technologies Incorporated, a Delaware corporation (TESSCO 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 96% 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.

In management s opinion, the accompanying interim 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 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 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 financial statements and notes thereto included in the Company s Form 10-K for the fiscal year ended April 1, 2007.

Note 2. Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements, which provides 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. The standard does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB partially deferred the effective date of SFAS No. 157 for certain non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis until November 15, 2008. The Company is reviewing SFAS No. 157 to determine the impact of adoption on its financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. SFAS No. 159 permits an entity to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is reviewing SFAS No. 159 to determine the impact of adoption on its financial statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, which replaces SFAS No. 141. The standard retains the fundamental requirements of SFAS No. 141 that the acquisition method of accounting (labeled the purchase method under SFAS No. 141) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141(R) requires the assets, liabilities, noncontrolling interests, certain acquired contingencies and contingent consideration acquired during a business combination to be measured at their fair value as of the acquisition date. SFAS No. 141(R) is effective for fiscal years beginning on or after December 15, 2008. The Company is reviewing SFAS No. 141(R) to determine the impact of adoption on its financial statements.

Note 3. Borrowings Under Revolving Credit Facility and Long-Term Debt

On May 31, 2007, the Company replaced its previously existing $30 million revolving line of credit facility with a new $50 million revolving line of credit facility with SunTrust Bank and Wachovia Bank, N.A. The previous facility was established in September 2003 and had a term expiring in September 2007, was unsecured and had provided for monthly payments of interest accruing at a LIBOR rate plus an applicable margin ranging from 1.5% to 2.0%. The new facility has a term expiring in May 2010, with interest also payable monthly at a LIBOR rate plus an applicable margin, which ranges from 1.25% to 2.75%. Like the replaced facility, borrowing availability under this new facility is determined in accordance with a borrowing base. This new facility includes financial covenants, including a minimum tangible net worth, minimum cash flow coverage of debt service, and a maximum funded debt to EBITDA ratio. These financial covenants also apply to a separate but related term loan secured by the Company s Hunt Valley, Maryland facility. The terms applicable to the new revolving line of credit facility and term loan also limit the Company s ability to engage in certain transactions or activities, including (but not limited to) investments and acquisitions, sales of assets, payment of dividends, issuance of additional debt and other matters. At December 30, 2007, the Company had a balance of $6.1 million outstanding on its current revolving line of credit facility. At April 1, 2007, the Company had no outstanding balance on its revolving line of credit facility.

Note 4. Stock Compensation

The Company s selling, general and administrative expenses for the fiscal quarter and nine months ended December 30, 2007 includes $434,800 and $1,514,400, respectively, of stock compensation expense. The Company s selling, general and administrative expenses for the fiscal quarter and nine months ended December 24, 2006 includes $579,900 and $1,571,900, respectively, of stock compensation expense. Stock compensation expense is primarily related to our Performance Stock Unit (PSU) Program. In addition, the Company recorded an excess tax benefit directly to shareholders equity of $1,134,000, primarily related to the 164,831 PSUs which vested during the nine months ended December 30, 2007.

Performance Stock Units: The following table summarizes the activity under the Company s PSU program for the first nine months of fiscal year 2008:

	2008	**Weighted Average Fair Value at Grant**
Shares available for issue under outstanding PSUs, non-vested beginning of period	870,172	