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TESS - Q1 2016 TESSCO Technologies Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to TESSCO Technologies Incorporated First Quarter 2016 Earnings Conference Call. At this time, all participants are placed on listen-only mode. Later, we will conduct a question-and-answer session, instructions will be given at that time. (Operator Instructions) As a reminder, this conference call is being recorded.

I'd now like to turn the conference over to Andrew Blazier of Sharon Merrill. You may begin.

Andrew Blazier - TESSCO Technologies Inc - Investor Relations

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

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

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

Robert Barnhill - TESSCO Technologies Inc - President and CEO

Thank you. Good morning. Thank you all for joining us. In this past quarter, we exceeded our earnings expectation, have generated great momentum. Revenues in all of our markets grew sequentially, up 19% in total from the fourth quarter. Earnings per share of \$0.20 per share were well above the high-end of our guidance and we continued our quarterly dividend of \$0.20 per share.

Before Aric reviews our financial performance in more detail, let me give you an update on what we're seeing on the carrier market, which remains a significant portion of our total revenues. Our carrier purchases grew sequentially, the overall slowdown in the United States wireless carrier spending continued. Revenues in our carrier market were down 39% from a year ago, largely causing the decline in our performance compared to last year.

Sequentially, however the carrier market grew 12% and we expect to see gradual improvement this year, while the major builds maybe delayed until next calendar year. We believe that carriers are considering their new spectrum and content network provider acquisitions, the FCC's net neutrality policy and the Google FI project challenges. While they're developing their strategic planning for expanding their wireless capacity and

coverage. We remain committed to providing the carrier ecosystem, which includes the carriers, OEMs, program managers, general contractors, integrators and tower owners, with the product and supply chain solutions to ensure they can meet their requirements when and where needed. While we continue to work closely with the carrier customers on new opportunities, we're moving beyond our concentration to carrier market by serving the private system operators, solutions for the new systems that are being created by the convergence of wireless and the Internet.

Now Aric will provide details on our performance and our outlook for this quarter and year. I'll then provide an update of the impact of our strategic imperatives. Aric.

Aric Spitulnik - TESSCO Technologies Inc - CFO

Thanks, Bob. For the first quarter of fiscal 2016 revenues were \$135 million, compared with \$113 million in the fourth quarter and \$153 million in the first quarter a year ago. Given our recent progress on our strategic imperatives, we believe the sequential improvement from the fourth quarter is significant. From this perspective, the carrier market increased almost \$3 million or 13% from Q4, while declining 39% year-over-year due to the U.S. carrier slowdown.

Gross profit was \$32.2 million in Q1, compared with \$35.2 million in last year's first quarter, but up from \$27.7 million in Q4. Gross margin was 23.9%, compared with 23% a year ago. The increase in gross margin was primarily the result of improved product mix.

SG&A expense was \$29.4 million, up less than 1% from the first quarter of fiscal 2015. The increase was primarily the result of greater product development costs and higher freight costs due to product mix, which were mostly offset by our recent restructuring and value engineering efforts.

As a result of the increase in SG&A and lower sales volume, operating margin was 2.1% versus 4% in the prior year quarter. However, this quarter's operating income and margin were higher than both the sequential fourth quarter of fiscal 2015 and the third quarter of fiscal 2015. We continue to expect improving operating margins as revenues begin to accelerate from the investments we have made in talent and technology during the past year.

Our restructuring efforts and the ongoing value engineering initiatives contributed positively to operating margin in Q1, and we expect that trend to continue going forward. Net income from the quarter was \$1.7 million, or \$0.20 per share, down from net income of \$3.7 million, or \$0.44 per share in the same quarter a year ago. Although as Bob mentioned, the EPS exceeded the high-end of our guidance range of \$0.15.

Now turning to our markets. In the public carrier market, revenues were down 39% year-over-year and gross profit was down 30%. As we've been discussing the reduction was expected as the carriers have now begun significant build plans in calendar 2015. However, we do expect this slowdown to moderate as the year progresses; we actually did see some sequential growth in Q1 and expect additional sequential growth in Q2. In the government market sales declined 2%, while gross profits decreased 1%. We've made significant investments in this market. We are engaged in many more projects in this space than we have been in the past. And as those deals started to close we expect significant revenue growth to be realized.

In the commercial dealer and reseller market revenue decreased 13% and gross profit fell 10% from a year ago. Much of this decline relates to lower carrier purchasing through buyers. However, we did see healthy sequential growth this quarter and believe that momentum is building.

In the private system operator market, revenues increased 5%, and [Otter] gross profit rose 7% year-over-year. The biggest increase was the continued growth of our accessory repair center customers who primarily utilize Ventev products.

Turning to our retail market, the combination of the deeper, harder relationship and the new Samsung phone launch, it helps -- has help to produce solid results. During the quarter, revenues grew 4% while gross profit declined 2%. The gross profit decline was primarily driven by reduction in business for few of our smaller fulfillment programs. Our business with the retail stores continue to increase and gross profit should rise as we continue to penetrate some of these new relationships with more over the last year's Q1 into 14% of our overall revenues.



Looking at the balance sheet, inventory increased 6% or \$6 million from Q4 as we built inventory from the summer season. As we've discussed previously one large tower owner customer has paid for but asked us to hold a large amount of inventory in our facility until they deploy it. At which time we can recognize the associated revenue. There in Q1, we recognized almost \$2 million of revenue with this relationship and we currently have about \$5 million remaining. Those sales will continue to be recognized overtime as the inventory is utilized. We expect the vast majority of it to be recognized sometime in the current fiscal year.

Cash flow from operations was \$1.8 million during the first quarter. Overall cash on the balance sheet was \$6.4 million and we had no balance on our line of credit. Remain committed to our dividend program and we've set our dividend at \$0.20 per share with a record date of July 31, and a payment date of August 14.

Now turning to the business outlook. Even with some expected improvement in carrier sales we expect the second quarter of fiscal 2016 to be lower than last year. But to improve sequentially as we make further progress on our imperatives. As a result, we are providing guidance for earnings per share of \$0.26 to \$0.32 for the second quarter. Also based on the stronger than expected first quarter, we've increased the low end of our annual range by \$0.05 to EPS of a \$1.05 to \$1.25 for fiscal 2016. Overall this was a very good rebound from Q4, and we are very excited about the momentum we're building.

I'll now turn the call back over to Bob, to go over the achievements we are making on our strategic comparatives. Bob?

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

Thanks, Aric. Our most important goal is to make the difference in our customer success and as a result develop existing and new loyal customers, while building superior growth and shareowner value.

Let me review our five key imperatives and provide a few examples of the results we're achieving. First, we continue to value engineer our policies and procedures, as well as the overall organization. We've been working to change the way we do business to deliver an extraordinary experience at every link in the value chain to better serve the customer. Every policy and procedure, including pricing, order, entry, returns, warranty, credit, new product guide and request and more are being, enhanced, simplified and standardized, to all the customer to manage their procurement and account more effectively and efficiently and to allow TESSCO to gain significant productivity.

We're also making organizational changes in our team structure to improve the customer focus and improve our operating leverage. New recruiting, reward and training programs have been implemented to assure that we have the right talent to serve the customer and produce results. The policy procedure and organizational changes are the foundation of the other four imperatives. Our second imperative is to develop and offer the end-to-end solution to enable our customers to build, use, maintain, and resell wireless systems.

Rather than walking you through each of the systems we are supporting, I want to highlight some of the areas where we are making progress. We continue to expand our Wi-Fi solutions offering and opportunities. Just two days ago, we announced that we are now offering Samsung's Wi-LAN, Wi-Fi equipment, a very important expansion of our Wi-Fi access point and controller offer. Our manufacturing division launched an expanded line of power over Ethernet enclosures to support 802.11 Wi-Fi access. We are very bullish on our opportunities in the Wi-Fi space.

As I mentioned last quarter, we are launching machine-to-machine solutions that leverage our expertise and experience in wireless backhaul. This month, we're beta testing our fleet, telematics and asset tracking solution to select customers to fine-tune the capabilities and operational execution for commercial launch which we anticipate by the end of this quarter. This solution will provide equipment sales as well as reoccurring revenues from data collection services.

The third imperative is supply chain and operational excellence. Today, customers demand and require an effective supply chain to ensure complete on-time delivery at the total -- at the lowest total cost. We're making great process in enhancing our procurement product availability and operations to deliver configured kited end-to-end solutions efficiently, completely, error free when and where required.

Let me just outline some of the specific things that we're doing as one where we've integrated our procurement and supply chain organizations, we're enhancing purchase vendor and forecasting systems, we're facilitating strategic product availability planning for customer products, expanding our capability to deliver kited products for rapid deployment when they're received and providing the ability to ship direct -- directly to our retailers and consumers. We're also creating pickup points, which create a being local nationwide delivery performance and we're developing around the clock response capabilities to serve our customers' emergency requirements.

We've also have some strong services, our [V Connect] program, which provides our customers with systemic inventory management and procurement of systems and our Go Connect offering, which provides 1,000 of retail associates mobile training in the field to increase their inventory, accessory attach rates. All supply chain initiatives are driving increased customer loyalty and improved sales.

Our fourth imperative is strategic relationship solution selling. As you know, we've been transitioning away from reactive selling towards proactive relationship selling. We begun to improve the customer experience and grow strategic relationships, cross-selling, and sales. Let me highlight some of the key areas of change. First we're investing in our primary asset, our people, enhancing our holistic training and developments programs, improving the relationship selling approach, better aligning compensation with and rewards with goals and growth, applying metric driven and measurable tools to guide and assist the sales process.

We're also better aligning resources and processes through the coordination of go-to-market campaigns with sales team to productively generate opportunities and using big data and technology to deliver real time guidance to positively impact the selling process. We're building very close strategic relationships at all levels with our customers. Just one example is, it can be seen in the contract that we are recently rewarded with MICTA, which serves as a national communications clearing house for non-profits within the United States. MICTA serves thousands of nonprofit members, providing them with access to better communications, pricings, additional purchasing programs and highly desirable vendors. This contract gives TESSCO national scope to sell directly into the education and healthcare space universities and hospitals.

Our fifth and final strategic imperative is our data digital internet based marketing. We call it the scientific, high tech, high touch system. And this system produces product and solution presentations, predictive analytics, competitive intelligence, one-to-one customer textual communication, opportunity creation, sales force guidance and tracking, the ability for a customer to design a product, confirm their price and delivery, enter the order and manage their account. All of this is to produce an extraordinary experience for the customer while improving TESSCO's productivity.

Our marketing systems are continually being enhanced and I'll highlight two key areas where we've received solid results. Big data, predictive analytics, as we've talked about is through the adoption of this big data system we've collected tremendous amount of data on our customers. And we're deploying this data to predict customers -- where the probability -- where we can give them the suggestions for their product, cross sell to equip our sales people with account specific opportunities and generate new operational insights.

During this past quarter we anticipated customers that were at risk of elapsing in their relationship with TESSCO during the quarter, for our purposes an elapsed customers when it doesn't purchase in the quarter. In a coordinated effect with our sales teams, we proactively targeted a sample of these accounts. The result was more than 90% retention rate in the pilot, which in turn increased overall customer -- the overall customer retention rate. With such dramatic results we're now rolling out the analytic program across all of our markets and customers.

We are also using big data to develop one-to-one campaigns based upon specific customer action or behavior, we're developing regional specific and product mix opportunities in the retail space, based upon socio-economic patterns and preferences. And we're also using big data to conduct market research for our Ventev products. This will guide Ventev's product development by ascertaining the unmet needs in particular markets.

The second key high marketing effort is the redesign of tessco.com. After the early March launch of the new homepage, customer engagement had increased 6%, while yielding lift in revenues. The scientific marketing has also included launch of a new content management platform. We began using this platform in late May. As a result, visitors to our tessco.com's system pages spent double the amount of time on the site. And we've already started seeing a revenue and conversion rate lift on many of the newly designed pages. In summary, our first quarter performance is a direct result of the progress on our five strategic imperatives and our commitment to renew our growth and profitability.

Now, I'd like to open up the call for any questions you may have.



QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Anil Doradla of William Blair. Your line is now open.

Anil Doradla - William Blair - Analyst

Good morning guys.

Robert Barnhill - TESSCO Technologies Inc - President and CEO

Good morning, Anil.

Anil Doradla - William Blair - Analyst

So, I had a couple of questions Bernie and Aric. First one was given the uncertainty around carrier spending, although it's gotten a little better. What initiatives have you kicked in within the company from a kind of cost cutting point of view or have you had any?

Aric Spitulnik - TESSCO Technologies Inc - CFO

Hi, Anil. Its Aric. So in Q4 of last year, we took a few people, we made some changes to the workforce. We've been able to maintain that into Q1, so the cost cutting initiatives that we did last year are holding. We haven't replaced any of those people and some of the other cost that we took out of the business. We've been able to maintain that as well. So there hasn't been anything real significant this quarter rather than we're in a position where we're able to grow without having to add a lot of cost into the business. Our operating leverage is really good right now. So, we're in a good spot where we have the right mix of very good sales, marketing and product people and the right support organization. So that as we grow here, we're in a great position to grow and add to the operating leverage.

Anil Doradla - William Blair - Analyst

So--

Aric Spitulnik - TESSCO Technologies Inc - CFO

One, Anil--.

Anil Doradla - William Blair - Analyst

Sorry.

Aric Spitulnik - TESSCO Technologies Inc - CFO

Anil as we look at the change in our policies and procedures and focusing on the Internet to allow the customer to make changes to return product to warranty claims. Today is that you might have to interface with two, three, four TESSCO people to get something done. With the simplification



that we're doing and the deployment of the internet is we feel that we can dramatically improve the productivity of the sales teams as well as the support teams allowing them to spend more time with the customers and allowing us to get a much higher production rate of our sales people without adding additional sales people. So these imperatives are focused on how do you serve the customer better. But at the same time gain great productivity, which results in expense reduction.

Anil Doradla - *William Blair - Analyst*

So it's fair to say that if the current trajectory of carrier spending is kind of remains as it is. In other words, it doesn't come out -- come back strong. You are well poised in terms of your operating margin, operating leverage so to speak.

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

Exactly, the operating leverage is very strong now.

Anil Doradla - *William Blair - Analyst*

Okay.

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

And so that the increased revenues at the top are going to really print through and we do think that the carriers spend is going to accelerate. But that they are reviewing all of these challenges that I mentioned from net neutrality as well as what they do with their purchases for the content providers as well as this whole thing that that with Google start five projects.

Anil Doradla - *William Blair - Analyst*

So, Bernie, that's a great segment. The next question I had was, so when I look at the qualitative aspects of your interaction with these guys, how would you say its change over the last couple of quarters. I mean you did mention these two or three points, but what has been the incremental change and tone perhaps on with your interactions?

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

I would say that their tone in general is pretty quiet, in terms of what their plans are. I think that they these are probably the biggest challenges that they've ever really faced in terms of how they are going to deal their system. We all know they are going to build or what is it going to look like and how are you going to get this world broadband coverage that everybody has been talking about. But this net neutrality really impact in terms of what their offers going to be. And that the -- I believe that there has not been a whole lot of conversation about it but this project of Google's is a pretty big thing.

I mean this is where they are basically going to create a combination Wi-Fi and cellular wireless system. So your phone -- if you have a Google phone will make the decision in terms of for the best the strongest signal to go over the air, which they are acting this in MVNO Google is and right now, they've selected the T-Mobile and Sprint. But then at the same time if the hotspot within the city in the area stronger because your call will go out on the Wi-Fi network which is not potentially being allowed by the making carriers today, does that make sense?



Anil Doradla - *William Blair - Analyst*

Yes, absolutely, thank you. And Aric as a follow-up, so over the last or whatever four to five months we've seen AT&T and Direct TV commentary around that how much of that also kind of impacts the overall tone and sentiment?

Aric Spitulnik - *TESSCO Technologies Inc - CFO*

Well, first of all, they've got AT&T is still waiting for approval with new Direct TV, I think that Verizon has done the AOL. I mean that's another major source of capital, major consumption of capital. And so the whole capital you trying to build the system, you're trying to build-out to bid the spectrum and now bidding that content providers, I mean it's putting a strain on capital. And it's also going to be interesting in terms of I think what's your big question is that what is that content going to do or their overall business and what is they going to do or for wireless. And that's a big question.

Anil Doradla - *William Blair - Analyst*

So Bernie, when they hear your overall commentary, I think it's fair to conclude that 2015 would be a very muted year for North American CapEx and we should be looking at 2016 as really the growth year.

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

I believe that 2016 is going to be a very strong year, I think we're going to see it, as I mentioned the gradual increase also that TESSCO, we're getting deeper into the broader carrier base, again trying to while we get the business, but it again trying to do not be concentrated with anyone particular customer, anyone particular carrier. And we're doing a lot of good things with the carriers lot of opportunities this whole supply chain that I mentioned in terms of impaired at this is very important the carriers are back to where, they essentially want the product deliver to where they are going to install it seamlessly and this is what we've historically have done, but at the same time we're improving our whole supply chain performance.

Anil Doradla - *William Blair - Analyst*

All right. Great, thanks a lot. That's all I have.

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

Nice talking to you. Have a good day.

Operator

Thank you. (Operator Instructions) Our next question comes from the line of Bill Dezelle of Tieton Capital Management. Your line is now open.

Bill Dezelle - *Tieton Capital Management - Analyst*

Thank you. Continuing on the questions with the carriers, what are you anticipating that carrier revenue versus the prior year will be up?

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

Bill I probably say that's going to be in Q3 that was when we really last year saw the big decline in the carrier revenues. I think we're doing more with some of the smaller carriers today. And I think overall we will start to see that turn as we get into Q3.

Bill Dezellem - *Tieton Capital Management - Analyst*

And are you seeing a difference in how the various carriers are, it's probably premature to say rebounding, but how you anticipate that they will rebound or does it appear that they are pretty much going to be moving in sync?

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

What we've historically have seen is that when one carrier starts to move out the others do too. So right now as nobody has been the lead dog in terms of aggressively starting to build in the end. What we're seeing is that the opportunities are coming up are not really systemic at this particular point, they are a bit random. And that's why we're doing a great job with a new solutions based thinking and relationship thinking that where we are building the relationships waiting for something to happen. Aric, do you have anything to put?

Aric Spitulnik - *TESSCO Technologies Inc - CFO*

Yes I think that a lot what they are looking for right now is more supply chain as opposed to just straight product sales. So we're working with a few other carriers to -- or at least few other contractors. To help them with that and that seems to be an area where more and more people are coming to talk to us on. And so that probably implies again that we're probably not going to see dramatic increase right away. But as we get more of those relationships we'll be closer to guys for more long-term business.

Bill Dezellem - *Tieton Capital Management - Analyst*

And so taking those comments and some that we think that we've heard earlier in the call, are you anticipating that your market share of this next spending cycle will be higher than your market share in the last cycle.

Aric Spitulnik - *TESSCO Technologies Inc - CFO*

I think when you look at the fact that we will be doing more business with customer -- carriers that we didn't do business in the past. So the share of a particular carrier might stay the same, but within we'll get brand new business from the other carriers in the marketplace. So, overall, yes, as that we should have a higher market share.

Bill Dezellem - *Tieton Capital Management - Analyst*

Got you.

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

And as we've said in the past is that -- our market share when you look, I mean, it's a big spend out there. And so our market share has been low and that is our -- our objective is to increase our penetration of all the markets.

Bill Dezellem - *Tieton Capital Management - Analyst*

Right, thank you. And then I would like to switch if we could to the mobile device accessories. That business grew pretty strongly, what drove that?



Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

So at the end of last year, we talked about an Otter relationship, where OtterBox use to use 20 or so different distributors to send their products to market. They consolidated that down to five, which get one, we're one of the five. So we saw a dramatic increase in the sales for Otter products and that's both to existing customers and to a lot of new customers that we weren't doing business with at all. Some of the customers we weren't selling them OtterBox, we're now selling them OtterBox, other ones were completely new to us and we've been able to not only sell them Otter, but also sell them some Ventev products and some other -- of the other OEM products. So that was primarily the driver that along with some of these Otter programs that Bob talked about we connect and go connect are both retail programs. Those are starting to gain some traction and to build some more customer stickiness and concentration of their business with us.

Bill Dezellem - *Tieton Capital Management - Analyst*

And OtterBox in the first quarter, was it at a full normal run rate or was there still some ramp that took place early in the quarter?

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

I think there was some ramp early in the quarter as we built some of those customers. We needed to send them product for the first time. And then so going forward it will be more fulfillment there. Our replenishment orders as opposed to big lump sum type orders. But that shouldn't have a huge impact, I don't think. I think that should be fairly smooth from Q1 to Q2.

Bill Dezellem - *Tieton Capital Management - Analyst*

Okay, that's what I was looking for. And then finally, the website redesign there -- in-progress and some pages have been completed, it sounds like some have not. I wonder are you anticipating that the entire website redesign will be complete.

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

Yes, I'd say that the big push we have right now, is my account in terms of the ability to what I was referring to as far as transact. Virtually every piece of business on the web and when we say the web, it's obviously for our tessco.com. It's obviously for the customer, but more importantly at times it's what does the sales people will be using as well. And so everybody has the same view in terms of affecting new orders, changes to the orders, warranty claims. So that's the big focus and we should have that that completed by the end of this quarter that we are in right now.

Then as we continue to look at the enhancement of the various pages, the system pages are huge focused, that's what really will push that the total end-to-end solution, that is a continuum. But we should have the new pages done again by the end of the quarter. And then on top of that we've got a major change to how we present products and it's more of an easy way to see the depth and breadth of the products we have and that whole reorganization should again be towards the end of this quarter and to the first of next quarter.

But it's important that the website is a continuum, I mean, we are never going to be finished. You take for an example the announcement of the Samsung Wi-Fi which is really a big deal, we are right now, hard at work, making sure that we've got all the products on the web and all the incorporated into the Wi-Fi solutions and where we can really, really start to push that product. This is a relatively initiative for Samsung where they really want in the United States had strongly -- will be the first there, and it gives us a very robust active component for Wi-Fi so now we have got Ericsson, we have got Linksys, and we have Samsung, so that we can give our customers a complete again end-to-end solution for Wi-Fi.

Ventev is doing a lot of great things with the enclosures for Samsung as well as Ericsson, as well as the Linksys, so it's a -- it's an exciting area for us right now, and it's all part of this driving the private systems, operators to really change the concentration view.



Bill Dezellem - *Tieton Capital Management - Analyst*

Thank you. And actually, I would like to ask one more question, if you would allow and that's relative to the government segment. You had mentioned as you are in process of betting and hopefully winning on number of projects and when that -- when you start shifting that's going to create significant growth in that market. Would you talk a little bit about the timing that you anticipate and your confidence level in winning that business?

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

Yes, I think that the whole government market is an example of really bringing in the right talent and to move away from transaction selling into relationship selling. And the team we have is extraordinary today, this MITCA contract is a real win for us, that is an example of the importance of having these contract entities that then we can go directly to the user community, the schools, the universities, but then there is a contract vehicle that they can place the order on. So we're winding up these various contract vehicles and at the same time building opportunity. And I think we should show growth coming in obviously to this quarter and beyond that. So in over the past several quarters we've been building the foundation which is the relationship with these contract providers and then at the same time getting into the Department of Defense and the various that they were ready to start building. Lot of these new product areas that we've talked about again will be important for the government to be procuring from us.

So we're pretty excited about the opportunities. And you also have to remember that I mean the government space was a relatively small dollar amount for us and we're expecting very big things from that. So from a percentage point of view the growth rate should be high but it's again coming off of a relatively small number.

Bill Dezellem - *Tieton Capital Management - Analyst*

So are we hearing that you correctly, you would anticipate some further revenue benefit in the second fiscal quarter and then it should build on top of itself going forward?

Aric Spitulnik - *TESSCO Technologies Inc - CFO*

Absolutely, we'll continue to build and again its all about those relationships, once they know that we're here and what we can do, again just from a historic is it we're basically in the business up until we build this new team of just waiting for a RFQ to come out where we could quote on it and the probability of winning that was slim and none, but now we're building the relationships with the end user, as well as these contract vehicles that should really help us.

Bill Dezellem - *Tieton Capital Management - Analyst*

And suppose if that is a strong enough opportunity that it could mitigate or offset the seasonality that you normally see.

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

Yes, we've got to deal with the government's seasonality in terms of their -- what's their--

Aric Spitulnik - *TESSCO Technologies Inc - CFO*

Year-end is--



Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

Yes.

Aric Spitulnik - *TESSCO Technologies Inc - CFO*

Yes.

Bill Dezellem - *Tieton Capital Management - Analyst*

I understood. Thank you very much.

Aric Spitulnik - *TESSCO Technologies Inc - CFO*

Thank you.

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

Great, good questions.

Operator

Thank you. Our next question comes from the line of Bentley Offutt of Offutt Securities. Your line is now open.

Bentley Offutt - *Offutt Securities - Analyst*

Good morning to you and congratulations. It seems to be some new ways of hope ahead. And I was very interested and more information on your positive train control opportunity. As you know, there has been a major change in June on capital however since the track disaster back in May and they have a new head of the FRA and recent testimony to Congress have indicated that they will becoming increasingly intend and making sure that there is no significant delay in putting the positive train control system in place. For example, in the recent testimony, they are saying that beginning the first of January 2016 they're going to begin impose penalties on railroads that have not fully implemented [EDC] for example \$15,000 to \$25,000 fine per payer to equip locomotives where they're only 39% of all the locomotives for freight have been updated with the positive train control.

What I'm wondering is, I know that you're in touch with all six of the Class A railroads, you're selling products to them, the products you sell the cables, antennas, power surge protectors and some towers and steel products. It's becoming more and more obvious I think that as the Amtrak saying they're going to complete their system by the end of this year and by the recent ramp by the FRA to the New York Metropolitan Transportation Authority for \$1 billion. And you're all going to be there somewhere, I would think and I would thought perhaps you could discuss this with us.

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

Sorry, you cut out the -- that last question was--

Bentley Offutt - *Offutt Securities - Analyst*

My question is there is a lot going on within the Federal Rail Administration which is the basically the authority, that's going to handling the mandate which is to be in place by the end of this year. My question is, as there now you involved in with freight railroad companies to all six of them and also perhaps with Amtrak and also with metropolitan railroads. There is a lot going on and yet there is very little said as to that opportunity. And I'm wondering if I must be missing something or perhaps it is not a very big area of opportunity.

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

Okay, no it is a huge opportunity, we -- the opportunity, we would have again is on the infrastructure side, not on the active components, with the controllers, with the [GEs and Webco] are providing and we want to be there to assist them with the power stations, where we -- that was the original product that we designed with GE. Again, we've got this enhanced team, we're very close to the signaling, as well as the communications department, most of the positive train control will be implemented by the signaling side of the house.

We feel too that we are going to have opportunities for the backhaul, in the way positive can trick -- positive train controller is another example of remote monitoring and control that where you have the sensor, which we are not involved in, but then you have to capture that signal and then backhaul it or sent it back to the central processing area that can make a decision in terms of what needs to happen. And that's what we're hoping that in addition to just the base station which is that currently to power articulating tower and then the enclosure and then the solar panels, I mean that's the major area that we see when we get into these very remote areas.

So it's again one of the things that there is a lot of talk at the government side and there is a lot of planning on the rail road side, that we're continuing to track. But right now, we don't really see that -- we know that it's something they've got to do, but we haven't started to see the actual deployment plan that we can go to work on.

Bentley Offutt - *Offutt Securities - Analyst*

That is amazing.

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

I mean every day you see these train smashes and these terrible disasters, this one we just had on the excel or not the excel, but the length between Baltimore and New York.

Bentley Offutt - *Offutt Securities - Analyst*

Yes what is amazing, I think, [Barnie] is that the Federal Government enforcement agency is saying, look guys from the 1 of January of this year, we're going to start putting fines of \$15,000 to \$25,000 for each locomotive that's not as -- and you would think that that would start to wake up somebody.

Bentley Offutt - *Offutt Securities - Analyst*

Absolutely, and I mean it's something that has to be done and its obviously expensive, but its in the scheme of things, it's an investment that has to be made.



Bentley Offutt - *Offutt Securities - Analyst*

Okay and one other quick question. Has -- there was a question earlier as far as cost control. And having visited one of your annual conferences, which I thought was excellent at the M&T Bank a couple of years ago in Baltimore. I was wondering who pays the cost of these conferences, how does that work and what is the cost of TESSCO?

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

We're looking at -- this is a collaborative event and we're having one at CTIA coming up in September and then we're having it in the Phoenix with the TESSCO ONE and this is the collaborative event with our manufacturers. And so the manufacturers are participating in the overall expense of the event and it's very productive for us. Overall as that we're getting in front of the customer, but at the same time the cost is low.

Bentley Offutt - *Offutt Securities - Analyst*

Well, your cost is low - I assume that's what you're saying because to rent the Phoenix Stadium for a couple of days and all of the effort that goes into these got to be monumental.

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

Absolutely, but it's a shared expense. And it's -- we've been very successful in terms of the -- our manufacturers want to participate in shows because its -- really its a one to one, its very closed, its very focused and it's not like the big trade shows, consumer electronics that people just wander around. I mean, so we're having. And the thought leadership that we have, the speakers that we bring in is very important then as we reported on the last TESSCO ONE, I mean we had customers from all over the United States. And again, it's a one to one relationship where our sales people are working with each and every customer, but -- and to say the overall expenses is the shared expense with our manufacturing partners.

Bentley Offutt - *Offutt Securities - Analyst*

So would you say your cost is \$1 million?

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

No, no.

Aric Spitulnik - *TESSCO Technologies Inc - CFO*

Yes, it's much less than...

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

Yes.

Aric Spitulnik - *TESSCO Technologies Inc - CFO*

The overall cost might be in that range, but again its shared. So our net cost is much lower than that.



Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

I mean the--

Bentley Offutt - *Offutt Securities - Analyst*

Good deal.

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

Yes, its -- the biggest cost that we look at is just our own people travel and time, the opportunity cost and that's why we're very focused on making sure that our sales people and our product people use that as the venue to have that one-on-one meetings. And -- but that's -- that allow you -- you can't -- really it's very difficult to the big trade shows to really have the one-on-one meetings because everybody is going in 15 different directions. That these events allow us to be up close and personal.

Bentley Offutt - *Offutt Securities - Analyst*

Okay, fine. Thank you.

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

Thank you.

Operator

Thank you. I'm showing no further questions at this time. I turn the call back over to Mr. Bob Barnhill for any closing remarks.

Robert Barnhill - *TESSCO Technologies Inc - President and CEO*

Okay, great. Well, thank you very much. In summary, our first quarter performance and the progress we're making, executing on our strategy is very exciting to us, gives us the optimism about our outlook for the remainder of the fiscal year and beyond. So, we're really moving. We've got a lot of great things that are going on. It's really hard to explain in just a quick, quick meeting, but we look forward to providing the updates and our progress on the October call. So we appreciate your continued support and thank you for being on the call today.

Operator

Ladies and gentlemen, thank you for your participation on today's conference. This does conclude today's program.



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