

TESSCO TECHNOLOGIES INC  
Form DEF 14A  
June 22, 2007  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

## SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  
 **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to §240.14a-12

## TESSCO Technologies Incorporated

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.  
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| (4) | Date Filed:                                   |



TESSCO Technologies Incorporated  
11126 McCormick Road  
Hunt Valley, Maryland USA 21031

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON  
July 26, 2007**

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NOTICE IS HEREBY GIVEN that the 2007 Annual Meeting of Shareholders of TESSCO Technologies Incorporated, a Delaware corporation (the Company), will be held at our offices located at 375 West Padonia Road, Timonium, Maryland, 21093 USA, on Thursday, July 26, 2007 at 9:00 a.m., local time, for the following purposes:

1. To elect two directors for a three-year term ending at the Annual Meeting of Shareholders to be held in 2010 and until their respective successors are duly elected and qualify.
2. To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for fiscal year 2008.
3. To act upon any other matter which may properly come before the Annual Meeting or any adjournment or postponement thereof.

The Board of Directors of the Company has fixed the close of business on June 4, 2007 as the record date for determining shareholders of the Company entitled to notice of and to vote at the Annual Meeting. A list of shareholders as of the record date will be available for inspection at the Company's corporate headquarters during business hours for a period of ten days before the Annual Meeting.

The primary purpose of the 2007 Annual Meeting will be to tabulate the votes cast on the above matters. It is not anticipated that any other business will be conducted at that time.

We invite your attention to the attached Proxy Statement and to the enclosed Annual Report of the Company for the fiscal year ended April 1, 2007.

By Order of the Board of Directors,

David M. Young  
Corporate Secretary  
Hunt Valley, Maryland  
June 22, 2007

EVEN IF YOU PLAN TO ATTEND THE MEETING, PLEASE COMPLETE, SIGN AND DATE THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ENVELOPE PROVIDED. IF YOU ATTEND THE MEETING, YOU MAY REVOKE YOUR PROXY AND VOTE IN PERSON.

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**TESSCO Technologies Incorporated**  
**11126 McCormick Road**  
**Hunt Valley, Maryland USA 21031**

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**PROXY STATEMENT**

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**INTRODUCTION**

**General**

This Proxy Statement is furnished to shareholders of TESSCO Technologies Incorporated, a Delaware corporation (the Company), in connection with the solicitation by the Board of Directors of the Company of proxies for use at the Annual Meeting of Shareholders to be held at our offices located at 375 West Padonia Road, Timonium, Maryland 21093, on Thursday, July 26, 2007 at 9:00 a.m., local time, and at any adjournment or postponement thereof.

**Solicitation**

The solicitation of proxies is being made primarily by mail, but directors, officers, employees, and contractors retained by the Company may also engage in the solicitation of proxies by telephone. The cost of soliciting proxies will be borne by the Company. The Company has retained the services of Innisfree M&A Incorporated to assist in the solicitation of proxies at a cost to the Company not to exceed \$6,500. In addition, the Company may reimburse brokers, custodians, nominees and other record holders for their reasonable out-of-pocket expenses in forwarding proxy material to beneficial owners.

This Proxy Statement and the accompanying form of proxy are being sent to shareholders on or about June 22, 2007.

**Voting Rights and Outstanding Shares**

The Board of Directors of the Company has fixed the close of business on June 4, 2007 as the record date for determining the shareholders of the Company entitled to notice of and to vote at the Annual Meeting. On the record date, 5,458,312 shares of Common Stock, \$0.01 par value per share, of the Company were issued and outstanding. Each share of Common Stock entitles the holder to one vote on each matter to be voted on at the Annual Meeting. There is no cumulative voting for the election of directors.

The presence, in person or by proxy, of at least a majority of the total number of shares of Common Stock entitled to vote is necessary to constitute a quorum at the Annual Meeting. In the event there are not sufficient votes for a quorum or to approve any proposal at the Annual Meeting, the Annual Meeting may be adjourned in order to permit the further solicitation of proxies.

**Your vote is important.** Because most of our shareholders cannot attend the Annual Meeting in person, it is necessary for a large number to be represented by proxy. Most shareholders have a choice of voting over the Internet, by using a toll-free telephone number or by completing a proxy card and mailing it in the postage-paid envelope provided. Please check your proxy card or the information forwarded by your bank, broker or other holder of record to see what options are available to you. If you vote by proxy over the Internet, please be aware that you may incur costs such as telecommunication and Internet access costs for which you may be responsible. The Internet and telephone proxy vote facilities for shareholders of record will close at 11:00 p.m. Eastern Daylight Time on the business day prior to the Annual Meeting day.

A shareholder may, with respect to the election of directors, (i) vote FOR the election of the named director nominees, (ii) WITHHOLD AUTHORITY to vote for all named director nominees, or (iii) vote for the election of all director nominees other than any nominee with respect to whom the shareholder withholds authority to vote. A shareholder may, with respect to each other matter specified in the notice of meeting, (i) vote FOR the matter, (ii) vote AGAINST the matter, or (iii) ABSTAIN from voting on the matter.

All shares of Common Stock entitled to vote and represented by properly submitted proxies received prior to the Annual Meeting and not revoked, will be voted in accordance with your instructions. If no instructions are indicated, the shares of Common Stock represented by a properly submitted proxy will be voted FOR the election of the named director nominees and FOR the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm.

A proxy submitted by a shareholder may indicate that all or a portion of the shares represented by the proxy are not being voted by the shareholder with respect to a particular matter. This could occur, for example, when a broker is not permitted to vote Common Stock held in street name on certain matters in the absence of instructions from the beneficial owner of the Common Stock. These nonvoted shares, i.e., shares subject to a proxy which are not being voted with respect to a particular matter, will be considered shares not present and entitled to vote on such matter, although these shares may be considered present and entitled to vote for other purposes and will count for purposes of determining the presence of a quorum.

#### **Revocation of Proxies**

A proxy may be revoked at any time before its exercise by the filing of a written revocation with David M. Young, Corporate Secretary of the Company, by timely providing a later-dated proxy (including by Internet or telephone vote), or by voting by ballot at the Annual Meeting. Mere attendance at the Annual Meeting will not revoke a proxy, and if you are a beneficial owner of shares not registered in your own name, you will need additional documentation from your record holder to vote personally at the Annual Meeting.

#### **Required Vote**

The affirmative vote of a plurality of the shares of Common Stock present in person or by proxy at the Annual Meeting and entitled to vote on the election of directors is required to elect directors. Accordingly, if a quorum is present at the Annual Meeting, the two persons receiving the greatest number of votes will be elected to serve as directors. Therefore, assuming the presence of a quorum at the Annual Meeting and that no additional nominees are nominated, withholding authority to vote for a director(s) and nonvoted shares with respect to the election of directors will not affect the outcome of the election of directors.

The affirmative vote of a majority of the shares of Common Stock present in person or by proxy at the Annual Meeting and entitled to vote thereon is required to approve each matter other than the election of directors. Under Delaware law, abstentions with respect to matters other than the election of directors are generally considered as shares present and entitled to vote and thus have the same effect as a vote against such matter. Nonvoted shares with respect to such a matter will not be considered as entitled to vote on the matter and thus will not affect the determination of whether the matter is approved.

The Board of Directors knows of no additional matters that will be presented for consideration at the Annual Meeting. Submission of a proxy, however, confers on the designated proxy the authority to vote the shares in accordance with their discretion on such other business, if any, as may properly come before the Annual Meeting or any adjournment thereof. In the event that sufficient votes in favor of any proposal set forth in the Notice of Annual Meeting are not received by July 26, 2007, the persons named as proxies on the enclosed proxy card may propose one or more adjournments of the meeting, and will have

discretionary authority to vote the shares represented by proxies in respect of any such adjournment proposal. Proxies solicited by means of this proxy statement will be tabulated by inspectors of election designated by the Board, who will not be employees or directors of the Company or any of its affiliates.

#### **PROPOSAL 1. ELECTION OF DIRECTORS**

The Company's Board of Directors is divided into three classes, each class consisting, as nearly as possible, of one-third of the total number of directors, and each class having a three-year term. Each year the directors in one class are elected to serve for a term of three years. The Board of Directors had previously been comprised of eight members. Effective June 14, 2007, Jerome C. Eppler retired from the Board and was at the same time appointed to the position of Director Emeritus and will serve as an advisor and consultant to the Company. Following the retirement of Mr. Eppler, the size of the Board was reduced to seven members. These seven members are divided into three classes, two of which classes are comprised of two members and one class which is comprised of three members. One class of two directors, currently consisting of Dennis J. Shaughnessy and Susan D. Goodman, has a term of office expiring at the Annual Meeting and until their successors are elected and qualified. Mr. Shaughnessy has been nominated by the Board of Directors for re-election at the Annual Meeting to serve for an additional three-year term expiring at the Annual Meeting of Shareholders in 2010 and until their successor is elected and qualified. Ms. Goodman will serve through the end of her term, but due to increasing demands on her time, has decided not to stand for re-election at the Annual Meeting. Accordingly, the Board of Directors has nominated Jay G. Baitler for election to serve for a three-year term expiring at the Annual Meeting of Shareholders in 2010 and until his successor is elected and qualified. In the event that any nominee is unable or unwilling to serve, the persons named in the proxy will vote for such substitute nominee or nominees as they, in their discretion, shall determine. The Board of Directors has no reason to believe that any nominee named herein will be unable or unwilling to serve.

**The Board of Directors recommends a vote FOR the election of the named director nominees.**

Set forth below is information concerning the nominees for election and those directors whose terms continue beyond the date of the Annual Meeting.

#### **Nominees for Director for a Three-Year Term Expiring at the 2010 Annual Meeting**

**Dennis J. Shaughnessy**, age 60, has been a director of the Company since 1989. He is Chairman of the Board of FTI Consulting Inc. Prior to joining FTI, Mr. Shaughnessy served as General Partner of Grotech Capital Group, a private equity firm. Prior to joining Grotech, Mr. Shaughnessy had been President and CEO of CRI International, an international petroleum refining service business.

**Jay G. Baitler**, age 60, has served as Executive Vice President of Staples Contract Division since 2004. He has been with Staples since 1995, and prior to his position as Executive Vice President, Mr. Baitler served as Mid-Atlantic Regional President and Senior Vice President, Contract Division. Prior to joining Staples, Mr. Baitler served as the Northeast Regional President at BT Office Products.

#### **Directors whose term will expire at the 2008 Annual Meeting:**

**Robert B. Barnhill, Jr.**, age 63, has served as President and Chief Executive Officer of the Company since founding the business in its current form, in 1982. Mr. Barnhill has been a director of the Company since 1982, and has been Chairman of the Board since November 1993.

**Benn R. Konsynski, Ph.D.**, age 56, has been a director of the Company since November 1993. He is the George S. Craft Professor of Business Administration for Decision and Information Analysis at the Goizueta Business School of Emory University. He was named Hewlett Fellow at the Carter Center in 1995. Prior to arriving at the Goizueta Business School, he was on the faculty at the Harvard Business

School for seven years where he taught in the MBA program and several executive programs. Professor Konsynski specializes in issues of digital commerce and information technology in relationships across organizations.

**Directors whose term will expire at the 2009 Annual Meeting:**

**John D. Beletic**, age 55, has been a director of the Company since July 1999. Since August 2006, he has served as Executive Chairman of FiberTower Corporation, a provider of wireless backhaul services to mobile network carriers. Also, since July 2002, he has been a venture partner with Oak Investment Partners, a venture capital firm. From July 2002 to September 2004, Mr. Beletic also served as Executive Chairman of Oculan Corporation, a network monitoring and intrusion detection company. From August 1994 until December 2001, Mr. Beletic served as Chief Executive Officer and Chairman of the Board of PageMart Inc. and Weblink Wireless, Inc., a communications service company. Prior to 1994, he was a Venture Partner at Morgan Stanley Venture Capital Partners, following a five-year term as President and Chief Executive Officer of Tigon which was acquired by Ameritech. Mr. Beletic serves on the board of iPass Inc., an internet access provider, Aventail, Inc., a virtual private network appliance provider, River Logic, a provider of business optimization software and iBahn, Inc., a provider of broadband internet access for the hospitality industry.

**Daniel Okrent**, age 59, has been a director of the Company since January 2004. He is a writer, a publishing consultant, and an associate of the Shorenstein Center at the John F. Kennedy School of Government at Harvard University. He has previously been public editor of the New York Times and a senior executive at Time Inc. Mr. Okrent formerly served on the Board of Lands End, Inc., and is currently chairman of the National Portrait Gallery, a division of the Smithsonian Institution.

**Morton F. Zifferer, Jr.**, age 59, has been a director of the Company since November 1993. He has served as Chairman and CEO of New Standard Corporation, a metal products manufacturer, since 1983. Mr. Zifferer and New Standard Corporation have partnered with several Fortune 500 companies globally to implement Six-Sigma continuous improvement activities and execute lean manufacturing techniques and sophisticated supply chain strategies and practices.

**Board Independence**

The Board has determined that each of the current directors, other than Mr. Barnhill, are independent within the meaning of the Company's director independence standards, which reflect both the NASDAQ and Securities and Exchange Commission director independence standards, as currently in effect. Furthermore, the Board has determined that none of the members of the three standing committees of the Board of Directors has any material relationship with the Company (either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company) and that each such member is independent within the meaning of the independence standards applicable to each such committee.

**Meetings and Committees of the Board of Directors**

The Board of Directors has an Audit Committee, a Compensation Committee and a Nominating Committee. The membership during the last fiscal year and the function of each of the committees is described below. The Board of Directors met nine (9) times during fiscal year 2007. During fiscal year 2007, no director attended fewer than 75% of the total number of meetings of the Board and Committees on which the Director served. The Company does not have a policy on director attendance at Annual Meetings, but all of our directors are invited and encouraged to attend Annual Meetings. All of our then eight directors were in attendance at the 2006 Annual Meeting.

**Board Committee Membership**

<b>Director</b>	<b>Audit Committee</b>	<b>Compensation Committee</b>	<b>Nominating Committee</b>
Benn R. Konsynski	X		X
Morton F. Zifferer	X	X	
John D. Beletic		X	
Dennis J. Shaughnessy		X	X
Susan D. Goodman		X	
Daniel Okrent			X

Mr. Baitler's committee membership(s) will be officially determined at the July 26, 2007 board meeting, if elected, but it is currently anticipated that Mr. Baitler will join both the Audit and Compensation Committees. In the meantime, however, we may appoint another of our independent directors to the Audit Committee on an interim basis in order to comply with NASDAQ rules requiring a three-person Audit Committee.

**Audit Committee**

The Audit Committee is primarily concerned with the effectiveness of the audits of the Company by the Company's independent auditors. Its duties include approving the selection of the independent registered public accounting firm, reviewing the scope of audits conducted by them, as well as the results of their audits, and reviewing the organization and scope of the Company's internal system of accounting and financial controls. The Audit Committee met six (6) times during fiscal year 2007. A copy of the Audit Committee charter is available for review on our Web site ([www.tessco.com](http://www.tessco.com)), under the heading "Corporate." The Board of Directors has determined that Mr. Zifferer is the audit committee financial expert as defined by applicable SEC rules and is "independent" with the meaning of the applicable NASDAQ rules.

**Compensation Committee**

The Compensation Committee provides assistance to the members of the Board of Directors in fulfilling their responsibilities to the shareholders, potential shareholders and the investment community relating to compensation practices of the Company, including salary and other forms of compensation. The Compensation Committee's primary duties and responsibilities are to formulate and recommend compensation policies of the Company that will enable the Company to attract and retain high-quality leadership and that are consistent with the Company's established compensation philosophy. The Compensation Committee administers the Company's incentive compensation plans, including the Amended and Restated 1994 Stock and Incentive Plan. The Compensation Committee met five (5) times during fiscal year 2007. A copy of the Compensation Committee charter is available for review on our Web site ([www.tessco.com](http://www.tessco.com)), under the heading "Corporate."

**Nominating Committee**

The Company has a Nominating Committee, the functions of which include making recommendations to the Board regarding matters and practices concerning the Board, its committees and individual directors; evaluation of the current composition and governance structure of the Board of Directors and determination of its future requirements; making recommendations concerning nominees for election to the Board of Directors; and the appointment of Directors to Board Committees and the selection of Chairpersons of the Board Committees. The Nominating Committee met four (4) times during fiscal year 2007. The Nominating Committee performs other related functions and is governed by a charter, a copy of which is available for review on our Web site ([www.tessco.com](http://www.tessco.com)), under the heading "Corporate."



The Nominating Committee has determined, in its view, that the minimum qualifications for serving as a director of the Company are that a nominee demonstrate an ability to make a meaningful contribution to the Board's oversight of the business and affairs of the Company, and have an impeccable record and reputation for honest and ethical conduct in both his or her professional and personal activities. The Committee also examines a candidate's specific experiences and skills, time availability, potential conflicts of interest and independence from management and the Company. Candidates may be identified through various means, including by asking current directors and executive officers to notify the Committee if they become aware of persons meeting the criteria described above, by the retention of third-party consultants to assist in this process, and by considering director candidates recommended by shareholders. In considering candidates submitted by shareholders, the Committee will take into consideration the needs of the Board and the qualifications of the candidate. The Committee may also take into consideration other factors it determines to be relevant, such as the number of shares held by the recommending shareholder and the length of time that such shares have been held. To have a candidate considered by the Committee, a shareholder must submit the recommendation in writing and must include the name of the shareholder and evidence of the person's ownership of Company stock, including the number of shares owned and the length of time of ownership, and the name of the candidate, the candidate's resume or a listing of his or her qualifications to be a director of the Company and the person's consent to be named as a director if selected and nominated. The shareholder recommendation and information must be sent to the Corporate Secretary at 11126 McCormick Road, Hunt Valley, Maryland 21031 USA. Once a potential candidate has been identified, the Committee may collect and review information regarding the candidate to assess whether the person should be considered further. If the Committee determines that the candidate warrants further consideration, personal contact with the candidate may be made and further review of the candidate's accomplishments, qualifications and willingness to serve may be undertaken and compared to other candidates. The Committee's evaluation process does not vary based on whether or not a candidate is recommended by a shareholder, although, as stated above, the Board may take into consideration other factors, such as the number of shares held by the recommending shareholder and the length of time that such shares have been held.

The nomination of Mr. Baitler came about after the Company retained a third party director search firm to identify qualified candidates. After he was identified, his qualifications were submitted to the Nominating Committee and considered in light of the criteria discussed above. The Nominating Committee then met with and interviewed Mr. Baitler. Mr. Baitler also attended the April Board meeting as an invited guest of the Board, whereupon he was asked to submit additional information for review. Following receipt of this information and further consideration by the Nominating Committee, on June 14, 2007, the Board accepted the recommendation of the Nominating Committee to nominate Mr. Baitler for election at the 2007 Annual Meeting.

#### **Shareholder Communications with Directors**

The Board of Directors recommends that shareholders initiate any communications with the Board in writing. Written communications may be directed to the Corporate Secretary. Shareholders can send communications by e-mail to [corporatesecretary@tessco.com](mailto:corporatesecretary@tessco.com), or by fax to (410) 229-1669 or by mail to Corporate Secretary, TESSCO Technologies Incorporated, 11126 McCormick Road, Hunt Valley, Maryland 21031. This centralized process will assist the Board in reviewing and responding to shareholder communications in an appropriate manner. The name of any specific intended Board recipient should be noted in the communication. The Board has instructed the Corporate Secretary to forward such correspondence only to the intended recipients; however, the Board has also instructed the Corporate Secretary, prior to forwarding any correspondence, to review such correspondence and, in their discretion, not to forward certain items if they are deemed of a commercial or frivolous nature or otherwise inappropriate for the Board's consideration. In such cases, some of that correspondence may be forwarded elsewhere in the Company for review and possible response.

**Director Compensation for Fiscal Year 2007**

The current compensation program for non-management directors is designed to achieve the following goals: compensation should fairly pay directors for work required for a company of our size; compensation should align directors' interests with the long-term interests of shareholders; and the structure of the compensation should be simple, transparent and easy for shareholders to understand.

In consideration for services on the Board, each non-employee Director of the Company is paid \$25,000 per fiscal year plus \$2,500 for each meeting of the Board and \$1,000 for each meeting of a Committee of the Board that he or she attends. The table below does not include reimbursements for reasonable out-of-pocket expenses incurred in connection with attendance at Board or Committee meetings. Non-management directors are also eligible to receive Performance Stock Units.

The following table summarizes the compensation awarded to, earned by, or paid to the Company's non-management directors during fiscal year 2007:

Name	Fees earned or paid in cash (\$)	Stock Awards(1)	Option Awards	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value	All Other Compensation	Total
John D. Beletic	\$ 52,500	\$ 61,559	\$	\$	\$	\$	\$ 114,059
Jerome C. Eppler	57,500	61,559					119,059
Susan D. Goodman	50,000	56,623					106,623
Benn R. Konsynski	57,500	61,559					119,059
Daniel Okrent	51,500	63,121					114,621
Dennis J. Shaughnessy	54,000	61,559					115,559
Morton F. Zifferer	58,500	61,559					120,059

(1) This column represents the dollar amount recognized by the Company for financial statement reporting purposes with respect to the 2007 fiscal year for the fair value of PSU awards made in fiscal year 2007 as well as in prior fiscal years, in accordance with Statement of Financial Accounting Standards No. 123R. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. The dollar amounts shown above reflect the Company's accounting expense for these awards, and do not necessarily correspond to the actual value that will be recognized by the recipient. Based on fiscal year 2007 performance, each director earned 7,500 shares related to PSU awards made to them in April 2006. These shares will vest ratably on or about May 1 of 2007, 2008, 2009 and 2010, assuming that each director remains affiliated with the Company on those dates, and subject to accelerated vesting upon a change in control or termination of service to the Company under certain circumstances. Also based on fiscal year 2007 performance, each director, other than Mr. Okrent and Ms. Goodman, earned 2,585 shares based on PSU awards made to them in April 2004. Mr. Okrent earned 2,720 shares from the April 2004 PSU award. Ms. Goodman earned 5,780 shares based on PSU awards made to her in May 2005. All of these shares will vest ratably on or about May 1 of 2007 and 2008, assuming that each director remains affiliated with the Company on those dates, subject, however, to accelerated vesting upon a change in control or termination of service under certain circumstances.

**PROPOSAL 2. RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board of Directors has selected the firm of Ernst & Young LLP to serve as our independent registered public accounting firm for the fiscal year ending March 30, 2008, and the Company seeks ratification of such appointment by the shareholders. Ernst & Young LLP has audited our financial statements commencing with the fiscal year ended March 30, 2003. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting and will be available to respond to appropriate questions.

Shareholder ratification of Ernst & Young LLP as our independent registered public accounting firm is not required by our By-laws or otherwise. However, the Board of Directors is submitting the selection of Ernst & Young LLP to the shareholders for ratification as a matter of good corporate practice. If the shareholders fail to approve the selection, the Audit Committee and the Board will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if they determine that such a change would be in the best interest of our shareholders.

**The Board of Directors recommends a vote FOR the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2008.**

**SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL SHAREHOLDERS**

The following table sets forth information regarding the ownership of Common Stock of the Company, as of June 4, 2007 by (i) all shareholders known by the Company to beneficially own more than five percent of the Common Stock, (ii) each of the directors and each of the Chief Executive Officer and Chief Financial Officer during fiscal year 2007 and the other three most highly compensated executive officers at fiscal year end 2007 (the named executive officers), and (iii) all directors and named executive officers as a group.

Name of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership	Percent of Class
<i>Directors and Named Executive Officers:</i>		
Robert B. Barnhill, Jr.(2)	1,690,257	31.0 %
John D. Beletic	21,948	*
Jerome C. Eppler(3)	18,048	*
Susan D. Goodman	2,105	*
Benn R. Konsynski, Ph.D.(4)	61,548	1.1 %
Daniel Okrent	17,571	*
Dennis J. Shaughnessy(4)	26,473	*
Morton F. Zifferer, Jr.	46,549	*
Gerald T. Garland	28,907	*
Douglas A. Rein	14,289	*
Said Tofighi	6,639	*
David M. Young(5)	15,473	*
All directors and Named Executive Officers as a group (12 persons)(6)	1,949,807	35.7 %
<i>Director Nominee:</i>		
Jay G. Baitler		*
<i>Principal Shareholders:</i>		
Discovery Group L.P.(7)	382,112	7.0 %
Bjurman, Barry & Associates(8)	417,503	7.6 %

\* Less than 1% of the outstanding Common Stock.

(1) Unless otherwise noted, each person exercises sole (or shares with a spouse or other immediate family member) voting and dispositive power as to the shares reported. Persons are deemed to beneficially own shares which they have the right to acquire beneficial ownership of within 60 days. Shares subject to options exercisable within 60 days of June 4, 2007 are deemed outstanding for computing the percentage of the outstanding shares held by the person holding such options, but not for computing the percentage of shares held by any other person.

(2) Includes 250,000 shares held by Mr. Barnhill's spouse and children; 135,000 shares subject to currently exercisable stock options; and 15,000 shares held by a private charitable foundation of which Mr. Barnhill and his spouse are the sole directors. Mr. Barnhill disclaims beneficial ownership over the shares held by the foundation. Mr. Barnhill's address is 11126 McCormick Road, Hunt Valley, Maryland 21031.

(3) Mr. Eppler retired from the Board of Directors effective June 14, 2007.

(4) Includes 7,500 shares subject to currently exercisable stock options.

(5) Includes 3,000 shares subject to currently exercisable stock options.

(6) Includes 153,000 shares subject to currently exercisable stock options.



(7) Derived from Form 13F filed by Discovery Group I, LLC on March 31, 2007. Discovery's address is 71 South Wacker Drive, Chicago, Illinois 60606.

(8) Derived from Form 13F filed by Bjurman, Barry & Associates on March 31, 2007. Bjurman, Barry & Associates address is 10100 Santa Monica Boulevard, Los Angeles, CA 90067.

## **EXECUTIVE COMPENSATION**

### **Compensation Discussion and Analysis**

#### *Committee Composition*

Our Compensation Committee (the Committee) is comprised entirely of independent directors as defined under applicable NASDAQ rules. Its primary responsibilities are to set all executive officer compensation levels. In doing so, it establishes our executive compensation strategy, approves program designs, establishes incentive goals, specifically reviews and approves all cash and equity compensation for our executive officers (including our Chief Executive Officer, our Chief Financial Officer and our three other most highly compensated executive officers, who we refer to collectively as our named executive officers), and monitors the use of equity for compensation program purposes at all organization levels. The Committee operates under a written charter adopted by our Board, which can be found on our Web site ([www.tessco.com](http://www.tessco.com)) under the heading Corporate.

#### *Objectives of the Compensation Programs*

We operate in the extremely competitive and rapidly changing wireless communication product and service industry. The Committee believes that compensation programs for our executive officers should be and are designed to attract, motivate and retain talented executives responsible for our long-term success. These programs are designed within a framework based on the achievement of designated financial targets and are designed to align the financial interests of executive officers with those of our shareholders, by providing appropriate long-term equity-based incentives.

The broad objectives of the executive compensation program established by the Committee are to:

- Enable us to attract, retain and motivate executives who can significantly contribute to our short-term and long-term success, and to develop the overall talent of the Company;
- Reward executives for the achievement of specified and overall business objectives;
- Target executive compensation to be competitive with the organizations with which we compete for talent;
- Encourage and reward both profitable growth and operating efficiency;
- To the extent equitable and practical, deliver executive compensation in a tax efficient and cost effective manner;
- Provide a rational and consistent executive compensation system that is well communicated and understood by the participants;
- Tie a significant portion of executive compensation to the accomplishment of strategic goals and the creation of long-term shareholder value; and
- Provide motivational programs that focus on effective compensation, leadership development and growth opportunities.



Except as it relates to Mr. Barnhill, the Committee believes that it can suitably meet these objectives by providing appropriate base salaries, performance-based cash bonus and equity compensation plans, and relatively modest termination of employment, retirement and insurance benefits to its executives.

The Committee believes that, as the founder and chief visionary of the Company, Mr. Barnhill's situation is different than that of the other executives. In the Committee's view, Mr. Barnhill is absolutely instrumental in guiding the Company's performance and has demonstrated a record of driving growth and results over many years. As a result, the Committee, with the concurrence of the Board of Directors, has determined that it is appropriate to maintain a detailed employment agreement with Mr. Barnhill that provides for, among other things, material benefits to him and/or his estate in the event of a termination without cause, a change in control, his death or his disability, as well as select perquisites. See the description of Mr. Barnhill's employment agreement and the compensation tables that follow below.

### *Components of Executive Compensation*

It is our philosophy that alignment between shareholders and executive officers is best achieved by tying a significant portion of total compensation to the achievement of certain financial and non-financial objectives. We apply this philosophy to all of our team members, with a more significant amount of compensation at risk at the executive levels, and as the level of responsibility increases. We believe that our compensation programs for our named executive officers provide base salary, annual cash bonuses and long-term equity incentives that are appropriate and relatively equivalent to typical programs available for comparable executive officers in similarly situated companies. We believe that it is difficult, however, for the Committee to benchmark executive compensation levels among peer group companies because many of our similarly sized competitors are not public enterprises, and the peers that are public are generally much larger in terms of revenues, earnings and market capitalization.

The principal components of compensation for our named executive officers are:

- Annual base salary;
- Performance-based annual cash bonuses, which we refer to as "Value Share";
- Performance Stock Award Program and other equity incentives; and
- Retirement and other benefits.

In addition, as noted above in the case of Mr. Barnhill, and discussed further below, in certain cases benefits in the nature of severance and change in control payments may be made available to select executive officers, as well as limited executive perquisites.

The Compensation Committee endeavors to use the above mentioned components to retain and to incent the named executive officers to create and grow long-term value for our shareholders. To that end, the Compensation Committee determined all aspects of compensation for each named executive officer, and certain other officers and key team members, for the 2007 fiscal year. The Committee did not retain a compensation consultant for fiscal year 2007, but in determining the amount and mix of compensation elements for each named executive officer, relied largely upon the information known to or acquired by its members in the course of their deliberations, and upon their judgment. The Committee reviews the qualifications, skills and experience level of each executive officer, as well as his or her position, role and responsibility within the company, and undertakes an assessment of each named executive officer's performance and contribution toward achieving the Company's goals of increasing earnings, quality revenues, diversification in our customer and vendor base, margins and returns. The performance-based aspects of executive compensation are primarily based on objective financial performance compared with pre-established targets, but the Committee is able to exercise its discretion by factoring the outcome of objective formulas by its assessment of individual performance.



The ability of the members of the Committee to make appropriate decisions and to exercise considered judgment in compensation matters is a function of many years of combined relative experience in business generally, and in compensation matters, particularly:

- John D. Beletic, Chairman, relies on his years of personal experience serving in the capacity of executive officer, director and/or chairman of the compensation committee of other public companies. In these capacities and in his capacity as Chairman of the Committee, he periodically speaks informally with representatives of compensation consultants and others not formally retained or compensated by the Committee, regarding compensation matters and practices, generally. Mr. Beletic applied his experience and knowledge gained from these and other sources as a basis for his decisions.
- Dennis J. Shaughnessy, a Committee member, relies on his personal experience serving in the capacity of Executive Chairman of FTI Consulting, as well as his many years of experience in the venture capital and private equity industries. In these other capacities, Mr. Shaughnessy has, on many occasions, worked closely with leading compensation consulting firms on matters of executive compensation. Mr. Shaughnessy used this experience and information derived from these and other sources as a basis for his decisions.
- Other committee members, Morton F. Zifferer and Susan D. Goodman used their many years of executive level business experience to form a basis for their decisions.

The Committee also solicits detailed statistical and qualitative performance and financial information from executive officers relative to performance generally and to specific business units within the company, as a means to evaluate the performance of the executive officer or officers responsible for that business unit. The Committee also interviews executive officers from time to time to derive additional information that bears on their performance in more subjective areas such as teamwork, leadership, integrity and the individual's ability to drive overall results. The compensation of Mr. Barnhill is determined exclusively by the Committee, while the compensation of the other named executive officers is determined by the Committee, but also takes into account the recommendations of Mr. Barnhill as President and Chief Executive Officer.

Based on our performance and our recent ability to retain our executive officers, the Committee believes that the executive compensation program's current mix of compensation components, and its overall approach to executive compensation, is effective in achieving the desired objectives.

*Annual Base Salary.* Base salary is the fixed component of an executive's annual cash compensation and is set with the goal of attracting talented executives and adequately compensating and rewarding them for services rendered during the fiscal year. The Compensation Committee periodically reviews base salaries for our named executive officers on its own initiative and at the recommendation of the Chief Executive Officer. In reviewing base salaries, the Compensation Committee considers the named executive officer's level of responsibility, the size and complexity of our businesses and organizational structure, changes in duties and responsibilities, our business and financial results, the relationship among base salaries paid to others within our Company, and its knowledge of base salaries paid by our peers to comparable executives.

Mr. Barnhill's base salary has been set by contract and cannot be reduced. No other executive officer has a base salary set by contract.

Actual salaries paid to each named executive officer for our 2007 fiscal year are set forth in the Summary Compensation Table for 2007 Fiscal Year under the heading Salary.

*Performance-Based Annual Cash Bonus (Value Share).* Target cash bonus awards are expressed as a percentage of the actual base salary paid to the named executive officer during each fiscal year. The



*percentages are determined by the Compensation Committee based upon the named executive officer's job level and responsibilities and may vary for different officers or business units. We refer to this program as our Value Share Plan.*

Early in each fiscal year, the Compensation Committee establishes specific performance objectives for the payment of cash bonus awards for that year. The performance objectives for each year are aligned with our growth and diversification strategies and may include: earnings per share, commercial customer growth, productivity measurements (i.e. net income as a percentage of revenues) and returns (i.e. return on assets). When establishing performance goals for a given year, the Compensation Committee reviews and discusses our business and financial plans for that year and their key underlying assumptions, expectations under then-existing and anticipated market conditions and the opportunity to generate shareholder value. Based on these and other factors, the Compensation Committee establishes various annual performance targets for purposes of the Value Share Plan. Cash bonuses are not paid unless we achieve a minimum earnings per share threshold.

Generally, following the close of each fiscal year, the Committee determines whether the performance objectives for the previous year have been achieved and evaluates and then rates the individual performance of each of the named executive officers for purposes of the Value Share Plan. This individual rating may increase or decrease the final cash bonus of a named executive officer. The Committee evaluates each named executive officer's leadership skills and contribution by considering a variety of factors, including collaboration within the organization and the individual's ability to drive overall results.

Actual bonus payments for our 2007 fiscal year are set forth in the Summary Compensation Table for 2007 Fiscal Year under the heading Non-Equity Incentive Plan Compensation.

*Performance Stock Award Program and other Equity Incentives.* Our Performance Stock Award Program is designed to reward the achievement of business objectives that benefit our stockholders and to help us retain a successful and tenured management team. The Committee believes that providing equity based rewards to senior leaders and key contributors who are responsible for developing and executing our growth strategies is in the best interests of all shareholders. Beginning in fiscal year 2005, the Committee determined that moving equity based compensation away from stock options to performance-based and time-vested stock grants is generally more aligned with long-term shareholder interests. The Committee has not granted stock options since May 2003, but has granted Performance Stock Units (PSUs) to its named executive officers and other key contributors in each fiscal year beginning in fiscal year 2005. In August 2006, the Committee also made a restricted stock grant to our Chief Executive Officer in connection with his new employment agreement, as discussed further below.

Similar to the Value Share Plan, the Compensation Committee establishes specific performance objectives for the earning of shares under PSU awards. While those goals need not be the same as those established for the Value Share Plan, they are generally established on the basis of the same criteria and after similar consideration. However, the sole company performance metric for PSUs granted to date has been earnings per share, with the Committee typically establishing threshold and target earnings per share thresholds for each measurement year. No shares are earned if the target is not met and a maximum number of shares are earned if the target threshold is met, all consistent with the desire of the Committee to incent the executive officers to increase earnings per share for the benefit of all shareholders. As with the Value Share Plan, each executive officer's performance is evaluated and rated by the Committee, and this rating may increase or decrease the final number of shares earned.

In the past, three year performance cycles were used, requiring the Committee to establish performance objectives for a three year period for purposes of PSU grants. More recently, however, in response to the inherent difficulties in predicting earnings per share performance over a three year period, PSUs have been granted with one year measurement periods, with any shares earned on the basis of performance during that period paid over a three or four year period, provided that the executive remains

employed at the respective payment dates. The Committee believes this is more manageable and more appropriately rewards both company performance and loyalty.

Similar to the Value Share Plan, following the close of each fiscal year, the Compensation Committee determines whether and to what extent the performance thresholds have been met for PSU purposes. When considering whether earnings per share performance thresholds have been met, the Committee considers the impact of these awards and payments under the Value Share Plan

*Retirement and Other Benefits.* The key retirement and other benefits provided to our named executive officers, where applicable, are described below.

- *Executive Life Insurance.* Our named executive officers, excluding Mr. Barnhill, are provided life insurance benefits with coverage of \$500,000. Mr. Barnhill is paid certain amounts in lieu of life insurance (see the Summary Compensation Table for 2007 Fiscal Year for more information).
- *Long-Term Care Insurance.* Our named executive officers are provided with long-term care insurance with coverage of up to \$200 per day, adjusted annually, to reimburse for costs associated with nursing home care, hospice care, assisted living facility care and home-based care.
- *Supplemental Long-Term Disability.* If a named executive officer should become disabled and unable to work for a period lasting more than 90 days, this benefit will provide a level of income not covered by our group long-term disability plan. Our group long-term disability plan provides coverage for up to two-thirds of salary and bonus, up to a maximum base salary of \$144,000. The supplemental long-term disability benefit extends such coverage to our named executive officers. See the Potential Payments Upon Termination or Change in Control table below for details on each executive's current disability coverage.
- *Supplemental Executive Retirement Plan (SERP).* Mr. Barnhill has been provided a supplemental executive retirement plan, which will provide Mr. Barnhill (and his spouse if so elected) with a \$75,000 annual pension benefit payable upon Mr. Barnhill's retirement or for termination of employment for reasons other than cause (as defined in his employment agreement).
- *401(k) Plan and Team Member Stock Purchase Plan.* The named executive officers are also eligible to participate in our 401(k) and Team Member Stock Purchase Plan, which are both open to all of our employees.

The Compensation Committee has determined that providing the benefits described above is necessary to remain competitive and to further the goals of the Committee in attracting, retaining and motivating executives who can significantly contribute to our short-term and long-term success, and to develop the overall talent of the Company. The named executive officers are also eligible to participate in the same medical, dental and similar welfare benefit programs that are available to our other employees.

*Executive Perquisites.* The Compensation Committee believes that it has taken a conservative approach to perquisites. We provide Mr. Barnhill with golf and social club memberships, used exclusively or primarily for corporate development and business generation purposes. See the Summary Compensation Table for an itemized disclosure of perquisites for Mr. Barnhill. Each of the other named executive officers were the beneficiaries of minor perquisites in fiscal year 2007, which in the aggregate totaled less than \$10,000 each. The Committee has considered these perquisites and has determined them to be reasonable and appropriate.

#### ***Employment Agreements / Severance and Change in Control Arrangements***

*Mr. Barnhill.* Pursuant to the terms of an employment agreement between the Company and Mr. Barnhill entered into on August 31, 2006, Mr. Barnhill continues to be employed as President and Chief Executive Officer, and has agreed to continue to serve as Chairman of the Board of Directors, for an



*initial term of five fiscal years, through fiscal year 2011; and Mr. Barnhill has agreed then to continue to be employed as Executive Chairman, commencing with fiscal year 2012 and continuing through fiscal year 2016. The overall objective of the Committee in formulating this new arrangement was to provide for an extended employment term to better assure Mr. Barnhill's active long-range participation in the pursuit of ongoing Company initiatives, in the development and execution of new initiatives, and in the formulation and implementation of a leadership succession and transition plan. As Executive Chairman beginning in fiscal year 2012, Mr. Barnhill will initially be responsible for leadership transition, and while working on a reduced schedule, is expected to serve as a Senior Advisor to a new Chief Executive Officer and to the Board of Directors, using his experience and role as founder and past Chief Executive Officer, to help guide continued growth and development. The employment agreement further anticipates that, subject to his being eligible and qualified to serve, and to his being reelected from time to time during the ten fiscal year period covered thereby, Mr. Barnhill will remain as a member of the Board of Directors, initially as Chairman and subsequently as Executive Chairman. In connection with and at the time of execution of the employment agreement, and in order to further incentivise Mr. Barnhill over the long term, Mr. Barnhill received a Restricted Stock Award for 150,000 shares of Common Stock under our Amended and Restated 1994 Stock Incentive Plan.*

The Compensation Committee believes that, as the founder and chief visionary of the Company, Mr. Barnhill's situation is different than that of the other executives and determined to provide for, among other things, material benefits to him and/or his estate in the event of a termination without cause, or his death or his disability prior to a change in control, or in the event of a termination for any reason following a change in control, as well as acceleration of equity awards upon the occurrence of a change in control. This, the Compensation Committee believes, is consistent with his stature, but more importantly will allow him to focus on his duties at hand and provide him security should his employment be terminated through no fault of his own. In addition, in establishing his employment agreement, it was the intention of the Committee that Mr. Barnhill not be forced to remain as an employee of the Company following a change in control and to obtain protection for the Company in the nature of an agreement on the part of Mr. Barnhill not to compete with the Company for a period of time following termination of his employment.

The Committee also recognized the value to Mr. Barnhill of remaining in a position of substantial authority and that, upon a change in control, Mr. Barnhill, as the largest stockholder of the Company, would likely receive a significant benefit through his stock ownership. Because of Mr. Barnhill's significant equity stake, there was little concern that the prospect of change in control payments would influence his actions in a change in control situation. Accordingly, the agreement provides for payment upon termination of his employment for whatever or no reason following a change in control (sometimes referred to as a "single trigger"). The agreement does, however, generally provide for a lower multiple of base salary and incentive compensation for termination following a change in control (one times) as compared to prior (three times), but in the case of termination following a change in control the Company agreed also to pay an amount to compensate for any additional tax liabilities incurred by him as a result of payments deemed in connection with a change in control. As a general matter, upon a termination of Mr. Barnhill by the Company prior to a change in control through no fault or failure on his part (including upon death or disability), he will be entitled to continued salary and cash bonus payments for as many as three years, as well as acceleration of earned but not yet vested PSUs (consistent with all PSU holders) and the unvested portion of his restricted stock grant, and the continuation of insurance or similar benefits (or a cash payment in lieu) for a period of three years, and payment under his SERP plan. Upon termination for any reason following a change in control, he will be entitled to continued salary and cash bonus payments for the remainder of the then current fiscal year, payment of the greater of (a) \$1.2 million and (b) the sum of his annual salary and target bonus, as well as acceleration of all PSUs as though all targets had been met and acceleration of the non-vested portion of his restricted stock grant, and the continuation of insurance or similar benefits (or a cash payment in lieu) for a period of one year. Upon the occurrence

of the change in control, all of Mr. Barnhill's earned PSUs with respect to completed measurement periods accelerate and are fully paid and any unearned PSUs with respect to the then current measurement period are earned and fully paid as though all targets had been met; and the non-vested portion of his restricted stock grant also vests and the restrictions lapse. In addition, and reflective of the difference in the amount payable to him prior as compared to subsequent to a change in control, the Company is obligated following a change in control to pay Mr. Barnhill in cash such additional amount as necessary so that the total amount received by him and associated a change in control, after accounting for the tax imposed under Section 4999(a) of the Internal Revenue Code, will not be less than the net after tax amount that would have been received had such tax not been imposed. The foregoing discussion is qualified in its entirety by the specific terms of the employment agreement and related documents. Reference is also made to the table entitled "Potential Payments Upon Termination or Change in Control" appearing on the following pages, for further detail and explanation.

*Other Named Executive Officers.* The Company is also party to employment letter agreements with Mr. Garland and Mr. Rein. Each is entitled to receive performance based bonuses in accordance with the our incentive compensation program, and is provided severance payments of six months salary in the event that their employment is terminated by the Company without good cause or by them for good reason, as such terms are defined in the employment letter agreements. These arrangements were established at the time that each of Messrs. Garland and Rein joined us and are reflective of terms negotiated as part of the recruitment process.

*Section 162(m) Policy.* It is our practice to attempt to ensure the deductibility of compensation under Internal Revenue Code Section 162(m), to the extent equitable and practical. Executive officer incentive awards (annual bonus and performance stock awards) are generally performance-based in accordance with the requirements of Section 162(m), but the Committee may decide to forgo Section 162(m) deductibility where there is a compelling business rationale, such as the restricted stock grant provided to Mr. Barnhill discussed above.

We reserve the right to provide non-deductible compensation in the future as deemed necessary or appropriate to meet our needs.

Certain termination payments to Mr. Barnhill detailed below in the "Potential Payments Upon Termination or Change in Control" table may not be deductible under Section 162(m).

The compensation that we pay to the named executive officers is expensed in our financial statements as required by U.S. generally accepted accounting principles. As one of many factors, the Compensation Committee considers the financial statement impact in determining the amount of, and allocation among the elements of, compensation. Beginning with our 2005 fiscal year, we began accounting for stock-based compensation under our Amended and Restated 1994 Stock and Incentive Plan and all predecessor plans in accordance with the requirements of Statement of Financial Accounting Standard (SFAS) No. 123 and No. 123(R), as applicable.

*Stock Ownership Guidelines.* Although all of our named executive officers and Board members currently own shares of our Common Stock, we do not require any minimum holdings by our named executive officers or Board members.

## Compensation Committee Report

The Compensation Committee has reviewed the Compensation Discussion and Analysis and discussed that Analysis with management. Based on its review and discussions with management, the Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K for fiscal year 2007 and the Company's 2007 proxy statement. This report is provided by the following independent directors, who comprise the Committee:

John D. Beletic (*Chairman*)  
Susan D. Goodman  
Dennis J. Shaughnessy  
Morton F. Zifferer, Jr.

## Stock-Based Compensation Plans

The Company's Amended and Restated 1994 Stock and Incentive Plan (1994 Plan) provides for the grant or award to regular full-time employees (including officers) and non-employee directors of stock options, stock appreciation rights, restricted stock, restricted stock units and other performance awards, which may be denominated in shares of Common Stock or other securities of the Company. The maximum number of shares of Common Stock issuable pursuant to awards granted under the 1994 Plan is 1,758,750, subject to adjustment to reflect stock splits and other similar events. As of June 4, 2007, 289,653 shares of Common Stock had been issued to participants pursuant to Performance Stock Units (PSUs) previously granted, and as of that same date, 261,714 additional shares of the Company's Common Stock remained subject to issuance pursuant to outstanding PSUs (not including PSU grants totaling 173,000 shares made on June 6, 2007). The 261,714 shares have been earned as of June 4, 2007 and will be paid in accordance with the terms of the applicable PSU awards, provided that the respective participants remain employed by or associated with the Company on the respective payment dates. Also as of June 4, 2007, options for 322,908 shares had been granted and exercised and options for 159,500 shares had been granted and remained outstanding (i.e., had not lapsed, been cancelled, repurchased or expired), under the 1994 Plan. The Company has also issued Mr. Barnhill a restricted stock grant of 150,000 shares. Accordingly, as of June 4, 2007, the number of shares of Common Stock available for future award grants under the 1994 Plan was 574,974. The shares of Common Stock underlying any awards granted under the 1994 Plan that either expire or are terminated or cancelled for any reason, without the issuance of the shares or payment in accordance with the terms of the corresponding award agreement, are available for future awards under the 1994 Plan.

As noted above, on June 6, 2007, the Compensation Committee, with the unanimous concurrence of the full Board of Directors, made additional PSU awards to 75 key individuals (including the named executive officers, other members of the Company's management, key contributors and directors) providing them with the opportunity to earn up to 173,000 shares of Common Stock in the aggregate, depending upon whether certain threshold or target earnings per share targets are met and individual performance metrics are satisfied in fiscal year 2008. These PSUs have only one measurement year (fiscal year 2008), with any shares earned based on fiscal year 2008 performance to vest 25% on or about each of May 1 of 2008, 2009, 2010 and 2011, provided that the participant remains employed by or associated with the Company on each such date. The earnings per share targets for these PSUs are \$1.25 per share for threshold and \$1.55 for target. The earnings per share targets include, once again for fiscal year 2008, the compensation expense for the PSUs. Of this amount, Mr. Barnhill received 14,000 PSUs and the other named executive officers all received 10,500 PSUs each. Also, Messrs. Beletic, Konsynski, Okrent, Shaughnessy and Zifferer each received 4,000 PSUs.



In addition, the Company maintains the Team Member Stock Purchase Plan. This plan permits eligible employees to purchase up to an aggregate of 300,000 shares of the Company's Common Stock at 85% of the lower of the market price on the first day of a six-month period and the market price on the last day of that same six-month period. During fiscal year 2007, 7,902 shares were sold to employees under this plan.

### Equity Compensation Plan Information

The following table sets forth information as of April 1, 2007, the last day of fiscal year 2007, with respect to the Company's Amended and Restated 1994 Stock and Incentive Plan, Team Member Stock Purchase Plan, and options granted pursuant to other compensation arrangements.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,190,172 (1)	\$ 8.07 (2)	806,467 (3)

(1) Includes options exercisable for an aggregate of 185,000 shares of Common Stock, the non-vested portion of the restricted stock grant made to Mr. Barnhill of 135,000 shares, and an aggregate of 870,172 shares of Common Stock subject to issuance pursuant to performance stock units, or PSUs, in each case granted pursuant to the Amended and Restated 1994 Stock and Incentive Plan (1994 Plan). Of the 870,172 shares subject to issuance pursuant to PSUs, 420,474 shares have been earned and will be issued on or about May 1, 2007, 2008, 2009 and 2010, provided that the respective participants remain employed by or associated with the Company on each of these issue dates, subject, however, to accelerated vesting upon a change in control or termination of service under certain circumstances. The remaining 449,698 shares not earned were cancelled on May 1, 2007. Does not reflect additional PSUs issued on June 6, 2007 which provide participants with the opportunity to earn up to an aggregate of 173,000 shares of Common Stock on the basis of fiscal year 2008 Company and individual performance.

(2) Reflects a weighted average exercise price of \$8.07 per share for 185,000 issued and outstanding options, and no exercise price per share to be paid for shares issuable pursuant to PSUs.

(3) Includes 231,493 shares of Common Stock available for purchase under the Team Member Stock Purchase Plan and 574,974 shares remaining available for issuance pursuant to future award grants under the 1994 Plan. Does not reflect PSUs issued on June 6, 2007 pursuant to the 1994 Plan, which provide participants with the opportunity to earn up to an aggregate of 173,000 shares of Common Stock on the basis of fiscal year 2008 Company and individual performance.

**Summary Compensation Table for Fiscal Year 2007**

The following table summarizes the compensation awarded to, earned by, or paid to the Company's Chief Executive Officer and Chief Financial Officer during fiscal year 2007 and the Company's other three most highly compensated executive officers at fiscal year end 2007 (the named executive officers).

Name and Principal Position	Fiscal Year	Salary (\$)	Stock Awards(1)	Option Awards(2)	Non-Equity Incentive Plan Compensation (\$)(3)	Change in Pension Value	All Other Compensation	Total(10)
Robert B. Barnhill Jr., Chairman of the Board, President and Chief Executive Officer	2007	\$ 619,616	\$ 483,551	\$ 61,632	\$ 538,000	\$ (4)	\$ 134,989 (5)	\$ 1,837,788
Gerald T. Garland, Senior Vice President, Solutions Development and Product Management	2007	308,846	162,706	6,620	192,000		12,476 (6)	682,648
Douglas A. Rein, Senior Vice President, Fulfillment and Operations	2007	258,654	145,593	1,920	148,000		6,810 (7)	560,977
Said Tofighi, Senior Vice President, Market Development and Sales	2007	256,731	105,152	583	148,000		6,541 (8)	517,007
David M. Young, Senior Vice President, Chief Financial Officer and Corporate Secretary	2007	256,731	107,468	378	148,000		4,690 (9)	517,267

(1) This column represents the dollar amount recognized by the Company for financial statement reporting purposes with respect to the 2007 fiscal year for the fair value of PSUs awards made in fiscal year 2007, as well as prior fiscal years, in accordance with SFAS 123R. For Mr. Barnhill, the column also includes \$237,600 recognized by the Company for financial reporting purposes with respect to a restricted stock award in fiscal year 2007. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. See the Grants of Plan-Based Awards Table for information on awards made in fiscal year 2007. The dollar amounts shown above reflect the Company's accounting expense for these awards, and do not necessarily correspond to the actual value that will be recognized by the named executive officers. For a discussion of the assumptions made in the valuation of these awards see the notes to the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended April 1, 2007.

(2) This column represents the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year for the fair value of stock options granted to each of the named executives, in prior fiscal years, in accordance with SFAS 123R. No stock options were granted in fiscal year 2007. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. These amounts reflect the Company's accounting expense for these awards and do not necessarily correspond to the actual value that will be recognized by the named executives. For a discussion of the assumptions made in the valuation of these awards see the notes to the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended April 1, 2007.

(3) Represents bonuses paid pursuant to the Company's Value Share Plan.

(4) During fiscal year 2007, the Company entered into an Employment Agreement which superseded the Employment Agreement previously entered into between the Company and Mr. Barnhill. As a result, the Company changed the assumption used for Mr. Barnhill's retirement date, to the Company's benefit, in valuing Mr. Barnhill's Supplemental Employment Retirement Plan in fiscal year 2007. The effect of this change of assumption resulted in a reduction in the value recorded by the Company for this Plan during fiscal year 2007 of \$230,500.

(5) Includes, (i) premiums in the amount of \$12,500 for a life insurance policy; (ii) payments made to Mr. Barnhill in lieu of split-dollar insurance policy cancelled in 2003 in the amount of \$65,000; (iii) \$2,397 allocated to Mr. Barnhill's Retirement Savings Plan account; (iv) premiums of \$7,842 and \$5,710 for long-term care insurance and supplemental long-term disability coverage, respectively; (v) \$35,082 for membership fees to various organizations that are used either exclusively or primarily for corporate development and business generation purposes; and (vi) spousal travel of \$6,458. Mr. Barnhill's spouse is also employed by the Company and the travel expenses noted above are typically business related. Ms. Barnhill performs administrative and event

planning functions and her current annual salary of \$36,000 is not included in the above table. Total membership fees include annual dues of \$12,100 paid to a club that certain employees use for business generation and corporate purposes. This particular club requires that a specific individual be designated as the member, even though this is a corporate membership. Currently, Mr. Barnhill is designated as that member.

(6) Represents \$1,196 allocated to Mr. Garland's Retirement Savings Plan Account, \$1,655 in premiums for supplemental life insurance coverage, \$2,565 in premiums for long-term care insurance and \$7,060 in premiums for supplemental long-term disability coverage.

(7) Represents \$847 allocated to Mr. Rein's Retirement Savings Plan Account, \$835 in premiums for supplemental life insurance coverage, \$2,302 in premiums for long-term care insurance and \$2,826 in premiums for supplemental long-term disability coverage.

(8) Represents \$1,258 allocated to Mr. Tofighi's Retirement Savings Plan Account, \$855 in premiums for supplemental life insurance coverage, \$2,427 in premiums for long-term care insurance and \$2,001 in premiums for supplemental long-term disability coverage.

(9) Represents \$889 allocated to Mr. Young's Retirement Savings Plan Account, \$450 in premiums for supplemental life insurance coverage, \$2,040 in premiums for long-term care insurance and \$1,311 in premiums for supplemental long-term disability coverage.

(10) The percentage of total salary and non-equity incentive plan compensation as a percentage of total compensation is 64% for Mr. Barnhill, 73% for Mr. Garland, 72% for Mr. Rein and 78% for Messrs. Tofighi and Young.

**Grants of Plan-Based Awards in Fiscal Year 2007**

The following table provides information about cash and equity awards granted to or earned by the named executive officers for fiscal year 2007. All of the equity grants have been made under the Company's Amended and Restated 1994 Stock and Incentive Plan. Grants of non-equity incentive plan awards are made under the Company's Value Share Plan.

Name	Grant Date	Estimated Possible Cash Payouts Under Non-Equity Incentive Plan Awards \$(1)			Estimated Future Payouts Under Equity Incentive Plan Awards (shares)		All Other Stock Awards: Number of Shares of Stock(3)	Grant Price of Awards(4)	Full Grant Date Fair Value(5)
		Threshold	Target	Maximum	Threshold(2)	Target(2)			
Robert B. Barnhill Jr.	5/4/06	\$ 75,000	\$ 600,000	\$ 1,171,875					
	4/20/06				15,000	30,000		\$ 12.87	\$ 386,100
	8/25/06						150,000	\$ 15.84	2,376,000
Gerald T. Garland	5/4/06	24,375	195,000	380,859					
	4/20/06				12,375	24,750		\$ 12.87	318,533
Douglas A. Rein	5/4/06	18,750	150,000	292,969					