

TESSCO TECHNOLOGIES INC  
Form 10-K/A  
May 31, 2013

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

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FORM 10-K/A

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED MARCH 31, 2013
- 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 0-2474

TESSCO Technologies Incorporated  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of incorporation or organization)  
11126 McCormick Road, Hunt Valley, Maryland  
(Address of principal executive offices)

52-0729657  
(I.R.S. Employer Identification No.)

21031  
(Zip Code)

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value	NASDAQ Global Select Market

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

None

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

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

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

Indicate by check mark whether the registrant 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 (§ 232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or other information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined 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 aggregate market value of Common Stock, \$0.01 par value, held by non-affiliates of the registrant based on the closing sales price of the Common Stock as quoted on the NASDAQ Global Market as of September 30, 2012, was \$114,141,167.

The number of shares of the registrant's Common Stock, \$0.01 par value, outstanding as of May 21, 2013 was 8,211,407.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the definitive Proxy Statement for the registrant's 2013 Annual Meeting of Shareholders, scheduled to be held July 26, 2013, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Explanatory Statement

The purpose of this Amendment to Annual Report on Form 10-K for the fiscal year ended March 31, 2013, originally filed with the Securities and Exchange Commission on May 29, 2013 is to affix to the as-filed document the conformed signature of Ernst & Young LLP on the reports dated May 29, 2013, with respect to the consolidated financial statements and schedules of the Registrant and its subsidiaries, and the effectiveness of internal control over financial reporting of the Registrant and its subsidiaries, included therein, and on the Consent of Independent Registered Public Accountant, dated May 29, 2013, filed as Exhibit 23.1.1 thereto, which signatures were inadvertently omitted from the Form 10-K as originally filed, and to correct formatting and certain cross-references in the Exhibit Index.

## Part I

### Item 1. Business.

#### General

TESSCO Technologies Incorporated (TESSCO, we, or the Company) is Your Total Source® for making wireless work. The convergence of wireless and the internet is revolutionizing the way the world lives and works. New systems and applications are unlocking potential at an unprecedented rate. TESSCO is there, thinking in new ways for exceptional outcomes. TESSCO architects and delivers the product and value chain solutions to organizations responsible for building, operating and maintaining wireless broadband systems.

We classify our customers into two broad segments, the commercial segment and the retail segment. Customers in the commercial segment include a diversified mix of carrier and public network operators, tower owners, program managers, contractors and integrators, wireless internet service providers, industrial and enterprise self-maintained users (including railroads, utilities, mining operators, oil and gas operators and technicians), governments, manufacturers, and value-added resellers. In our retail segment, our customers consist of tier 1, 2 and 3 carriers and their independent agents, dealers and consumers, as well as other local and national retailers. Combining both segments, we currently serve an average of approximately 13,000 non-consumer customers per month.

We provide our customers with support, products and services to build and maintain these primary systems:

- Broadband Connectivity
- Base Station Infrastructure
- Critical Communications
- Indoor Network Architecture
- Maintenance Repair and Assembly
- Outdoor Network Architecture
- Remote Monitoring and Control
- Mobility and User Devices

We offer products in these categories: base station infrastructure, network systems, mobile devices and accessories, and installation, test and maintenance products. We source and develop our product offer from leading manufacturers throughout the world.

Our operational platform, which we refer to as our Knowledge, Configuration, Delivery and Control System (KCDCTM), allows customers and manufacturers the opportunity to streamline the supply chain process and lower total inventories and costs by providing guaranteed availability and complete, on-time delivery to the point of use.

We began our “total source” operations in 1982, reincorporated as a Delaware corporation in 1987, and have been listed on the NASDAQ Market (currently, NASDAQ Global Select) (symbol: TESS), since 1994. Today, we operate 24 hours a day, seven days a week, under ISO 9001:2008 and TL 9000 registrations.

For information regarding our website address and material available free of charge through the website, see the information appearing under the heading “Available Information” included in Item 7 to this Annual Report on Form 10-K for the fiscal year ended March 31, 2013.



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### Customers

Our customer base, and our sales and product organization is split into commercial and retail segments, which accounted for approximately 49% and 51%, respectively, of fiscal year 2013 revenues. Commercial customers share the characteristic that they are organizations that design, install, operate, repair or re-sell wireless broadband systems and products. We group our commercial customers into three different categories: 1) public carriers, contractors and program managers, 2) private system operators and governments and 3) commercial dealers and resellers, which accounted for approximately 30%, 33% and 37%, respectively, of fiscal year 2013 commercial revenues.

Public carriers, contractors and program managers are system operators that are generally responsible for building and maintaining the public infrastructure system and providing airtime service to individual subscribers. Private system operators and government customers include commercial entities, major utilities, transportation companies, manufacturers, installation centers, federal agencies and state and local governments. Commercial dealers and resellers include dealers and resellers that sell, install and/or service cellular telephone, wireless networking, broadband and two-way radio communications equipment for the enterprise and consumer markets. These resellers include local and national value-added resellers and retailers.

Our retail customer base includes (1) retailers, dealer agents and carriers, which accounted for approximately 44% of fiscal year 2013 retail revenues and (2) our Major third party logistics (3PL) relationship (our largest customer, AT&T Mobility (AT&T)), which accounted for approximately 56% of fiscal year 2013 retail revenues. Effective in the fourth quarter of fiscal 2013, there has been a change to the market reporting within the Company's Retail Segment. The market within the Retail Segment formerly known as "Retailer, dealer agent and Tier 2/3 carrier" market, has been changed to "Retailer, dealer agent and carrier" market. The market within the Retail Segment formerly known as "Tier 1 Carriers" market has been changed to "Major 3PL relationship". These changes result in reclassification of certain revenue and gross profit amounts from the former "Tier 1 Carriers" market to the new "Retailer, dealer agent and carrier" market, and allow for isolation of the reporting for the Company's recently transitioned Tier 1 carrier business relationship under the new "Major 3PL relationship" heading. All prior periods have been restated to reflect the change. The Company's segments, known as "Commercial" and "Retail", and the total revenue and gross profit within those segments, remain unchanged.

Our largest customer relationship, AT&T, a Tier 1 cellular carrier purchasing cellular phone and other device accessories for resale into their corporate owned stores, accounted for approximately 30% of our total revenues during fiscal year 2013. Our next nine largest customer relationships accounted for 9% of our total revenues during fiscal year 2013, and therefore, our top ten customer relationships totaled 39% of our total revenues. In April 2012, we were notified by AT&T of their intention to transition their third party logistics retail store supply chain business away from us beginning in the second quarter of our fiscal 2013. As of the close of our fiscal 2013, this business has fully transitioned. This has resulted in a significant reduction in revenues but, because of the lower margins and our on-going cost reduction efforts, a lesser relative impact on overall profits in fiscal 2013. Going forward, we expect to continue to supply product to this customer's other programs and to supply proprietary Ventev® products to AT&T retail stores.

Approximately 98% of our sales have been made to customers in the United States during each of the past three fiscal years, although we currently sell to customers in over 100 countries. Due to our diverse product offering and our wide customer base, our business is not significantly affected by seasonality in the aggregate. However, sales to our retailers generally peak in our second and third quarters in preparation for the winter holiday season. Also, our base station infrastructure sales are typically affected by weather conditions in the United States, especially in our fourth quarter.

For more detailed financial information regarding our business segments for each of the past three fiscal years, see Note 9 to the Consolidated Financial Statements included in Item 8 to this Annual Report on Form 10-K for the fiscal year ended March 31, 2013.



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### Products and Services

We principally offer competitively priced, manufacturer brand-name products, ranging from simple hardware items to sophisticated test equipment, with per item prices ranging from less than \$1 to approximately \$91,000 and gross profit margins ranging from less than 5% to over 95%. We offer products classified into our four business categories: base station infrastructure; network systems; installation, test and maintenance products, and mobile devices and accessories, which accounted for approximately 30%, 11%, 6%, and 53% of fiscal year 2013 revenues, respectively. Base station infrastructure products are used to build, repair and upgrade wireless broadband systems. Products include base station antennas, cable and transmission lines, small towers, lightning protection devices, connectors, power systems, enclosures, grounding, jumpers, miscellaneous hardware, and mobile antennas. Our base station infrastructure product offering includes connector installation, custom jumper assembly, site kitting and logistics integration. Network systems products are used to build and upgrade public and private wireless broadband networks. Products include fixed and mobile broadband radio equipment, wireless networking filtering systems, two-way radios and security and surveillance products. This product category also includes training classes, technical support and engineering design services. Installation, test and maintenance products are used to install, tune, and maintain wireless communications equipment. Products include sophisticated analysis equipment and various frequency-, voltage- and power-measuring devices, as well as an assortment of tools, hardware, GPS, safety and replacement and component parts and supplies required by service technicians. Mobile devices and accessory products include cellular and smart phone and data device accessories such as replacement batteries, cases, speakers, mobile amplifiers, power supplies, bluetooth and corded headsets, mounts, car antennas, music accessories and data and memory cards.

While we principally provide manufacturer brand-name products, a variety of products are developed, manufactured and offered under TESSCO-owned brands including, Ventev®, Wireless Solutions®, and TerraWave®. The products we offer under these brands generally consist of device accessory products that fall into the mobile device and accessory product category as well as WLAN and network systems accessory products and remote monitoring and control solutions that fall into the network systems category. Also, our WLAN certification training is offered under our training unit GigaWave® trade name and is reported in the network systems category. We have not incurred significant research and development expenditures in any of the last three fiscal years.

Our products are sold as part of our integrated product and supply chain solutions. Our supply chain services for all product areas are grouped under Knowledge, Configuration, Delivery and Control. Knowledge solutions include the entire suite of TESSCO knowledge tools that focus on educating the industry, including product highlights, showcases and/or comparisons, with comprehensive specifications on the products, solutions and applications that are offered and reinforced by engineering, sales and technical support, as well as hands-on training programs. Configuration services are comprised of customized product solution kitting and assembly, logistics management and consumer and retail merchandising and marketing, allowing the products to be delivered ready for immediate use, installation or resale. Our delivery system allows the customer to select 1-, 3- or 5-day “just-in-time” delivery, to specific delivery locations, designed to eliminate the customer’s need for staging and warehousing. Our services that increase customer control include predetermined monthly pricing levels, the ability to monitor multi-site purchasing with pre-approved, customized parameters indicating who is able to order how much of which specific products, order delivery tracking, product usage tracking, history reporting and alternative financing options.

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

On a consolidated basis, revenues from sales of products purchased from our top ten vendors accounted for 42% of total revenues, and sales of products purchased from our largest vendor, Otter Products, LLC (Otter) generated

approximately 9% of our total revenues. If sales to AT&T are excluded, vendor concentration is slightly lower: 40% of non-AT&T revenues were derived from sales of products purchased from our top ten vendors (excluding AT&T sales), and no vendor represented more than 11% of non-AT&T sales.

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The terms of our current business relationship with Otter had been set to expire in March 2013 and as such, we engaged in discussions with them regarding revised terms of our relationship. Effective January 2013, Otter and TESSCO agreed on new terms for our business relationship.

The amount of purchases we make from each of our approximately 375 vendors may significantly increase or decrease over time. As the level of business changes, we may request, or be requested by our vendors, to adjust the terms of our relationships. Therefore, our ability to purchase and re-sell products from each of our vendors depends on being able to reach agreements with these vendors on business terms. In addition, the agreements and arrangements on which most of our larger vendor relationships are based are typically of limited duration and terminable for any or no reason by either party upon notice of varying lengths, usually between several months and two years. Generally, we believe that alternative sources of supply are available for many of the product types we carry.

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

## Method of Operation

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

- Understanding and anticipating customers' needs and building solutions by cultivating lasting relationships;
- Allowing customers to make the best decisions by delivering product knowledge, not just information, through our knowledge tools, including The Wireless Journal®, and TESSCO.com®, Solution and Transaction System;
- Responding to what we refer to as "the moments of truth" by providing customers with sales, service and technical support, 24 hours a day, 7 days a week, 365 days a year;
- Providing customers what they need, when and where they need it by delivering integrated product and supply chain solutions; and
- Helping customers enhance their operations by providing real-time order tracking and performance measurement.

We operate as a team of teams structured to enhance marketing innovation, customer focus and operational excellence. Both our Commercial and Retail segments include a Market Development and Sales team, a Solutions Development, Product Management and Marketing team and a Customer Support and Order Entry team. Expenses for our Procurement and Inventory Management team and Fulfillment and Distribution team are allocated to each segment based on a percentage of resources used. The Information and Technology team is not allocated to our segments.

Market Development and Sales: In order to meet the needs of a dynamic and diverse marketplace, sales and marketing activities are organized on an end-market basis. Sales teams are focused on our commercial customers: 1) public carriers, contractors, and program managers, 2) private system operators and governments, and 3) commercial dealers and resellers; our retail customers: 1) retailers, dealer agents and carriers, and 2) our Major 3PL relationship (our largest customer AT&T); as well as consumers which are also included in the retail segment (e.g. affinity programs, Web store programs and fulfillment and consumer services). This organization allows for the development of unique product and solution offerings to meet the needs of our diverse customer base.



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We attempt to understand and anticipate customers' needs and to build solutions by cultivating lasting relationships. Our commercial customer database contains detailed information on approximately 244,000 existing customers, including the names of key personnel, past contacts, inquiries, and buying and credit histories. Additionally, we have information on approximately 497,000 contacts that serve as potential new customers in our market. This extensive customer database enables us to identify and target potential customers and to market specific products to these targeted customers. Potential customers are identified through their responses to TESSCO.com®, direct-marketing materials, advertisements in trade journals and industry trade shows, as well as through referrals from other TESSCO customers and vendors. Customer relationship representatives pursue these customer inquiries through distribution of our Knowledge Tools and through phone contact, electronic communications, and field visits. The information technology system tracks potential customer identification from the initial marketing effort through the establishment and development of a purchasing relationship. Once a customer relationship is established, we carefully analyze purchasing patterns and identify opportunities to encourage customers to make more frequent purchases of a broader array of products. Scheduled contacts are made to each regularly purchasing customer for the purpose of information dissemination, order generation, database maintenance, and the overall enhancement of the business relationship. The process is aimed at attracting prospects to TESSCO, converting these prospects to buying customers, and ultimately migrating them to loyal, total-source monthly buyers.

**Solutions Development, Product Management and Marketing:** We actively monitor advances in technologies and industry trends, both through market research and continual customer and manufacturer interaction, and continue to enhance our product offering as new wireless communications products and technologies are developed. To complement our broad product portfolio, we provide technical expertise and consultation to assist our customers in understanding technology and choosing the right products for their specific application. Our Solutions Services Team offers applications engineering to market-specific applications such as Positive Train Control, Smart Grid and fiber networks, custom integrated solutions for power systems, and site kitting and flexible custom network design services for areas such as in-building coverage, tower design, and wireless video surveillance systems.

In addition to determining the product offering, our Product and Solutions Development Teams provide the technical foundation for both customers and our personnel. The Wireless Product Knowledge System (WPKS) is continually updated to add new products and additional technical information in response to manufacturer specification changes and customer inquiries. WPKS contains detailed information on each stock keeping unit (SKU) offered, including full product descriptions, category classifications, technical specifications, illustrations, product cost, pricing and delivery information, alternative and associated products, and purchase and sales histories. This information is available on a real-time basis to all of our personnel for product development, procurement, technical support, cataloging and marketing.

As a thought leader in the wireless industry, TESSCO's marketing materials are used for both educating the industry and for promoting TESSCO's value. We utilize our WPKS to develop both broad-based and customized product solution information materials. These materials are designed to encourage both existing and potential customers to realize the value we provide in their product solution and supply chain decisions. These Knowledge Tools are an integrated suite of informational print and electronic media. They include: The Wireless Guide®, our product catalogue which is readily available electronically on TESSCO.com and is periodically sent to qualified customers in hard copy form; The Wireless Journal®, a trade journal with a bimonthly circulation of approximately 78,000, which is designed to introduce the reader to our capabilities and product offerings, and contains information on significant industry trends and product reviews; The Wireless Update®, which is emailed on a regular basis to more than 150,000 different individuals and is uniquely produced for various portions of our customer base; The Wireless Bulletin® family, including The Wireless Bulletin for Accessories for Handsets, Tablets & Music Devices which has a bimonthly circulation of approximately 15,000, The Wireless Bulletin for Installation, Test & Maintenance Products, The Wireless Bulletin for Security & Surveillance, The Wireless Bulletin for Site Planning, The Wireless

Bulletin for Training, and The Wireless Bulletin for Wireless Networking Solutions, which are distributed on an as-needed basis in a given year; Technical Application Notes, interactive Systems Supported Reference Drawings, and White Papers, which provide in-depth planning and installation instructions and diagrams; Tech Tips, which offer suggestions and ideas from TESSCO customers; and TESSCO.com®. In addition, TESSCO publishes online, Web-browser-enabled, companion versions of its many printed publications, including The Wireless Bulletin Online, The Wireless Guide Online, and The Wireless Journal Online.

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TESSCO.com® is our e-commerce site and the gateway to Your Total Source® for the knowledge, products, and solutions for building, using, and maintaining wireless broadband systems. It offers online access to a real-time system of Knowledge, Configuration, Delivery and Control of product and supply chain solutions and is intended for our commercial customers; its feature-rich capabilities include:

- Customer-specific home page that offers a customized presentation of relevant, market-specific content, tailored to the logged-in users' role in wireless;
  - Powerful product search capabilities enabled by Google search engine logic;
    - Real-time pricing and product availability;
- Easy ordering capabilities, including a Worksheet ordering tool which is the foundation for building end-to-end solutions and requirements, and which allows for the construction and configuration of a total-source order; Worksheets can be immediately converted to an order, as well as saved, copied, shared, uploaded and emailed;
- Knowledge Center that unlocks all assets of TESSCO.com and enables the streamlined navigation of TESSCO's knowledge content (articles, advice, white papers, Systems Supported illustrations, videos, installation guides, product selection guides, or any other content featured on TESSCO.com);
- Variety of useful customer service, financial and technical support pages, including the Your Account Page which includes all of the tools necessary to manage or modify orders, update the account, find the right support, review Worksheets, handle warranty claims, and explore TESSCO's capabilities;
- Order confirmation – specifying the contents, order status, delivery date, tracking number and total cost of an order;
- Order Tracking Center provides online order status, at every step of the way, of all order items, available in the real-time Your Account Portal;
  - Order reservations, order status, back-order details and four-month order history;
- Ability to view invoices online and customer-specific pricing, based on our tiered pricing levels tied to a customer's aggregate purchase volume;
- Systems and Devices Supported pages feature interactive, how-to illustrations for a range of wireless applications that help with system design or device accessory support; the illustrations show the product required for a given application, allowing the user to configure an end-to-end solution and build a Worksheet;
  - RSS Feeds that allow customers to see TESSCO's newest products;
- Feedback Center that makes it easy for customers to provide input on our services, Knowledge Tools and Website; and
- Interactive versions of various Knowledge Tools, including: several customized versions of The Wireless Bulletin®, The Wireless Update®, The Wireless Guide®, and The Wireless Journal®.

Our Knowledge Tools empower our customers to make better decisions by delivering product knowledge, rather than just information. These tools also afford our manufacturers the opportunity to develop their brands and promote their products to a broad and diverse customer base.

Customer Support and Order Entry: Our customer support teams are responsible for responding to what we refer to as "the moments of truth" by delivering sales and customer support services through an effective and efficient transaction system. We also continually monitor our customer service performance through report cards sent for each product delivery, customer surveys and regular interaction with customers. By combining our broad product offering with a commitment to superior customer service, we seek to reduce a customer's overall procurement costs by enabling the customer to consolidate the number of suppliers from which it obtains products, while also reducing the customer's need to maintain high inventory levels.

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Our information technology system provides detailed information on every customer account, including recent inquiries, buying and credit histories, separate buying locations within a customer account and contact diaries for key personnel, as well as detailed product information, including technical, product availability and pricing information. The information technology system increases sales productivity by enabling any customer support representative to provide any customer with personalized service and also allows non-technical personnel to provide a high level of technical product information and order assistance.

We believe that our commitment to providing prompt, friendly and efficient customer service before, during and after the sale enables us to maximize sales, customer satisfaction and customer retention. The monthly average number of non-consumer customers remained steady at approximately 13,000 for fiscal years 2012 and 2013.

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

We use our information technology system to monitor and manage our inventory. Historical sales results, sales projections and information regarding vendor lead times are all used to determine appropriate inventory levels. The information technology system also provides early warning reports regarding upcoming inventory requirements. As of March 31, 2013 and April 1, 2012, we had an immaterial level of backlog orders. Most backlog orders as of March 31, 2013, are expected to be filled within 90 days of fiscal year-end. For the fiscal years ended March 31, 2013 and April 1, 2012, inventory write-offs were 0.4% and 0.7% of total purchases, respectively. In many cases, we are able to return slow-moving inventory to our vendors pursuant to stock rotation agreements. Inventory turns for fiscal years 2013 and 2012 were 10.6 and 11.8, respectively. This decrease is largely due to a decrease in sales to our largest customer AT&T Mobility, which have a shorter inventory turnover than our typical sales.

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

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

**Information Technology:** Our information technology system is critical to the success of our operations. We have made substantial investments in the development of this system, which integrates cataloging, marketing, sales, fulfillment, inventory control and purchasing, financial control and internal and external communications. The information technology system includes highly developed customer and product databases and is integrated with our Configuration, Fulfillment and Delivery system. The information contained in the system is available on a real-time basis to all of our employees as needed and is utilized in every area of our operations.



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

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### Competition

The wireless communications distribution industry is competitive and fragmented, and is comprised of distributors, such as Superior Communications, Anixter and Genco ATC Logistics in our retail segment and Hutton Communications, KPG Logistics, Westcon, Comstor, Tech Data, Ingram Micro, Site Pro 1, Winncom, Talley Communications and Alliance Corporation in our commercial segment. In addition, many manufacturers sell and fulfill directly to customers. Barriers to entry for distributors are relatively low, particularly in the mobile devices and accessory market, and the risk of new competitors entering the market is high. 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. Accordingly, our ability to maintain these relationships is subject to competitive pressures and challenges. Some of our current competitors have substantially greater capital resources and sales and distribution capabilities than we do. In response to competitive pressures from any of our current or future competitors, we may be required to lower selling prices in order to maintain or increase market share, and such measures could adversely affect our operating results. We believe, however, that our strength in service, the breadth and depth of our product offering, our information technology system, our knowledge and expertise in wireless technologies and the wireless marketplace, and our large customer base and purchasing relationships with approximately 375 manufacturers, provide us with a significant competitive advantage over new entrants to the market.

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

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

### Intellectual Property

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

TESSCO Communications Incorporated, a wholly-owned subsidiary of TESSCO Technologies Incorporated, maintains a number of registered trademarks and service marks in connection with our business activities, including: A Simple Way of Doing Business Better®, Delivering Everything for Wireless®, Delivering What You Need...When and Where You Need It®, GigaWave Technologies®, Going Beyond the Ordinary®, LinkUPS®, ORDERflow®, Solutions That Make Wireless Work®, TerraWave Solutions®, TESSCO®, TESSCO Making Wireless Work®, TESSCO Technologies®, TESSCO.com®, Ventev®, Ventev Innovations®, The Vital Link to a Wireless World®,

The Wireless Bulletin®, The Wireless Guide®, The Wireless Journal®, Wireless Solutions®, The Wireless Update®, Your Total Source®, Your Virtual Inventory®, among many others. Our general policy is to file for trademark and service mark protection for each of our trademarks and trade names and to enforce our rights against any infringement.

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

## Environmental Regulation

We are subject to various laws and governmental regulations concerning environmental matters and employee safety and health in the United States. We are also subject to regulation by the Occupational Safety and Health Administration concerning employee safety and health matters. Compliance with these federal, state and local laws and regulations related to protection of the environment and employee safety and health has had no material effect on our business. There were no material capital expenditures for environmental projects in fiscal year 2013 and there are no material expenditures planned for such purposes in fiscal year 2014.

## Employees

As of March 31, 2013, we had 838 full-time equivalent employees. Of our full-time equivalent employees, 435 were engaged in customer and vendor service, marketing, sales and product management, 325 were engaged in fulfillment and distribution operations and 78 were engaged in administration and technology systems services. No employees are covered by collective bargaining agreements. We consider our employee relations to be excellent.

## Executive Officers

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

Name	Age	Position	
Robert B. Barnhill, Jr.	69	Chairman, President and Chief Executive Officer	Robert B. Barnhill, Jr. has served as president and chief executive officer since founding the current business in 1982. Mr. Barnhill has been a director of the Company since 1982, and has served, and continues to serve, as Chairman of the Board since November 1993.
Gerald T. Garland	62	Senior Vice President of the Product Lines of Business	Gerald T. Garland rejoined the Company in April 2003 and has served as senior vice president since April 2006. Mr. Garland has served as senior vice president of the installation, test and maintenance line of business since May 2005, as senior vice president of the mobile devices and accessories line of business since April 2004 and as senior vice president of the network infrastructure line of business since April 2003. In July 2011, Mr. Garland began serving as Senior Vice President of the Commercial Segment. Since April 2013, Mr. Garland has served as Senior Vice President of the Product Lines of Business. Between September 1999 and April 2003, Mr. Garland served as director of business development with American Express Business Services and chief financial officer of Mentor Technologies, Inc. Mr.

Garland served as the Company's chief financial officer from September 1993 to September 1999.

Douglas A. Rein	53	Senior Vice President of Performance Systems and Operations	Douglas A. Rein joined the Company in July 1999 as senior vice president of performance systems and operations. Previously, he was director of operations for Compaq Computer Corporation and vice president, distribution and logistics operations for Intelligent Electronics.
Said Tofighi	58	Senior Vice President of Global Manufacturer Supply Chain and Ventev Innovations	Said Tofighi rejoined the Company in October 2000 as vice president of customer administration. In April 2005, Mr. Tofighi began serving as vice president of the customer supply chain unit and served in that capacity until May 2006, when he was appointed senior vice president, customer supply chain. In April 2007, Mr. Tofighi began serving as senior vice president of market development and sales. In July 2011, Mr. Tofighi began serving as Senior Vice President of the Retail Segment and Global Manufacturer Supply Chain. Since April 2013, Mr. Tofighi has served as Senior Vice President of Global Manufacturer Supply Chain and Ventev® Innovations. Mr. Tofighi originally joined the Company in March 1993 and served in various leadership roles through July 1999. From July 1999 through October 2000, Mr. Tofighi worked outside the Company.

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Item 1A. Risk Factors.

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

**RISKS RELATING TO OUR BUSINESS**

We face significant competition in the wireless communications distribution industry.

The wireless communications distribution industry is competitive and fragmented, and is comprised of several national distributors, as well as numerous regional distributors. In addition, many manufacturers sell and fulfill directly to customers. Barriers to entry for distributors are relatively low, particularly in the mobile devices and accessory market, and the risk of new competitors entering the market is high. Some of our current competitors have substantially greater capital resources and sales and distribution capabilities than we do. In response to competitive pressures from any of our current or future competitors, we may be required to lower selling prices in order to maintain or increase market share, and such measures could adversely affect our operating results.

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

Our sales to customers and our purchases from vendors are largely governed by individual sales or purchase orders, so there is no guarantee of future business. In some cases, we have formal agreements or arrangements with significant customers or vendors, but they are largely administrative in nature and are terminable by either party upon several months or otherwise short notice, and they typically contain no purchase or sale obligations. If our vendors or suppliers refuse to, or for any reason are unable to supply products to us, and if we are not able to procure those products from alternative sources, we may not be able to maintain appropriate inventory levels to meet customer demand and our financial position and results of operations would be adversely affected. Similarly, if customers decide to make purchases from other sources, experience significant changes in demand internally or from their own customer bases, become financially unstable, or are acquired by another company, our ability to generate revenues from these customers may be significantly affected, resulting in an adverse affect on our financial position and results of operations.

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The loss or any change in the business habits of key customers or vendors, including the recent loss of our AT&T third party logistics retail supply chain relationship, may have a material adverse affect on our financial position and results of operations.

Because our standing arrangements and agreements with our customers and vendors typically contain no purchase or sale obligations and are terminable by either party upon several months or otherwise relatively short notice, we are subject to significant risks associated with the loss or change at any time in the business habits and financial condition of key customers or vendors. In fiscal year 2013, sales to our largest customer relationship, AT&T Mobility, accounted for approximately 30% of total revenues. The transition of our 3PL retail store supply chain business with AT&T was completed in the fourth quarter of our fiscal 2013, and revenues from this business have therefore terminated.

In January 2011, we reported that AT&T was assessing cost reduction business model changes that could affect our supply chain relationship with them. In July 2011, AT&T agreed to purchase a larger portion of its device accessory purchases from us in exchange for a lower per unit cost. Accordingly, beginning in the third quarter of fiscal 2012, we experienced significant increases in shipments and revenues, with an accompanying decrease in associated gross profit percentage. In April 2012, AT&T informed us that they intended to begin to transition their 3PL retail store supply chain business from us in the second quarter of our fiscal 2013. As of our fiscal 2013 year end, this business was fully transitioned. The transition and termination of this relationship and loss of the associated revenues will most likely result in a reduction in our overall revenues in fiscal 2014. However, this business carried a lower margin than does our continuing non-AT&T business, and as a result the impact on gross profit, while still significant, is not expected to be as significant on a relative basis. Separately, we see potential to increase gross profit in our non-AT&T business. If we are successful in increasing gross profit in our non-AT&T business, and in controlling expenses, we believe that we will be able to offset at least some of the loss in profits from transition of the AT&T relationship. There can be no assurances, however, that we will be successful in these efforts or that our financial position and results of operations will not suffer.

Sales of products purchased from our largest vendor, Otter Products, LLC (Otter) generated approximately 9% of our total revenues in fiscal 2013. Much of this concentration, however, is attributable to our 3PL retail store supply chain business for AT&T, which as described above fully transitioned from TESSCO to a third party logistics provider as of yearend fiscal 2013. The terms of our current business relationship with Otter had been set to expire in March 2013 and as such, we engaged in discussions with them regarding revised terms of our relationship. Effective January 2013, Otter and TESSCO agreed on new terms for our business relationship, which continues for sales outside of the AT&T retail store supply chain relationship.

We have experienced the loss and changes in the business habits of significant customer and vendor relationships in the past and expect to do so in the future. It is the nature of the business. Over the past decade, however, we have generally been successful in replacing significant customer and vendor relationships when lost. However, the loss of customer relationships like AT&T, and the corresponding reduction in the volume of product sales identified to those relationships, can affect our negotiating ability with vendors supplying those products. This can affect our margins in sales of those products to other customers. If we are unable to replace those products at favorable pricing and terms, or if we are unable to offer those products to our customers at all, our competitiveness may suffer and result in reduced revenues and profits. There can be no assurance that we will be successful in replacing any of our current or future relationships if and when lost, or in the event of a substantial reduction in revenues from any such relationship.

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

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

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

Our business requires substantial capital to operate and to finance accounts receivable and product inventory that are not financed by trade creditors. We have historically relied upon cash generated from operations, revolving credit facilities and trade credit from our vendors to satisfy our capital needs and finance growth. As the financial markets change and new regulations come into effect, the cost of acquiring financing and the methods of financing may change. Changes in our credit rating or other market factors may increase our interest expense or other costs of capital, or capital may not be available to us on competitive terms to fund our working capital needs. Our credit facilities and long-term debt arrangements are of specified terms and contain various financial and other covenants that may limit our ability to borrow or limit our flexibility in responding to business conditions. While we generally expect to either extend or replace our credit facilities at term expirations, there can be no assurances that we will be able to do so on favorable terms, or at all. The inability to maintain or when necessary obtain adequate sources of financing could have an adverse affect on our business. Our current revolving credit facility expires in May 2014. Some of our existing financing instruments involve variable rate debt, thus exposing us to risk of fluctuations in interest rates. Such fluctuations in interest rates could have an adverse affect on our business, financial position and results of operations. We may in the future use interest rate swaps in an effort to achieve a desired proportion of fixed and variable rate debt. We would utilize these derivative financial instruments to enhance our ability to manage risk, including interest rate exposures that exist as part of our ongoing business operations. However, our use of these instruments may not effectively limit or eliminate our exposure to a decline in operating results due to changes in interest rates.

Our ability to borrow funds under our credit agreement could be constrained by the level of eligible receivables and inventory.

Our borrowing availability under our existing revolving credit facility is limited to certain amounts of eligible accounts receivable and inventory. If the value of eligible accounts receivable and inventory were to decrease significantly, the amount available for borrowing under the facility could decrease. The fiscal year 2013 transition of our AT&T business has not had a significant impact on our overall inventory and accounts receivable balances, which are currently used in the calculation of the borrowing base under our existing revolving credit facility. As of the end of fiscal 2013, our asset balance continues to support the full amount available under our current facility and our earnings have kept us in compliance with all current debt covenants.



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The ongoing weakness in the global economic environment may have significant effects on our customers and suppliers that could result in material adverse effects on our business, operating results, and stock price.

Notwithstanding the slow economic recovery in the U.S., the ongoing weakness in the global economic environment – 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, high rates of unemployment and concerns that the worldwide economy may continue to experience significant challenges – 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. In addition, our suppliers' access to capital and liquidity may continue to be affected, 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 potential effects of the weakness in the global economic environment are difficult to forecast and mitigate. As a consequence, our operating results for a particular period may be more difficult to predict. Any of the foregoing effects could have a material adverse effect on our results of operations and financial condition, and could adversely affect our stock price.

We may be unable to successfully execute our merchandising and marketing strategic initiatives.

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

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

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

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

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

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

The failure of our information systems or inability to upgrade them could have a material adverse effect on our business, financial position and results of operations.

We are highly dependent upon our internal computer and telecommunication systems to operate our business. There can be no assurance that our information systems will not fail or experience disruptions, that we will be able to attract and retain qualified personnel necessary for the operation of such systems, that we will be able to expand and improve our information systems, that we will be able to convert to new systems efficiently as necessary, or that we will be able to integrate new programs effectively with our existing programs. Any of such problems, or any significant damage or destruction of these systems, could have an adverse effect on our business, financial position and results of operations.

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

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

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

The nature of our business includes (but is not limited to) a high volume of transactions, business complexity, wide geographical coverage, and broad scope of products, suppliers, and customers. In order to compete, we must attract, retain and motivate executives and other key employees, including those in managerial, technical, sales, marketing and support positions. Hiring and retaining qualified executives, information technology and business generation personnel are critical to our business. We rely heavily upon our senior management team. The loss of any of these individuals, particularly our President and the Chairman of our Board of Directors, Robert B. Barnhill, Jr., could have a material adverse effect on our business, financial position and results of operations. In the fall of 2012, our then Chief Financial Officer left the company. He has not yet been replaced and in the meantime his duties have been assumed by other officers. For example, Mr. Barnhill now performs the function of or similar to that of Principal Financial Officer, and Aric Spitulnik, our Controller, has assumed the role of Principal Accounting Officer. These additional responsibilities place additional demands on these individuals and as a result, they may be less effective in their overall performance.

To attract, retain and motivate qualified employees, we rely heavily on stock-based incentive awards such as Performance Stock Units (PSUs). If performance targets associated with these PSUs are not met, or the value of such stock awards does not appreciate as measured by the performance of the price of our common stock and/or if our other stock-based compensation otherwise ceases to be viewed as a valuable benefit, our ability to attract, retain and motivate our employees could be adversely impacted, which could negatively affect our business, financial position and results of operations and/or require us to increase the amount we spend on cash and other forms of compensation. Our ability to issue PSUs is also limited by the provisions of and our available shares under our current and/or future stock incentive plans, which may be subject to shareholder approval. As of the end of the year, there were 536,303 shares available for future awards under our incentive plans and we have no immediate plans to get shareholder

approval for an increase in such number.

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Also, in fiscal year 2012, in order to address possible concern regarding the number of equity awards that may be granted in a given year, the Board of Directors determined that it will not, absent stockholder approval indicating or permitting otherwise, make awards under the 1994 Plan over the following three fiscal year period (fiscal 2012, 2013 and 2014) for a number of shares in excess of an average annual rate over the three year period equal to 5.84% of the weighted average number of shares of our common stock projected to be outstanding during each fiscal year.

These items may limit our ability to grant certain performance based equity instruments and therefore may have an adverse effect on our continued ability to attract and retain, and motivate, our employees.

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

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

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

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

We are subject to potential declines in inventory value.

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

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

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



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

Goodwill and indefinite lived intangible assets are initially recorded at fair value and are not amortized, but are reviewed for impairment at least annually or more frequently if impairment indicators are present. In assessing the recoverability of goodwill and indefinite lived intangible assets, we make estimates and assumptions about sales, operating margin, growth rates and discount rates based on our budgets, business plans, economic projections, anticipated future cash flows and marketplace data. There are inherent uncertainties related to these factors and management's judgment in applying these factors. Goodwill and indefinite lived asset valuations have been calculated using an income approach based on the present value of future cash flows of each reporting unit. We could be required to evaluate the recoverability of goodwill and indefinite lived assets prior to the annual assessment if we experience disruptions to the business, unexpected significant declines in operating results, divestiture of a significant component of our business or sustained market capitalization declines. These types of events and the resulting analyses could result in goodwill and indefinite lived asset impairment charges in the future. Impairment charges could substantially affect our financial results in the periods of such charges. In addition, impairment charges would negatively impact our financial ratios and could limit our ability to obtain financing in the future. As of March 31, 2013, we had \$12.5 million of goodwill and indefinite lived intangible assets, which represented approximately 6.5% of total assets. All goodwill and intangible assets have been allocated to the Commercial segment.

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

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

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

In an effort to protect our intellectual property, including our product data, customer information and information technology systems, through trademark filings and nondisclosure, confidentiality and trade secret agreements, we typically require our employees, consultants and others having access to this information or our technology to execute confidentiality and non-disclosure agreements. These agreements, however, may not provide us with adequate protection against improper use or disclosure of confidential information, and these agreements may be breached. A breach of confidentiality could adversely affect our business. In addition, in some situations, these agreements may conflict with, or be subject to, the rights of third parties with whom our employees, consultants and others have previous employment or consulting relationships. Also, others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets. Adequate remedies may not exist in the event of unauthorized use or disclosure of our confidential information. The disclosure of our proprietary information or trade secrets could impair our competitive position and could have a material adverse affect on our business, financial condition and results of operations. Others may obtain patent protection for technologies that are important to our business, and as a result, our business, financial position and results of operations may be adversely

affected. In response to patents of others, we may need to license the rights to use the technology patented by others, or in the event that a license cannot be obtained, design our systems around the patents of others. There can be no assurances as to our ability to obtain any such licenses or to design around the patents of others, and our inability to do so could have an adverse affect on our business, financial position and results of operations.

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

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

We intend to explore additional growth through acquisitions.

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

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

The products we sell are sourced from a wide variety of domestic and international suppliers. Global sourcing of many of the products we sell is an important factor in our financial performance. Since the onset of the weakness in the global economic environment in 2008, certain of our suppliers, particularly those in the far east, have experienced financial difficulties and we believe it is possible that a limited number of suppliers may either cease operations or require increased prices in order to fulfill their obligations. Changes in our relationships with suppliers or increases in the costs of purchased raw materials, component parts or finished goods could result in delays, inefficiencies or our inability to market products. In addition, our profit margins would decrease if prices of purchased raw materials, component parts, or finished goods increase and we are unable to pass on those increases to our customers.

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

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



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Changes in accounting rules could have a material adverse impact on our results of operations.

We prepare our financial statements in conformity with accounting principles generally accepted in the United States. These accounting principles are subject to interpretation by the Financial Accounting Standards Board, the Public Company Accounting Oversight Board, the United States Securities and Exchange Commission (SEC), the American Institute of Certified Public Accountants and various other bodies formed to interpret and create appropriate accounting policies. A change in these policies or a new interpretation of an existing policy could have a significant effect on our reported results and may affect our reporting of transactions.

Changes in income tax and other regulatory legislation.

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

We may be subject to litigation.

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

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

The sale of our products involves risk of product liability claims against us. We have also been increasing the sales of TESSCO private labeled products and providing an increased level of support services, including product and network designs. We currently maintain product liability insurance, but our product liability insurance coverage is subject to various coverage exclusions and limits and may not be obtainable in the future on terms acceptable to us, or at all. We do not know whether claims against us with respect to our products and services, if any, would be successfully defended or whether our insurance would be sufficient to cover liabilities resulting from such claims. Any claims successfully brought against us could adversely affect our financial condition, and if substantial and relating to our products or industry generally, could affect our business as a whole.

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

Our product offering includes a growing number of our own proprietary products, which represented approximately 8% of our sales in fiscal 2013. Our proprietary products often compete with other manufacturers' branded items that we offer. A manufacturer may choose to not sell its products to us, or may substantially increase the price of products to us, in response to the competition created by the sales of our proprietary branded products. Either could have a material adverse effect on our business and financial performance.

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

Our industry has increasingly been subject to patent and other intellectual property rights litigation, particularly from special purpose entities that seek to monetize their intellectual property rights by asserting claims against others. We expect this trend to continue and accelerate and expect that we may be required to defend against this type of litigation, not only asserted against our own intellectual property rights, but also against the intellectual property of products which we have purchased for resale.

## RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

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

Our executive officers, directors and beneficial owners of 5% or more of our common stock and their affiliates, in the aggregate, beneficially owned approximately 47% of our outstanding common stock as of March 31, 2013. Robert B. Barnhill, Jr., our chairman, president and chief executive officer beneficially owned approximately 23% of our outstanding common stock as of March 31, 2013. Should these shareholders decide to act together, they would have the ability to significantly influence all matters requiring shareholder approval, including the election of directors and any significant corporate transaction requiring shareholder approval.

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

Certain provisions of our certificate of incorporation and bylaws, certain arrangements to which we are party, and applicable provisions of the Delaware General Corporation Law (DGCL) may each make it more difficult for or may prevent a third party from acquiring control of us or changing our Board of Directors and management. These provisions include advance notice bylaws and limitations on the removal of directors other than for cause, and then only upon the affirmative vote of 75% of our outstanding common stock. We are also afforded the protections of Section 203 of the DGCL, which will prevent us from engaging in a business combination with a person who acquires at least 15% of our common stock for a period of three years from the date such person acquired such common stock, unless Board of Director or shareholder approval were obtained. Some believe that the provisions described above, as well as any resulting delay or prevention of a change of control transaction or changes in our Board of Directors or management, could deter potential acquirers or prevent the completion of a transaction in which our shareholders could receive a substantial premium over the then current market price for their shares. We, on the other hand, believe that these provisions serve to protect our shareholders against abusive takeover tactics, to preserve and maximize the value of the Company for all shareholders, and to better ensure that each shareholder will be treated fairly in the event of an unsolicited offer to acquire the Company.



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

In the past we have received, and in the future we may receive, unsolicited proposals to acquire our company or our assets. For example, in September 2010, the Board of Directors received an unsolicited non-binding proposal from Discovery Group for the acquisition of all of our stock not then owned by Discovery Group. At the time, Discovery owned approximately 14% of the Company's then outstanding common stock. The review and consideration of acquisition proposals and related matters could require the expenditure of significant management time and personnel resources. Such proposals may also create uncertainty for our employees, customers and vendors. Any such uncertainty could make it more difficult for us to retain key employees and hire new talent, and could cause our customers and vendors to not enter into new arrangements with us or to terminate existing arrangements. Additionally, we and members of our board of directors could be subject to future lawsuits related to unsolicited proposals to acquire us. Any such future lawsuits could become time consuming and expensive.

Our quarterly operating results are subject to significant fluctuation.

Our operating results have fluctuated from quarter to quarter in the past, and we expect that they will continue to do so in the future. Our earnings may not continue to grow at rates similar to the growth rates achieved in recent years and may fall short of either a prior fiscal period or investors' expectations. Most of our operating expenses, such as compensation expenses, do not vary directly with the amount of sales and are difficult to adjust in the short term. As a result, if sales in a particular quarter are below expectations for that quarter, we may not proportionately reduce operating expenses for that quarter, and therefore such a sales shortfall would have a disproportionate effect on our net income for the quarter.

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Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters and primary distribution center, known as the Global Logistics Center (GLC), is located in a Company-owned 184,000 square-foot facility north of Baltimore, in Hunt Valley, Maryland. Our sales, marketing and administrative offices are located in leased office space near the GLC. On February 15, 2011, this lease was amended and now expires on December 31, 2017. Monthly rent payments range from \$153,300 to \$177,700 throughout the remaining lease term. In addition, we lease 66,000 square feet of office and warehouse space adjacent to the GLC in Hunt Valley, Maryland. On February 23, 2011, this lease was amended and now expires on July 31, 2014 and provides us with an ongoing annual option to terminate the lease. Monthly rent for the facility ranges from \$27,500 to \$33,000 throughout the lease term. Additional sales and marketing offices are located in leased office space in San Antonio, Texas. Our San Antonio office moved to a new location in January 2013. Monthly rent payments range from \$14,700 to \$16,900 and the lease expires October 31, 2018. West coast sales and fulfillment are facilitated by our Company-owned 115,000 square-foot Americas Sales & Logistics Center (ALC) located in Reno, Nevada. The ALC is used to configure and fulfill product and supply chain solutions, provide disaster backup for the GLC, and allow for future growth of staffing and increased fulfillment capabilities. While we anticipate the need for additional space, we believe our existing facilities are generally adequate for our current requirements and that suitable additional space will be available as needed to accommodate future expansion of our operations. The GLC is encumbered by a deed of trust as security for a term loan. See Note 7 to our Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. Both of our business segments use all of our properties for either sales or fulfillment purposes.

Item 3. Legal Proceedings.

Lawsuits and claims are filed against us from time to time in the ordinary course of business. We do not believe that any lawsuits or claims currently pending against the Company, individually or in the aggregate, are material, or will have a material adverse 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, except for a Texas income tax audit for the 2008 and 2009 tax years.

Item 4. Mine Safety Disclosures

Not applicable.

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## Part II

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

Our common stock has been publicly traded on the NASDAQ Global Select Market, since September 28, 1994, under the symbol "TESS." The quarterly range of prices per share during fiscal years 2012 and 2013 are as follows:

	High	Low	Dividends Declared
Fiscal Year 2012			
First Quarter	\$ 13.48	\$ 10.31	\$ 0.10
Second Quarter	16.35	10.79	0.15
Third Quarter	14.92	12.00	0.15
Fourth Quarter	26.53	13.55	0.15
Fiscal Year 2013			
First Quarter	\$ 26.46	\$ 17.80	\$ 0.18
Second Quarter	23.51	17.08	0.18
Third Quarter	23.25	18.53	0.93
Fourth Quarter	26.00	21.00	0.18

As of May 21, 2013, the number of shareholders of record of the Company was 116. We estimate that the number of beneficial owners as of that date was approximately 3,479.

On July 28, 2009, we announced that our Board of Directors determined to commence a dividend program and we have since declared dividends on a quarterly basis. Any future declaration of dividends and the establishment of any corresponding record and payment dates remains subject to further determination from time to time by the Board of Directors. Additional information with respect to the quarterly dividends declared in fiscal years 2013 and 2012 is contained in our Selected Financial Data. The declaration and payment of future dividends will depend on many factors, including, but not limited to, our earnings, financial condition, business development needs and regulatory considerations, and is at the discretion of our Board of Directors. Until December 30, 2011, our revolving credit facility limited the amount of cash dividends that we may pay to \$5.0 million annually. As of December 30, 2011, this amount was increased to \$6.25 million in any twelve month period. Additionally, on November 30, 2012 this agreement was further amended to allow for a special onetime dividend of \$0.75 per share of common stock, or \$6.04 million, paid on December 27, 2012.

During the first quarter of fiscal year 2004, our Board of Directors approved a stock buyback program. As of March 31, 2013, the Board of Directors has authorized the purchase of up to 3,593,350 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. Through the end of the fiscal year 2013, we had repurchased 3,505,187 shares through the program for approximately \$30.7 million, or an average price of \$8.76 per share. Of the total shares repurchased, 2,300 were repurchased in fiscal year 2011 at an average price of \$13.96 per share and no shares were repurchased in fiscal 2012 and 2013. An aggregate of 88,163 shares remain available for repurchase under this program. We also withhold shares from our employees and directors from time to time to facilitate employees'

minimum federal and state tax withholdings related to vested performance stock units, restricted stock and exercised stock options. For fiscal years 2013 and 2012 the total value of shares withheld for ta